

‘To build a secure, unified, federal and democratic nation,
founded on the principles of freedom and equality, and
providing peace and prosperity for its people’

The International Compact with Iraq

**A Shared Vision
A Mutual Commitment**



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1 INTRODUCTION – THE COMPACT AND ITS OBJECTIVES

The International Compact with Iraq (ICI) is an initiative of the Government of Iraq for a new partnership with the International Community. Its main objective is to establish a framework for Iraq to realize its National Vision which aims to:

‘.. realize the aspirations of the Iraqi people in establishing a unified, federal democratic state dominated by security and stability in which all citizens are enjoying equal rights and duties.

‘..establish 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, in particular the neighboring countries.

‘..make Iraq an active member in the regional and international organizations and capable of providing assistance to the poor and needy countries...

‘..allow the private sector a leading role in the economic activity, with specified role for the government in regulating this activity and protecting it from the effects of the foreign fluctuation...

‘.. protect the poor and vulnerable groups from the deprivation and starvation and provide the Iraqi citizens with proper standards of public social services.

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. Internationally, the Compact establishes a framework of mutual commitments that will support Iraq and strengthen its resolve to address critical reforms and policies.

It is recognized that the resolution of security and political challenges, good governance and the provision of basic services are pre-requisites for progress in all other areas, including economic revival. The Compact is premised on the belief of a symbiotic relation between peace-building and economic prosperity. Together national reconciliation, improved security, better governance, and continued economic and social reforms will help unlock Iraq’s own development potential. Iraq’s international partners will provide financial, technical and political support to help meet these challenges on the basis of mutual commitments.

The Compact aims to reintegrate Iraq with its region and with the International Community at large on the basis of mutual respect and the pursuit of common interests. It is a statement of solidarity with the Government and people of Iraq and recognition of the achievements of the past three years, especially the fulfilment of the political timetable of UNSCR 1546 and a commitment by the Government and its international partners to work together to complete the process of transition and reconstruction.

The Compact reaffirms the commitment of the Government of Iraq to fight corruption. It reflects the Government's responsibility to its citizens to establish transparent institutions and practices through which public servants will be held accountable for their actions. Its essential spirit promotes a unified Iraq, the fruits of which must be shared honestly and justly amongst the country's entire population, regardless of status.

Achieving prosperity is a key part of the Vision. Experience elsewhere has shown that sustainable growth in employment and living standards has to be driven by a strong, diversified private sector. The Government has a key role to play in various ways – ensuring good management of Iraq's oil revenues, creating the legal and regulatory framework, managing the macro economy, protecting the vulnerable, providing security – but the real source of sustainable prosperity has to be the private sector.

Transformation of the economy will require broad public support and buy in. The Government is committed to building consensus around its program of action, and ensuring that the benefits of reform are well communicated to the Iraqi people.

This document begins by outlining the program for achieving the Vision of the Government of Iraq in the political, security and socio-economic areas. The Government's programme is laid out in this document, together with concrete steps and mechanisms for achieving them within a defined timeframe.

This document lays out the Government's programme of action on the economic front, setting the broad shape and major policy initiatives. The policy framework focuses on key areas identified in the National Development Strategy: public resource management, economic reforms, social sector reforms, and investment, energy and agriculture.

Broad reform and investment programmes are elaborated in this document to arrive at measurable mutual commitments that the Government of Iraq and the International Community will implement together.

Reform and investment actions are then reflected back into the medium-term fiscal framework to arrive at the medium-term fiscal outlook.

The Compact establishes a schedule for international partner's actions including tangible financial commitments calibrated to the Government's reform efforts and based on an internationally recognised framework by which Iraqi needs will be identified and quantified.

This document concludes by outlining coordination, implementation, monitoring, and performance measurement processes modelled along the lines of the Consultative Group process. It builds on existing national planning and aid coordination mechanisms such as the NDS, Sector Working Groups and Cluster Teams, enhancing them where necessary to reflect new needs and realities. The Consultative Group process is at once a tool and a product of this Compact as it provides a transparent,

inclusive and robust mechanism for coordination and planning with both domestic and international stakeholders.

2 THE COMPACT RESOLUTION

The Government of Iraq and the International Community are determined to strengthen their partnership to improve the lives of the Iraqi people, to complete the reconstruction of Iraq and to set it firmly on the path to self-sufficiency and prosperity in a society with a pluralistic political, democratic and federal system,

Reaffirming their shared commitment to continue, in the spirit of the Madrid Conference in 2003, and the Abu Dhabi and Kuwait meetings in 2006, to work toward a secure, stable and prosperous Iraq, with good governance and human rights protection for all under the rule of law, and to maintain and strengthen that commitment over the term of this Compact and beyond,

1. *Commit* to build upon the achievements of nascent Iraqi unity found in the adoption of a new Constitution in October 2005, the holding of parliamentary elections in December 2005, and the formation of the first permanent Government under the new Constitution in May 2006;

2. *Recognize* that the successful implementation of a shared vision for the future of Iraq will require the rejection of violence, terrorism and extremism; national dialogue and reconciliation; establishing loyal and professional security forces; removing remaining terrorist threats; and to find a reasonable solution for the reintegration of militias;

3. *Acknowledge* that the prosperity and well-being of the Iraqi people hinges upon the Government's commitment to pursue fundamental socio-economic reforms in areas including public resource management, governance and institutional strengthening, anti-corruption measures, subsidy reform, private sector development, financial sector restructuring, human security promotion, an established regulatory and institutional framework based on the rule of law, hydrocarbon legislation, and a refined agriculture and water management strategy;

4. *Accept* that such reforms can only be realized through substantive international engagement and cooperation and investment that bridges the gap between Iraq's needs and its capabilities in the medium term. Such assistance may include the granting of debt relief to Iraq by creditors at least on comparable terms to the Paris Club Agreed Minutes of November 2003; the provision of grants, loans and technical assistance; the provision of assistance with capacity building; and any other forms of assistance which may be agreeable to both parties;

5. *Agree* that the participants of the Compact will meet regularly to coordinate their efforts and review progress on these reforms and assistance, according to the mechanisms and timetables established in the annexes to the International Compact document;

6. Confirm their mutual commitment to the reforms and assistance contained herein and pledged at the final conference.

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3 REALIZING THE VISION - THE POLITICAL AND SECURITY CONTEXT

3.1 The Political Context

Goal: A sovereign, unified, federal, democratic Iraq integrated into the region and world community

Iraq is making the transition to the promise of a sovereign, unified, democratic and federal state where all Iraqi citizens will live in dignity. Under extremely difficult circumstances, the Iraqi Government is pursuing this goal, along with the inherently complicated task of national reconstruction. Economic reform and international support for Iraq's efforts will represent an important factor in strengthening the security situation and restoring stability to Iraq.

The Government has launched the National Reconciliation Plan (NRP) to provide the protection and conditions necessary for stability. This Initiative was developed with the contributions of Iraq's political parties in the Political Council for National Security and among a wide range of political stakeholders. It has thus achieved the first steps toward success. The Government of Iraq will continue its efforts to expand the range of participation for groups interested in the initiative, regardless of their ideological or political orientation.

The following sections of the Compact will explain how the initiatives that the Iraqi Government has undertaken will provide for the secure and politically stable environment needed for the economic benchmarks of the Compact to be achieved. At the same time, these sections describe the political and security conditions that can only be achieved with meaningful international support for Iraq's economic reform through the Compact. International partners will be updated on the implementation of Government of Iraq programmes in the political and security areas and the legislative timetable (Annex III) and their further evolution as circumstances warrant.

