



**UNITED NATIONS DEVELOPMENT GROUP  
IRAQ TRUST FUND  
Programme Cover Page**

**Participating UN Organisation(s):**  
UNDP, ILO, UNOPS, UNIDO, FAO, UN-HABITAT,  
UNIFEM

**Sector Outcome Team(s):**  
Economic Reform and Diversification (ERD)

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**Programme Title:**  
Private Sector Development Programme for Iraq

**Programme Number:**

**Programme Description (limit 1,000 characters):**

This Programme is conceived and designed with Iraqi stakeholders (public and private) and other international stakeholders in an effort to create and enable an effective, coherent, and comprehensive framework for private sector development in Iraq at both the national and governorate levels in three priority Governorates, as a means of achieving: I) sustainable and increased employment opportunities; II) poverty reduction; III) the enhancement of the legal and regulatory framework which will allow an increase in sustained domestic and international investment; (IV) the development of a legal and regulatory framework designed to perpetuate an overall rational, coherent, and economic environment; and, (V) the diversification the basis of future economic growth in Iraq in a gender inclusive and environmentally sustainable manner. The programme addresses these challenges through two pillars of activities. The first pillar is a national level policy support intervention aimed at shaping a more conducive private sector environment, while the second pillar addresses the governorate-level challenges of private sector growth through planning and implementation activities within three selected governorates.

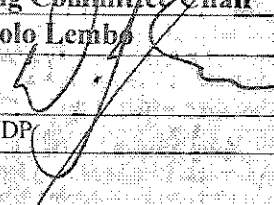
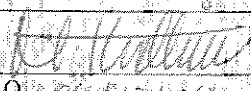
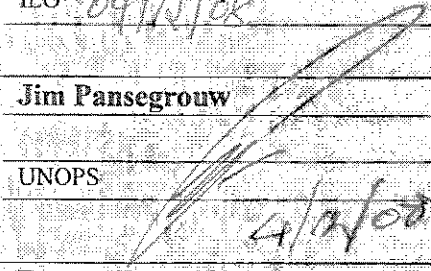
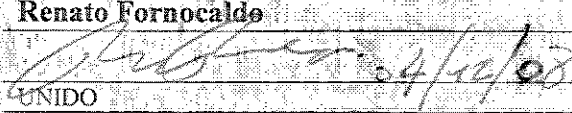


<b>Programme Costs:</b>		<b>Programme Location:</b>	
<b>UNDG ITF:</b>	USD 32,850,000	<b>Governorate(s):</b>	National upstream-level and three priority governorates (southern, central and northern areas of Iraq)
<b>Govt. Contribution:</b>	Cost-sharing/ co-funding under discussion	<b>District(s):</b>	NA
<b>Agency Core:</b>		<b>Town(s)</b>	NA
<b>Other:</b>			
<b>TOTAL:</b>	USD 32,850,000		

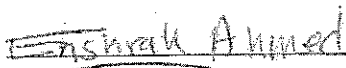
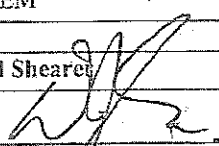
Govt of Iraq Line Ministry Responsible:  
 Prime Minister Office – Advisory Board  
 Ministries of Planning and Development Cooperation –  
 Baghdad and Erbil

Programme Duration:  
 Total # of months: 36  
 Expected Start date: 01 January 2009  
 Expected End date: 31 December 2011

Review & Approval Dates  
 Line Ministry Endorsement Date: 20 August 2008  
 Concept Note Approval Date: 12 August 2008  
 SOT Approval Date: 09 November 2008  
 Peer Group Review Date: 27 November 2008  
 ISRB Approval Date: 03 December 2008  
 Steering Committee Approval Date: 04 December 2008

**Signatures of Agencies and Steering Committee Chair**

I.	Name of Representative	Paolo Lembo
	Signature	
	Name of Agency	UNDP
	Date	
II.	Name of Representative	Muhammad Kadhim
	Signature	
	Name of Agency	ILO
	Date	09/12/08
III.	Name of Representative	Jim Pansegrouw
	Signature	
	Name of Agency	UNOPS
	Date	4/12/08
IV.	Name of Representative	Renato Fornocaldo
	Signature	
	Name of Agency	UNIDO
	Date	04/12/08
V.	Name of Representative	Fadel El-Zubi
	Signature	
	Name of Agency	FAO
	Date	
VI.	Name of Representative	Sudipto Mukerjee
	Signature	
	Name of Agency	UN-HABITAT
	Date	11/12/08
VII.	Name of Representative	Oyuntsetseg Oidov

	Signature	
	Name of Agency	UNIFEM
	Date	
VIII.	Name of Steering Committee Chair	David Shearer
	Signature	
	Date	

National priority or goals (NDS 2007- 2010 and ICI):

NDS: GOAL 1: Mitigate Poverty and Hunger

GOAL 3: Enhancing gender equity and strengthening women issues

ICI Benchmarks (as per the Joint Monitoring Matrix 2008):

4.3.2 Create an enabling environment for private investment and job creation

4.3.2.1 Undertake specific measures to design and implement private sector development policies

4.4.1.1 Eradicate Extreme Poverty and Promote Area-Based Development

4.4.1.2 Reduce unemployment by one half and double labor force participation for women

Sector Team Outcome(s):

1. Improved policies, strategies and related institutional developments that are sensitive to MDGs, social inclusiveness, gender equality and inclusive of those in poverty, all in terms of positive economic growth; and,
2. Enhancing the key-sectors of local economies in the most-deprived areas.

The Integrated Programme/Project Outcome(s) will be:

1. The policy and regulatory environment is more conducive to private sector development
2. Strengthened Economic recovery in three governorates in the south, central and northern areas of Iraq

**Detailed Breakdown of Budget by Source of Funds and  
Distribution of Programme Budget by Participating UN Organisation**

Participating UN Organisation	Portion from Budget (USD)
UNDP	9,750,000
ILO	3,002,966
UNOPS	5,897,034
UNIDO	7,700,000
FAO	3,300,000
UN-Habitat	2,000,000
UNIFEM	1,200,000
<b>Total Budget (