Iraq's political and security needs are outlined in the Government Program and the National Reconciliation Plan (see Annexes I and II). Accordingly the following are key requirements for the establishment of a stable state and coherent society, and reconciliation among different Iraqi groups:

- Rejection and Confrontation of terrorism
- Renunciation of violence against the state and between sects, ethnic and social groups within Iraq
- Respect for the rule of law, including civil liberties and human rights
- Establishment of a sovereign, unified, democratic and federal Iraq
- Institutionalization of democratic federalism through an agreed upon and consensus based process

- Fair and equitable sharing of resources
- Cooperation based on mutual benefit with its neighbours

To meet the above requirements the Government will need to undertake institutional reform aimed at establishing respect for the rule of law, including the consolidation, control and reform of all instruments of force including the judiciary; establishment and implementation of a balanced transitional justice program; development of policies for equitable and rational distribution of resources; and the organization of a civil service structure on a professional and non-sectarian basis to manage and administer the state at all levels. The establishment of the rule of law through these institutional reforms is fundamental for the successful implementation of the Compact. The prioritization of these reforms shall enable the:

- consolidation of state authority to implement policies, programs and projects, and collect taxes
- enforcement of the constitution and laws to ensure the security of citizens, protection of private and public property and the performance of contracts
- establishment of inclusive, legitimate and sustainable political institutions
- strengthening of the judiciary and the administration of justice
- stable and productive relations with neighbouring states and the international community

3.1.1 National dialogue and reconciliation

- The Government will continue to support the implementation of relevant UNSCRs to build upon and consolidate achievements of the political process
- As was recalled in UNSCRs 1546 and 1618, Iraq is committed to combating terrorism, which is not only a threat to Iraq but to the region and the world at large. Iraq needs the full backing of the international community and the neighbouring states if it is to be successful in this struggle.
- The National Reconciliation Program will be implemented in its entirety through a politically consultative and iterative process resulting in its continuous improvement and broadening its ownership by the people of Iraq. The National Reconciliation Committee and its sub-committees have been established and have begun work. The Government will progress the national reconciliation process through all means available as a matter of priority.
- The NRP amongst other issues calls for rejecting violence in all its forms and a commitment to resolve differences through political and constitutional means. An inclusive political process will be encouraged to build trust and reassure those who feel alienated from it.
- The Government will widen dialogue to promote unity and national reconciliation. Programs will be carried out to achieve genuine dialogue between parties in conflict aimed at lessening tensions in Baghdad and other strife torn parts of the country.
- The Government shall support the protection of human rights and will prosecute those who violate them regardless of their affiliation. It will address the issue of

militias and armed formations through political and economic means, and if necessary, security measures.

- Developing a solution to the problems created by the internal displacement of Iraqis is necessary for creating a fully interactive national dialogue and is a precursor to national unity. The government shall work to create the enabling legal and security conditions for the return of IDPs.
- The development of state institutions at all levels on the basis of professionalism, transparency and accountability will form the basis for good governance. Combating corruption, nepotism, ethnic, sectarian and party political interference will receive early and strong attention in the work of the Government.
- The Government will work towards a just and peaceful solution on the status of Kirkuk. It will take into account the views of all communities and act in accordance with the constitution to avoid any escalation of tension.
- The Government recognizes the critical role to be played by civil society in fostering the national reconciliation process. It will adopt and implement legislation for the open and democratic functioning of civil society institutions and organizations in order to promote civil society's role in this regard.
- The Iraqi Government will protect democracy through transparent and accountable systems which respect the rule of law and human rights.
- The Government will create a legislative framework allowing a free and independent media, recognising its role in strengthening individual freedoms and an open society.

3.1.2 Implementation of political/legislative timetable

- The Council of Representatives will endeavour to adopt all legislation noted in Annex III on a priority basis and begin immediate implementation of the same according to the timelines noted.
- The Iraqi Constitution requires a review by the Council of Representatives. Iraqi parties will pursue this process within the terms of the Constitution on a priority basis in the spirit of national reconciliation, and in a manner that will strengthen Iraqi unity. Public outreach campaigns will be used to ensure that the constitutional review process is inclusive.
- The Government will ensure enactment of all necessary legislation noted in the Constitution to enable its implementation. It will also establish all independent organizations required under the terms of the Constitution.
- The Government will set a date for governorate and municipal elections for early to mid 2007 once all necessary prerequisites for a free and fair electoral process are in place.

3.1.3 Regional and international cooperation and integration

- Iraq will actively seek to promote harmony and understanding with all of its neighbours. Iraq will neither permit its territory and resources to be used against the interests of them, nor will it allow interference and intrusion in its own internal affairs. Mutual respect for the sovereignty of each other and mutually beneficial co-operation between Iraq and its neighbours is critical to achieving regional stability.

- The Government will work with regional and international partners to preserve Iraq's territorial integrity, secure its borders, and to stem the flow of terrorists, criminals and arms into Iraq.
- The Government entered into discussions with its neighbours to develop tangible cooperation programs aimed at translating agreements reached at the ninth conference of the Foreign Ministers of the Neighbouring Countries of Iraq on 9 July 2006 and the third meeting of the Ministers of Interior of Iraq's Neighbouring States on 18 September 2006. At the follow up meeting of the neighbouring countries in Baghdad on 10 March 2007, three commissions were established on Border Security, Energy and Refugees.
- The Government will continue to encourage Arab and Islamic states in the region, and the LAS, OIC and the Gulf countries to support national reconciliation in Iraq and work together towards establishing a neighbourhood of friendship and cooperation. The United Nations will also be expected to provide assistance to these regional initiatives.

3.2 Security Context

Goal: Providing safety and security to all Iraqi citizens, protecting Iraqi sovereignty and thereby contributing towards national and regional stability

3.2.1 Building up forces and security

- The effective enforcement of state authority will require de-politicized, impartial, accountable, transparent, and professional security forces, including the military and police. The Government recognizes the important and urgent need to translate these principles into practical programs in the organization and operations of its security forces. The Government will work with international partners to develop well trained, disciplined and capable Iraqi security forces that fully understand and respect human rights and the rule of law.
- The Government intends to implement its schedule for developing and sustaining Iraqi Security Forces to targeted and authorized strengths and capabilities with the aim of achieving self-sufficiency in this regard prior to the end of the Compact period. Broader international assistance will be required to ensure quality and sustainable security structures.
- The Government of Iraq will conduct outreach programs to ensure that all parties continue to support and implement the Baghdad and Basra Security plans.

3.2.2 Taking over responsibilities and working with friends and allies

- The Government is accordingly determined to develop the Iraqi military and the Iraqi police as national institutions with exclusive responsibility throughout Iraq to which all the people of Iraq can look for personal protection. The principles of 'democratic civilian control' and 'one state, one army' will govern the development of the Iraqi Security Forces.

3.2.3 Disarming, disbanding and re-integrating militias

- The constitution prohibits the unauthorized use of armed force. The Government of Iraq through the National Reconciliation Plan will seek all party support for a

Disarmament, Demobilisation and Re-Integration (DDR) programme aimed at the dissolution and re-integration of militias.

- The creation of political and economic conditions conducive to the possible implementation of a DDR program will be a priority of the Government.
- The Government shall work to create political agreement and the legislative framework necessary for the disbanding of militias. This framework shall include the proposed law on militias, legislation to control the possession and proliferation of weapons and a series of confidence building measures including an amnesty program consistent with accepted norms of transitional justice and appropriate to the Iraqi context.
- The economic reforms outlined in the Compact will create the enabling conditions for the development of programs for the re-integration of militias and other armed groups. The Government of Iraq, with the help of the International Community and the UN will develop a credible, comprehensive and properly-costed DDR for militias drawing on international experience of other post-conflict situations.

3.3 Human Rights

Goal: Uphold and protect human rights, establish the rule of law, and overcome the legacy of the recent and distant past

3.3.1 Establish a comprehensive human rights regime country wide

- International human rights norms and standards will be adopted in the domestic legal system;
- The Government's capacity to implement international human rights treaty obligations will be strengthened.
- Human rights awareness will be included in education curricula, and promoted also among legislators, judicial personnel and other state agencies and the public;
- The National Human Rights Commission will be established and supported in the fulfillment of its objectives with regard to monitoring, investigation, protection and promotion of human rights
- The Government's capacity to report on its international human rights treaty obligations will be strengthened; and the capacity of national, regional and local authorities to develop and maintain reliable and updated statistical data on human rights violations will be established and enhanced.
- The role of civil society will be strengthened and a legal framework that conforms with international standards governing their organization and functioning will be implemented.
- Legal and institutional protections consistent with international standards will be strengthened for especially vulnerable groups, such as minorities, internally displaced persons (IDP's), returnees, refugees, stateless persons, widows and disabled.

3.3.2 Establish and implement effective rule of law institutions and policies

- The legal framework as stipulated in the constitution will be put in place fully in line with national and international human rights obligations.

- A comprehensive assessment of current police, judicial and penal institutions will be carried out in order to identify linkages, gaps, organizational requirements and resources necessary to ensure effective enforcement of the rule of law
- Functioning institutions of justice will be fully operational, including the judicial and legal medical institutes.
- The administration of justice and the criminal justice system will be strengthened in line with international standards and with the support of the international community and the United Nations. The average time to resolve disputes will be reduced and the number of investigative judges will be increased.
- A review and reform of oversight procedures relating to detention and lack of due process will be carried out.
- Prisons will have sufficient and separate facilities for women and juveniles and those in pre-trial detention, and these will be in line with international standards
- Confidence building measures such as an amnesty program consistent with transitional justice norms, release of illegally held detainees and addressing the legacy of the previous regime on the basis of the rule of law and respect for human rights will be implemented.

3.3.3 Establish effective transitional justice mechanisms

- A comprehensive strategy for Transitional Justice, dealing with vetting, prosecution, truth telling and reparation mechanisms, will be implemented. This will also be supported by the work carried out by the Centre for the Missing and Disappeared Persons.
- The De-Baathification Committee will be restructured as a professional technical body divested of its political aspects. Compliance with the relevant rules of procedures, as established by law in accordance with the Constitution will be ensured.
- A draft Amnesty Law consistent with international standards which balances justice with forgiveness will be prepared and discussed widely for introduction to the Council of Representatives. Compensation for victims of the former regime will be provided.
- Similarly, criteria and appropriate packages will be developed for the compensation of victims of political violence and terrorism.
- Mechanisms to restore and/or retrain former Government employees now unemployed will be established within the parameters of accepted norms of transitional justice.

4 REALISING THE VISION - THE SOCIO-ECONOMIC CONTEXT

In the context of the Government of Iraq's security and political strategies, this section outlines goals, reform programs, and investment actions over the next five years (2007-2011).

This document outlines reform and investment programmes to be undertaken by the Government of Iraq supported by the international community through the Compact.

Iraq's reform reconstruction and development needs are spelled out in the NDS which identifies the following as the four pillars of sustainable development in Iraq:

1. Strengthen the foundations of economic growth including a stable macro-economic framework in accordance with the IMF-supported Stand By Arrangement;
2. Revitalize the private sector particularly through the creation of an enabling environment;
3. Improve the quality of life starting with the provision of basic services; and
4. Strengthen good governance, security and combating corruption.

The Compact focuses on four key reform and investment areas and two sectors: public resource management, governance and institutions, economic reforms, social sector reform and the energy and agriculture sectors. These areas were selected because progress in these areas can significantly enhance Iraq's capacity to:

1. Mobilize its own resources,
2. Attract foreign investment and aid; and
3. Utilize resources in an efficient, transparent and accountable manner.

In addition to the areas above the Compact outlines the Iraqi government's strategy for national and international economic integration.

4.1 Public Resource Management

Goal: Maximise the benefit from public resources to the people of Iraq in all the regions and provinces by establishing an efficient, equitable, transparent and accountable system for the management of oil revenues and other resources. Use public resources to promote national unity and diversified, sustainable development

4.1.1 Oil Revenues

The Government will build a transparent and accountable system for the management of Iraq's oil wealth for the benefit of all Iraqi citizens consistent with the constitution. To this end, it will establish a single petroleum account, to receive revenues from all crude oil and gas sales.

The petroleum account will be subject to rigorous monitoring and audit, including annual audits by an internationally recognized firm and regular publication and reconciliation of output, export, payments and revenue data. Audit and monitoring mechanism such as an independent audit and monitoring board shall be developed to supervise the account and publish all the relevant information.

The Extractive Industries Transparency Initiative offers tools based on international best practice for the monitoring of oil revenues. It also offers a framework for building capacity in the areas of transparency and accountability. The Government of Iraq will endorse the EITI principles and commence exploratory consultations towards its implementation.

An oil revenue management mechanism will be established to ensure equitable and transparent sharing of the benefits of oil among all Iraqis. Such system will ensure fiscal integrity and sustainable financing for national and sub-national governments. The

intergovernmental finance system (fiscal federalism) will be based on the clear assignment of revenues and expenditures across the levels of government, and will assist local governments to strengthen their service delivery capacity and to adopt good governance practices.

Macro-economic and monetary policies will be put in place to insulate the economy from the detrimental impacts of oil price fluctuations and to encourage diversified and sustainable development in an open and undistorted economic environment.

4.1.2 Public Finance Management

Goal: The Government will align its public finance management with sound international practices. This will include:

- Integrating the budget into a single treasury account
- Promote budget transparency and strengthen Parliamentary oversight
- Improve monitoring of international aid and assistance by incorporating international transfers into the budget, even where assistance is not spent through GoI systems;
- Anchoring the budget in a realistic medium-term fiscal framework;
- Establishing credible reporting and disclosure procedures to enhance policy making and to facilitate accountability and public participation;
- Carrying out and publishing regular international standard audits of Government finances;
- Working to remove administrative bottlenecks, to enhance capacity for procurement and capital project contracting, and to invest in projects of significance as may be fiscally sustained over the medium term on the basis of current and future iterations of the MTFF in Annex V
- Implementing good international practices in budget execution and public procurement procedures.
- Harmonising budget execution procedures across regions
- Balancing efficiency with good international practices in budget execution and public procurement contracts, and harmonizing these procedures across Iraq, at both the national and provincial levels, by adopting comprehensive public procurement legislation and systems
- Making the Financial Management Information System (FMIS) operational across all ministries and provinces, including for the management of government contracts and payrolls, as well as for budget planning and accountability;
- Undertaking a public expenditure review to evaluate the quality of budget management, and to identify ways to improve these areas.
- Establishing an intergovernmental finance system (fiscal federalism) that will be based on the clear assignment of revenues and expenditures across all levels of government, and that will assist local governments in strengthening their service delivery capacity and in adopting good governance practices.
- Review of taxation and customs policy and procedures, with an aim to strengthen the GoI's resources mobilization and promoting growth and private sector development.
- Building administrative capacity at all junctures of public finance management at national and sub-national levels

4.2 Strengthening institutions and improving governance

4.2.1 Engaging with Civil Society

Goal: Building consensus on economic reforms through dialogue and engagement with civil society. Mobilise Iraq's Social Capital in the process of development

- Introduce a policy framework that stimulates participation of civil society in the design, implementation and monitoring of reform and reconstruction programmes. Adopt legislation enabling and protecting NGOs and other civil society structures including.
 - Adopting a law on non-profit associations that guarantees their political and economic independence (including the freedom to cooperate, receive funding from and be affiliated to foreign partners), facilitates their establishment and minimizes bureaucratic obstacles.
 - Ensuring an appropriate advisory and consultative role for civil society in legislative, administrative and policy making processes.
 - Educating policy makers, administrative and law enforcement personnel as well as the public about the rights of civil society and the role it can play in promoting citizens' legitimate concerns, mitigating social conflict and monitoring the governments' actions
- Clarify mandates and responsibilities and ensuring engagement of all stakeholders in the context of economic and social transformations including economic liberalisation and devolution.
- Develop a comprehensive approach to transparency including freedom of information legislation and policies on public disclosure mandatory for public officials and institutions. Guarantee and protect the rights of media, watchdogs and other information sharing institutions

4.2.2 Good Governance and Anti Corruption

Goal: Develop a legal framework and build institutional capacity to deter corruption at all levels of government

- Strengthen the rule of law and the capacities of law-enforcement agencies;
- Develop anticorruption plans for institutions with substantial revenue and expenditure assignments;
- Fully implement the public income and asset disclosure law;
- Launch a public education campaign on anticorruption;
- Strengthen capacity for internal audit and the Supreme Board of Audit;
- Review the mandates and statutes of the Commission of Public Integrity and the Inspectors Generals to ensure their working as independent, professional, technical and non-political bodies.

- Develop a comprehensive system of internal and external controls within government, including conflict of interest policies, audit and evaluation
- Develop comprehensive and consistent policies and legislation along with responsible institutions to improve access to information and public disclosure;
- Ratify the UN Convention Against Corruption;
- Develop common, merit-based practices for employment in the public sector;
- Establish a unit to recover assets that are the proceeds of corrupt dealings;
- Introduce and implement legislation as necessary to authorize asset seizure and forfeiture.

4.2.3 Civil Service Reform

Goal: Establish a civil service corps on the principles of professionalism, integrity and non-partisanship

The Government will formulate a comprehensive civil service reform programme, including:

- Introducing a human resource policy aimed at creating a strong civil service corps;
- Introducing a payroll management system that minimizes/eliminates the abuse of public funds;
- Adopting a merit-based hiring and promotion practices and clearly delineate the functions of agencies supervising the public service and capacity building;
- Complete a census of government employees and develop and implement plans to rationalize the government workforce.

Reforms will need to be phased to limit hardship to large sections of the population which are currently dependent on civil service payroll. This process should be synchronised with social safety nets and private sector development in order to protect the vulnerable from the negative impact of civil service reforms.

4.3 Economic Reform

Goal: Create an enabling environment for investment, public and private, domestic and foreign, as a driver for sustainable and diversified economic growth and job creation; create the conditions for maximising the benefits from foreign aid and investment and integration into the global economies

4.3.1 Reforming Subsidies

The Government shall work to phase out inefficient and inequitable universal subsidy programs while ensuring the protection of the vulnerable. This will involve

- Bringing all subsidies on budget in a way that reflects their full costs;
- Developing a programme for the transition from universal subsidies to targeted safety nets which will be efficient, equitable, provide adequate protection to the poor and vulnerable;
- Conducting public education and consultation to ensure broad participation and buy-in for subsidy reforms

Fuel subsidies shall be phased out according to the SBA in tandem with social safety net development and other compensation mechanisms.

The Public Distribution System (PDS) will be rationalised and transitioned to targeting in tandem with the development of a comprehensive social safety net. PDS Reforms will also take consideration of agricultural policies and impact on other sectors.

The Government of Iraq recognizes the need to reform the PDS in order to improve the efficiency and equity of public resource allocation, but it also appreciates its obligation to support the 25% of Iraqi households which are heavily dependent upon the system. The PDS will therefore be replaced with various social service, income, and employment programs which particularly target those individuals without access to the labour market. In this context the Government will discuss with the IMF the introduction of a petroleum dividend as part of the compensation framework for the withdrawn subsidies.

4.3.2 Private Sector Development and Investment promotion

Goal: Create an enabling environment for private investment and job creation

- Enhance the rule of law in commercial and financial activities.
 - The judicial system and the legal capabilities in this field will be developed to ensure the protection of private property and the sanctity of contract
 - Investment Law will be implemented and a new Commercial Code will be passed and implemented
- Improve the ease of starting and exiting a business, employing workers, registering property, getting credit, dealing with licenses, trading across borders and enforcing contracts with due attention to equality issues and opportunities;
- Formulate a strategy for restructuring, commercializing and privatizing SOEs including the establishment of a State Property Fund to manage state property on a commercial basis and attract investors. Encourage entrepreneurship and commercial spin-offs within SOEs;
- Find private sector-based solutions to stimulate housing development;
- Improve availability of financing to private entrepreneurs, particularly to SMEs including credit guarantees, concessionary financing including micro and SME specific packages;
- Include provisions for the encouragement of private sector in public procurement legislation and regulations;
- Join OECD-MENA and participate in their programs for private sector development and investment promotion.

In addition to security, rule of law and an efficient and predictable regulatory regime, the state needs to provide other public goods essential for the development of a vibrant private sector including energy, basic services, major infrastructure and improvements in human capital through training and education. Strategies and actions in all these areas could be formulated within the context of the Action Plan for Growth (see 6.5. below)

4.3.3 Financial Sector Restructuring

Goal: Promote public savings and investment and to create an environment for investment and growth the Government shall continue its effort at reforming the Financial Sector.

- Restructuring state owned banks;
- Creating conditions for the strengthening of Iraq's financial system and increasing access to credit by businesses and individuals;
- Creating an enabling environment for competition and for the growth of private banking, restructuring and consolidation of private banks, and for levelling the playing field in the banking system overall
- Facilitate the participation through private banks in government payments accounts such as payroll and pensions;
- Expand the electronic payment system

4.3.4 Regional and International Economic Integration

Substantial hurdles must be overcome in order for Iraq to rejoin the global economy – not the least of which being its large international debts and obligations. The Compact seeks to resolve those and other outstanding issues in relation to international economic partners.

Iraq will pursue membership in international trade, cooperation and environmental treaties and organizations for the benefit of the Iraqi economy and the welfare of its people. For this to happen it is necessary to:

- Factor regional and international integration into economic policy including tax and customs policies, regulations of trade, finance, services, public procurement, quality standards, intellectual property and investment
- Build capacity across Ministries to negotiate and implement international treaties and agreements
- Pass legislation and undertake other measures necessary to facilitate implementation and active participation in international treaties and organizations
- Review the accession to existing International Conventions/Treaties/Protocols: ensure progress on signing/ratifying and reporting obligations

Iraq will work toward participating in the following treaties and agreements:

- Continue to engage actively with the UN, the IMF and the World Bank
- Participate actively in regional organizations such as the OPEC, Islamic Development Bank, Arab Fund for Economic and Social Development. Pursue closer relations and consider accession to the GCC.
- Work closely with the EU including through the Trade and Cooperation Agreement.
- Work to gain membership in the World Trade Organization and explore bilateral and multilateral free trade agreements consistent with WTO membership
- Join the UN Anti-Corruption Convention and MENA-FATF. Sign up to the EITI Principles.
- Join environmental treaties such as the UN Framework Convention on Climate Change and its Kyoto Protocol, the Convention on Biodiversity, the Wetlands Convention and the Convention to Combat Desertification. Ensure access to

capacity building and compensation mechanisms available to developing countries for the implementation of environmental treaties such as the Global Environmental Facility and the Clean Development Mechanism.

Iraq will also develop mechanisms for working with recognized non-governmental institutions and business organizations (such as Chambers of Commerce) that can help facilitate international integration on favourable terms.

4.4 Human Development and Human Security

Goal: Protect the citizens, improve their wellbeing and productivity and mobilize Iraq's human capital as the key ingredient for sustainable development and social peace

Human development and human security are some of the main outcomes of the Compact and will serve as criteria for evaluating the effectiveness of the entire process. This area is especially important for restoring the trust of the Iraqi people in the State's ability to protect them, address their needs, and compensate for the hardship which can be associated with reforms in other areas.

Investing in human capital ensures sustainable development for the future. Guaranteeing non-discriminatory access to basic services, fundamental rights and freedoms builds consensus and social peace.

Providing appropriate quality basic services and targeted support for the poor and vulnerable and entails reorienting allocation of resources towards development, social inclusion and stability.

4.4.1 Delivering Basic Services: Working towards the Millennium Development Goals

Goal: The Government will work towards achieving its interim 2011 Millennium Development Goals in an efficient and sustainable way. To this end it will work to:

- *Reduce the number of families living under the poverty line by one third*
- *Reduce unemployment from by one half and double non agricultural labour force participation for women.*
- *Improve adult literacy by 25% and school completion rates by 25%, Achieve gender parity at all levels of education. Increase education budget from 3.5% to minimum 5% of GDP*
- *Increase spending on health from 2.5% to minimum 4% of GDP and secure access to basic health care to all.*
- *Improve access to housing by 15%; improve access to safe drinking water and sanitation by one third.*
- *Address the needs of IDPs, refugees, stateless persons and returnees while also enabling them to realize their potential as contributing members of the economic community*
- *Reduce gender discrimination, increase participation of women in public life and economic activity. Increase women participation in politics at decision making levels and their involvement in the democratization process. Protect women from violence and mobilize their potential to promote peace*

To this end the Government will:

- Quantify MDG baseline and targets to be achieved in the medium term;
- Establish sector and inter-ministerial working groups through which ministries and international partners can work together to develop policy guidelines for planning processes;
- Build research and information management capacity within Iraq line Ministries in support of their policymaking function;
- Enhance the information and statistical underpinnings of the planning process by integrating the Unmet Basic Needs Survey and other statistical surveys into the information management units of line Ministries;
- Invest in human capital to improve quality and efficiency throughout the whole management cycle (planning, execution, monitoring) for service provision;
- Review legislative and regulatory framework to:
 - (1) Delineate the role of national and sub-national units for basic service provision;
 - (2) Increase transparency and accountability;
 - (3) Support public-private partnerships; and
 - (4) Enhance the role of civil society in policy design, oversight and monitoring.
- Establish public information capacities within the Ministries, national and sub-national directorates to increase transparency and accountability;
- Build sub-national information management capacity to improve quality and efficiency of execution;
- Enable effective and efficient coordination between national and sub-national governance units on service delivery with specific regard to the function of planning and service management;
- Promote area based development strategies which:
 - 1. Ensure service provision to the most vulnerable segments of the Iraq population including internally displaced people (IDPs), returnees, refugees, stateless persons, disabled and widows
 - 2. Increase income generation opportunities at community level;
 - 3. Are gender-sensitive and responsive to the needs of youth.
 - 4. Build the planning and executive capacity of sub-national governance institutions;
 - 5. Build upon the technical and financial partnership between Iraq and international community;
- Focus public expenditure management systems to secure access to basic needs for all and to improve quality and effectiveness of social services
- Promote gender equality for larger employment participation of women and for social partnership in rebuilding Iraq
- Expand middle class in Iraq through solid education and business opportunities to reduce living standard gaps, increase consumption and redistribute growth

4.4.2 Developing Social Safety Nets

Goal: The Government shall develop social safety nets in order to protect the most vulnerable and compensate for dislocations caused by economic and political change. Reforms shall be governed by the principles of efficiency, fiscal sustainability, equity and transparency.

To this end the Government shall:

- Conduct public education and consultation campaigns to ensure broad participation and support for social reforms;
- Build the statistical and information management capacity within the Ministry of Labour and Social Affairs to develop reliable vulnerability/eligibility criteria;
- Improve coverage of the Social Safety Net on the basis of rigorous analysis and adherence to the principles of integrity and accountability;
- Strengthen public-private partnerships for the provision of vocational and entrepreneurial training, supporting sustainable access to the job market for the most vulnerable;
- Recalibrate the scope and focus of the Basic Needs Steering Committee to allow for:
 - (a) Regular stocktaking of available statistic and research material, and
 - (b) Regular use of statistical data in support of policy design, review and monitoring.
- Introduce means tested effective benefit delivery systems relying on efficient coordination mechanisms between the national and sub-national levels
- Set mechanism of SSN benefit adjustments to preserve purchasing power of beneficiaries against inflation and to smooth the transition of poor households to the economic environment with no fuel and food subsidies;
- Ensure social protection for workers through self- sustainable, multi pillar social insurance schemes to encourage employment and reduce old age poverty;
- Build the capacity of government regarding preparedness, planning, coordination, and response to humanitarian emergencies in coordination with local governments and non- governmental organizations.

4.5 Energy (Oil, Gas and Electricity)

Goal: The Government will develop an energy sector that meets Iraq's needs and maximizes the benefits of hydrocarbons for all Iraqis and reinforces national unity and institutions.

Iraq will establish a regulatory and institutional framework on the basis of hydrocarbon legislation consistent with its constitution and based on sound international practice, with the following goals:

- Clarifying mandates between the national and sub-national levels
- Separating policy making, regulation and execution/operation
- Developing a national hydrocarbon strategy, policy and regulatory framework
- Building capacities at the Ministry of Oil to carry out the above functions
- Consolidating national infrastructure and marketing of petroleum
- Restructuring and commercializing upstream operations

- Liberalising downstream operations
- Promoting foreign investment and private sector involvement on the basis of risk/reward pricing, transparency in contract execution and administration, consistency and transparency in the application of legal and regulatory frameworks and an international arbitration option for investment disputes
- Establishing a coherent, transparent and predictable hydrocarbon fiscal regime
- Improving monitoring and control including metering at all stages
- Implementing safeguards for the protection of the environment throughout the energy cycle including Good Oil Field Practice and a programme for reduction, capture and efficient use of flared gas

The GoI will develop an Energy Sector Master Plan on the basis of an Energy Balance that will:

- Assess the needs of the oil, gas, and electricity sub-sectors as an interdependent energy complex
- Determine the highest national investment priorities based on holistic view of the energy sector;
- Lay out a plan for the most effective and efficient development of the energy sector;
- Quantify financing requirements and identifies public and private sources including domestic and foreign investors;
- Develop policies and supporting legislation for management of energy demand including improving energy efficiency.

Strategies for public and private investment for the petroleum sector will prioritize:

- Increasing crude oil output to 3.5 MMBPD by 2011.
- Reaching refined products output of 700,000 BPD in 2011
- Meeting the demand for refined products at world prices by 2011, and
- Natural gas development to meet the needs of power generation.

For the electricity sector, the Government will formulate a plan for least cost development of the power system and establish a legal and regulatory framework that separates policy formulation, regulation and operation. The Government will adopt a tariff policy balancing commercial viability and the protection of vulnerable social groups. The Government's investment plan for the electricity sector will aim at meeting electricity demand at cost recovery tariffs with 10% reserve by 2015.

4.6 Agriculture and water management strategy

Goal: To develop a stable, competitive and sustainable agriculture to enhance food security and rural incomes, generate rural employment, diversify economic growth and protect the natural environment.

To this end the Government resolves to:

- Create the enabling environment for a market oriented, private sector driven, competitive and profitable agriculture sector backed by appropriate Government policy, institutional and infrastructural support.

- Develop a cohesive agricultural policy that integrates with food policy, trade policy, industrial policy, water policy, environment and natural resource management policy and financial market development policy.
- Develop financing plan including public and private sources to support for agriculture sector policies, institutional and infrastructural reforms.

The following strategic actions will be taken by the Government in the short and medium terms, to realize the specific sector goals:

- Develop a consolidated land and water management policy and a comprehensive approach towards resolution of cross border water issues.
- Reform trade policy to free agricultural exports, imports and pricing.
- Reform the fiscal policy to provide an economically sound basis for agricultural subsidies including gradual transition from input to price subsidies.
- Institute policy reform in the financial market to further facilitate agricultural credit and private investment.
- Strengthen critical public support organization through capacity building for agricultural planning, monitoring, oversight, research, extension, pest and disease control, quality standard and certification.
- Develop capacity of small agricultural producer groups, small agricultural marketing intermediaries, small processors and value adding chains with special attention to IDP and other vulnerable groups.
- Enhance the Small Farmers Fund and develop other concessionary agro-finance programmes.
- Improve efficiency of agricultural markets through improvement of physical infrastructure including rural and municipal markets, farm-to-market roads, community assets (storage, refrigeration) and integrated water management infrastructures.
- Improve the public marketing information infrastructure.
- Protect and rehabilitate unique Iraqi crop varieties

5 Medium Term Outlook and Iraq's Financial Needs

The Government of Iraq's fiscal policy over the Compact period is reflected in a medium-term fiscal framework (MTFF), which is consistent with the development priorities set in the National Development Strategy (NDS), reflects the cost of Iraq's security and development needs, and is anchored in the IMF-supported Stand-By Arrangement.

In addition to ensuring the efficient and effective use of Iraq's fiscal resources the Compact also makes the case for additional finance to meet essential needs and accelerate economic growth. The government of Iraq will commit to detailing investment plans to achieve these goals, and will request the support of the international community and private sector in financing and executing these plans.

5.1 Medium Term Fiscal Framework

The Medium Term Fiscal Framework (MTFF) (Annex V) reflects Iraq's commitment to the prudent use of financial resources in line with the IMF-supported Stand-By Arrangement.

The MTFF (Summary Table 1 and Annex V) assumes a fully funded budget which relies primarily on Iraq's own resources (90 percent of the total resource envelope). The MTFF assumes the most likely oil price trajectory for the medium term, a gradual improvement in the levels of oil production and exports, and completion of external debt rescheduling with all groups of international partners on the terms and within the time frame agreed upon with the Paris Club. The baseline MTFF scenario is based on the Government's prudent fiscal stance and available resources. It reflects an assessment of political, economic, and institutional risks to Iraq's medium-term fiscal outlook, and offers realistic remedies to these risks, including necessary adjustment measures to be implemented by the Government of Iraq.

Should Oil revenues be substantially lower than foreseen, the Government commits to eliminate the resultant financing gap via additional adjustment measures. International development partners will be consulted on the proposed adjustment measures as such financing gaps emerge. The Government may also consult with its development partners on the possibility of additional financing to minimise the possible negative impact of these adjustment measures on vulnerable social groups.

The following MTFF summary table shows headline figures for revenues and expenditures by the Iraqi Government.

Table 1. Iraq: Summary of medium-term macroeconomic and fiscal framework.
(ID billion unless otherwise indicated)

	2006	2007	2008	2009	2010	2011
	Est.	Projections				
Economic growth and prices						
Real GDP (percentage change)	3.0	10.4	12.3	12.4	11.2	6.3
Non-oil GDP (percentage change)	7.5	7.5	7.5	7.5	7.5	7.0
GDP per capita (US\$)	1,771	2,097	2,488	2,785	3,111	3,341
GDP (US\$ million)	50,926	62,038	75,678	86,980	99,681	109,743
Oil production (ln mbpd)	2.0	2.3	2.6	3.0	3.4	3.6
Oil exports (ln mbpd)	1.5	1.7	2.0	2.4	2.7	2.9
Iraq oil export prices (US\$ pb)	55.5	45.1	48.5	49.5	50.3	51.0
Revenues and Grants	61,650	47,464	63,880	74,524	90,011	101,114
Revenues	49,265	40,781	59,547	74,433	89,955	101,081
Of which: Crude oil export revenues	43,741	35,242	48,936	61,984	74,723	82,273
Grants	12,385	6,683	4,334	90	55	32
Expenditures	53,480	57,688	69,610	77,681	89,613	100,758
Current expenditures	42,659	43,304	50,688	56,261	64,341	72,312
Salary and pension	11,909	15,172	18,812	21,436	24,123	26,693
Goods and Services (non-oil sector)	13,785	12,559	14,021	14,465	17,048	19,118
Goods and Services (oil sector)	6,599	2,937	3,002	3,598	4,075	4,506
Transfers	7,825	10,325	11,491	12,079	12,671	13,181
Social safety net (excluding OFFP)	5,117	5,733	6,601	7,253	7,814	8,330
Transfers to SOEs	1,428	1,726	1,680	1,391	1,250	1,100
Interest payments	354	548	916	1,584	2,688	4,700
Of which: Domestic interest payments	234	334	298	262	226	190
War reparations 3/	2,187	1,762	2,447	3,099	3,736	4,114
Investment expenditures	9,830	14,030	18,369	20,666	24,319	27,293
Contingency	990	354	554	754	954	1,154
Balance (including grants)	8,170	-10,224	-5,730	-3,157	398	356
Change in outstanding Letters of Credit [+ increase]	1,674
Financing	-4,642	10,224	5,730	3,157	-398	-356
Residual or Financing gap[+]/surplus [-]	-1,854	0	0	0	0	0
Memorandum items:						
Security-related expenditure	6,064	9,753	13,129	15,912	18,826	21,197

5.2 Financing Essential Needs - Accelerating Economic Growth

Lack of essential services is affecting Iraq's ability to achieve important levels of stability and economic growth. The proposed MTFF goes a certain way towards meeting Iraq's need for basic services. However, Iraq's need in this area exceeds the level of investment it is capable of supporting with its own fiscal resources and donor funds committed to date. While more work must be done in order to provide a detailed elaboration of Iraq's medium-term investment needs, some have estimated the shortfall between Iraq's needs and resources to be in the tens of billions of dollars.

Additional investments in selected areas will not only meet these basic needs and alleviate poverty but will also accelerate Iraq's economic stabilisation and growth with feedback into the improvement of the security and political situation in Iraq.

Through the Compact the Government seeks commitments from the international community in support of it meeting Iraq's essential needs.

5.3 International Support – Mutual Commitments

In order for the Government to meet its Compact commitments and to secure a stable Iraq, there is a need for additional assistance from the International Community at a variety of levels. Specifically the Government of Iraq's major needs are for:

- financial assistance for investments against a background of a potentially highly volatile government revenue stream (due to uncertainty volatility in both oil price and production levels) and to support critical investment in basic services that are currently beyond both the Government's financial capacity and its technical and management capacity to execute. Additional finance will need to be provided through mechanisms that do not further burden Government capacity.
- debt relief;
- reparations relief;
- managerial and technical assistance, particularly in areas that will assist the Government to expand its own capacity to execute public investment;
- assistance with development of private sector strategy and promotion of private sector investment;
- institutional strengthening and capacity building;
- grants and loans;
- loan guarantees;
- international agreements and assistance with regional and international initiatives.

Additional international financial assistance will be sought against a detailed investment and action plan for growth that will be developed as part of the Compact process. The process for determination of Iraq's essential investment needs is detailed further in the following Section.

A record will be maintained of international commitments in support of the Compact. Performance against these commitments will be monitored as part of the joint monitoring process that will be undertaken under the implementation of the Compact.

As part of the Government of Iraq's commitments under the Compact it will ensure that legislation, regulation, systems and processes are in place that will allow efficient and effective disbursement of its own budget, in particular with respect to investment requirements. It will thereby work to increase its ability to invest not only its own budgetary resources, but also additional financial resources.

This resulting enhancement of the investment outlook matched by various forms of financing will be incorporated back into the MTFF and the medium term economic outlook as part of the ongoing consultative group process that will flow from the Compact.

5.4 Conditionality of International Commitments

It is recognised that the Government's success in achieving its political, security and economic goals will determine the ability of the international community to invest successfully in Iraq's future. The Government of Iraq's rate of progress in achieving specific Compact benchmarks may also have implications for donors' future aid commitments. While specific benchmarks will not necessarily act as triggers for the disbursement of funds, Iraq's progress against these accomplishments will inform donor decisions about future support.

The current IMF Stand-By Arrangement, and the likely subsequent SBA to be agreed by End-2007, both contain quantitative and structural economic performance criteria relating to the maintenance of macroeconomic stability and key structural reforms. If multilateral or bilateral donors need to link disbursement of funds to economic performance criteria, then the IMF criteria could be appropriate. Furthermore, as part of the Compact framework (but distinct from its implementation and monitoring mechanisms) donors providing direct budget support may also enter into bilateral agreements with Iraq specifying the terms of such support.

5.5 Investment and Action Plan for Growth

The government of Iraq recognises the need to clearly detail investment and action plans and to detail additional financial needs. Plans will be developed and additional costing of Iraq's needs, and the financial and technical resources (public and private) necessary to meet them, will be quantified during the first months following the signing of the Compact and as an integral part of the formulation of Iraq's National Development Strategy.

Within the framework of the NDS and this Compact the Government of Iraq will develop an Investment and Action Plan for Growth working together with its partners including Iraqi stakeholders, multilateral organisations, the international and national private sector, investment banks and management consultants.

The Investment and Action Plan will focus on the re-construction of sectors that are key to Iraq's economic recovery – in the first instance Energy and Agriculture. Other sectors will be considered on a prioritised basis as part of the ongoing development of the National

Development Strategy. The plan for the initial focus sectors will be produced within 12 months of the signing of the Compact, and shall contain the following elements:

- sector master plans describing actions and investments needed in the next 5 years to meet agreed targets of sector effectiveness and efficiency. Actions may, for example, include necessary legislative, institutional and capacity development within a particular sector;
- from these master plans, investment needs for key sectors, further defined as economically viable projects and programs and prioritised on the basis of maximised economic rate of return;
- consideration of mechanisms for management and execution of these investments, including the involvement of the private sector;
- financing plans, considering use of public and private sector sources of finance;
- pipeline of feasibility studies and business plans which can act as a basis for raising financing and enlisting strategic partners for specific projects.

In support of implementing the Investment and Action Plan the government will also:

- Undertake specific actions to address key constraints within government systems and facilitate rapid execution of major public and private sector investment projects;
- Develop, with the assistance of its development partners, a private sector strategy for selective investments in key areas.
- Undertake specific actions to significantly improve the business environment for private sector investment, including foreign direct investment;

Institutions and regulations may be put in place for the implementation of the Investment Action Plan for Growth that will streamlined procedures for approval and implementation of major investment projects while maintaining transparency, accountability, fiscal integrity and sustainability.

As part of an ongoing Consultative Group Process the government of Iraq will work with the international community to match its Investment and Action Plan for Growth against available sources of finance, technical and managerial assistance.

6 IMPLEMENTING THE COMPACT

This section broadly outlines the framework proposed by the Government of Iraq for the implementation of the Compact.

6.1 Implementation Principles

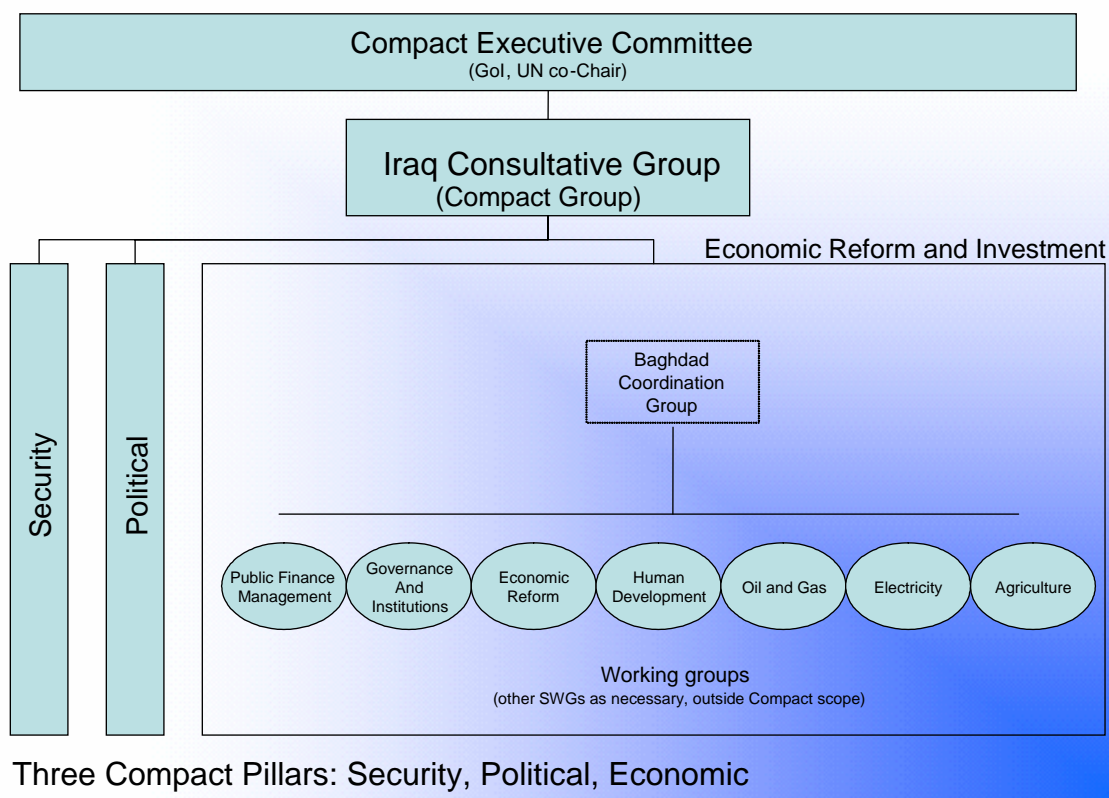
The following principles will be adopted in implementing the Compact:

- Implementation will be led by the Government of Iraq, and where possible will utilise existing international partner coordination structures;
- Close support will be give by multilateral and bilateral partners through the Consultative Group Process;
- Consistency will be maintained with GoI strategic priorities and policy setting and implementation mechanisms particularly the NDS

- Flexibility and consistency with the process of transition from centralisation to devolution
- Transparency of funding flows will be ensured by reflection of donor financing in the Iraqi budget.

6.2 Implementation Organisation

The organisational structure for management of the Compact and monitoring of performance against compact benchmarks and commitments is shown in the following diagram:



The implementing structure relies on existing donor coordination structures but focuses on joint monitoring of performance against Compact benchmarks and commitments, and implementing any strategic adjustments that become necessary to achieve Compact goals.

The implementation structure recognises the need to coordinate the relatively short-term and focussed efforts of the Compact within an enduring and comprehensive structure for donor coordination through a consultative group process.

The Government of Iraq will develop further detail on donor coordination within the first month after the Compact, including detailed Terms of Reference for each of the groups that make up this structure.

The various roles, composition and meeting frequency of the various groups that make up the Compact organisational structure are discussed in broad terms below:

Compact Executive Committee

- co-chair GoI, UN
- meets as required
- responsible for managing the Compact process
- supported by the Compact Secretariat

Compact Secretariat

- chaired by GoI, with policy support from development partners
- meets as required
- provides administrative support to the Exec Committee
- provides technical advice to the Exec Committee
- responsible for reporting GoI progress against Compact goals and benchmarks through working groups
- responsible for reporting international community's performance in meeting Compact commitments.

Iraq Consultative Group

- GoI and development partners (private sector may be included from time to time at the discretion of the GoI)
- meets annually to:
 - review updated NDS
 - review updated MTFF
 - review updates on the political and security areas
 - review Compact progress
 - revise investment and poverty reduction strategies
 - align donor and international community assistance strategies with NDS
- meets quarterly to
 - review GoI progress against compact goals and benchmarks as set out in the JMM (Annex IV) and the Legislative Schedule (Annex III)
 - review updates on the political and security areas
 - review international community's progress in meeting Compact commitments
 - revise actions required to meet Compact goals where necessary

Baghdad Coordinating Group

- Iraq Consultative Group members in Baghdad

- meets bi-monthly or as necessary to:
 - review performance of sector working groups against compact goals and benchmarks
 - review international community's progress in meeting Compact commitments
 - address specific issues regarding donor coordination as these arise

Working Groups

- Led by relevant Line Ministry (or inter-ministerial committee in the case of a cross-government working group), with development partners which are active in supporting the sector
- meets monthly or as necessary to:
 - review performance against goals reflected in the Joint Monitoring Matrix
 - review international community's progress in meeting Compact commitments
 - review and update the Joint Monitoring Matrix dependent on progress.
 - coordinate donor support at a sectoral level
 - discuss and review strategic directions within sectors and /or reform areas for consideration within the NDS
 - report to the Executive Committee where there is a need for senior Government intervention to enable achievement of Compact goals.

Iraq Strategic Review Board

- Chaired by MoPDC
- meets as required to:
 - approve specific programs and projects against the requirements of the NDS

6.3 Joint Monitoring Process

The organisational structure outlined above will allow periodic joint assessment of the government of Iraq's performance against Compact benchmarks, and also of the international community's performance against its Compact commitments.

In a spirit of partnership, progress will be monitored jointly by the Working Groups and at a higher level by the Baghdad Coordinating Group and Iraq Consultative Group (See 6.2 above).

The ICG will conduct quarterly and annual monitoring of progress. Based on indications of progress The Compact Executive Committee, in consultation with the Iraq Consultative Group may choose to adjust actions in support of meeting the Compact's goals.

The Joint Monitoring Matrix (Annex IV) is a tool to assist in the elaboration, implementation and monitoring of Compact commitments so that:

- a) specific actions can be elaborated, agreed, reviewed and updated in order to move toward the achievement of Compact commitments;
- b) international and Iraqi resources within the specific commitments and action plans can be aligned; and
- c) progress in fulfilment of Government of Iraq commitments can be tracked.

The existing Development Assistance Database will serve as a similar record of the international community's commitments under the Compact, and reviewed in parallel with the JMM.

The Government of Iraq will lead the determination of necessary actions to achieve Compact goals and benchmarks, which will be reflected in the JMM. The actions listed in the JMM are only indicative of how the benchmarks might be achieved; they will be subject to regular review and iteration through the Working Groups.

6.4 Improved National Planning

The Compact will be implemented and monitored, and actions to achieve its goals adjusted where necessary, through a Consultative Group Process. This process will both build on and feed into the National Development Strategy which will be improved through annual review and update. Improvements to the National planning and execution process will be made according to principles that devolve planning and execution to governorate and regional government level.

6.4.1 Enhancing the National Development Strategy

Organizationally, the Compact is designed to be consistent with the NDS but in order to maximise the benefits from synergies between the two processes the NDS needs to be further enhanced.

The Government of Iraq will be improving the NDS on an ongoing basis, and particularly in the following areas:

1. **Data:** Reform and development programs are only as good as the information they are based on; in this spirit the analytical basis of the NDS will be improved. High quality data will lead not only to a more robust determination of needs, but also to more realistic targets based on a better understanding of existing resources and constraints. Specifically, there is a need to:
 - a. Improve the quality of analytical data from the macro-economic, sectoral, and sub-national levels; Achieve higher degrees of data desegregation by gender, by age and by geographical area to better focus those policies and actions aimed at reducing disparities and increasing efficiency in the use of resources.
 - b. Establish mechanisms for the reconciliation and harmonization of aggregate, sector-specific and sub-national data;

- c. Improve and standardise data collection and processing functions in Ministries, SOEs, regions and provinces;
 - d. Design additional data collection and analysis mechanisms according to reform and investment programs.
- 2. **Planning:** Transforming needs and targets into actionable reform and development programmes requires coordination among national, regional, governorate, sectoral levels. Broad participation in the review and annual update of the NDS and development programs will not only improve the quality of planning, avoid overlap, duplication, competition and waste, it will also ensure the critical buy-in of the various stakeholders for the implementation and execution stage. This requires:
 - a. Inclusiveness from early stages onward, involving civil society, private sector and international partners in addition to the various levels of Government,
 - b. The establishment of sector, cross-sector, regional and governorate working groups and mechanisms for harmonizing these processes within an integrated NDS;
 - c. The development of reform and investment plans as well as realistic costing estimates by working groups, which can then feed into the budgetary process at all levels;
 - d. The improvement of policymaking and planning functions at Ministries, SOEs, regional and governorate governments, as well as enhanced mechanisms for information sharing and coordination between these actors.
- 3. **Budgeting:** The resulting reform and investment plans and costing will feed into the budgetary processes at the various levels within an integrated federal fiscal framework. The integrity of both NDS and the budget will be ensured by only executing projects which have been included in the NDS and the budget.
- 4. **Execution and monitoring.** Mechanisms must be put in place to ensure the timely disbursement of sector and regional allocation on the basis of approved plans. Project execution will be devolved to levels as close as possible to the point of delivery, which will require capacity building at the regional and governorate levels. Quality monitoring should be assured through independent national regulators established specifically for this purpose.
- 5. **Review/Reporting:** A data collection and analysis framework will be developed to provide feedback on the execution of the NDS, which will inform both the process of review and future planning. Feedback will yield comparative information which will be publicised via an annual ‘National Development Report’– this publication will provide disaggregated indicators of progress achieved across sectors and regions.

6.4.2 Devolution

The Compact is being agreed within the context of major transition from a highly centralised model of managing the economy to one based on devolution. Organizationally the Compact should have built in flexibility to adjust for the process of devolution while safeguarding national coherence.

The Compact implementation will be undertaken in a manner that promotes increased cooperation between the Government of Iraq and the regions, governorates and municipalities.

Transition to regional, governorate and area-based development is a central theme in Iraq's National Development Strategy and will be supported in the Compact implementation. Transition should be a gradual process, given the high degree of centralization in the Iraqi economy at present, legislative and regulatory gaps and low and variable planning and execution capacities at both national and sub-national levels. The transition will include the following components:

- Developing a roadmap for transition from national to area based, regional and governorate planning within an integrated NDS. This roadmap will aim to achieve the highest possible efficiency and optimisation at the point of delivery and will be crafted so as to reflect the principles of the Constitution
- Building up capacity at the sub-national level to plan, execute and monitor the implementation of investment plans and projects;
- Transitioning the role of the ministries and other national institutions to policy development, data coordination/analysis, quality assurance and coordination. This will require the establishment of independent national regulators and building capacity to carry out those functions at the national level.
- Synchronise the development of capacities and functions at the sub-national level with rationalisation and streamlining of federal institutions to avoid duplication and minimise associated costs;
- Synchronising the process with both the development of a framework for fiscal federalism and with legislation delineating the roles and responsibilities at various levels of government;

6.5 Improved Donor Coordination and Implementation

The government of Iraq will streamline and improve donor coordination and implementation, both in general terms and also with respect to meeting Compact commitments, by:

- elaborating mutual commitments, monitoring progress against their implementation and evaluating performance through the Joint Monitoring Process,
- enhancing Iraq's own planning process– the National Development Strategy within the context of transition from centralisation to devolution,
- Streamlining disbursements and implementation including:
 - Simplifying procedures for funding mechanisms where possible;
 - Establishing fit for purpose project management offices and implementation units for execution
- Introduction of Iraqi co-funding/cost sharing and using the donor coordination process to improve Iraq's own implementation capacity.

The government re-commits to the donor coordination structures outlined in the National Development Strategy, and will take steps to ensure:

- strengthening of sector and inter-ministerial working groups through which the donor community can interact directly in support of achieving Compact goals. In

- the first instance attention will be given to ensuring correct operation of the working groups described in the Compact;
- strengthening approvals processes to ensure approved programs and projects are consistent with the national development strategy and reflected in the national budget;

The Government of Iraq is studying and expects to present to the international community in the near future more detailed proposals for donor coordination around the NDS and Compact.

6.6 Financing Mechanisms and IRFFI

The Government of Iraq will reflect all donor financial assistance on-budget in order to facilitate transparency of funding flows, and to aid donor management and coordination.

It is expected that forms of donor financial assistance will be varied, and the Government will adopt a flexible approach to accommodate various partner assistance modalities.

The government will take the lead in coordinating various forms of donor assistance to meet its investment needs.

IRFFI will continue to be a valuable tool that will allow donor's to place funds under the management of multilateral organisations (UN, World Bank). Stronger emphasis will be placed on IRFFI being responsive to government of Iraq direction. It is expected that as a result of Government of Iraq coordination of donor activities, IRFFI will allocate funds to support the reform agenda committed to in the Compact Document.

7 Annexes: I Government Programme, II National Reconciliation Plan, III Legislative Timetable, IV Joint Monitoring Indicators, V MTFF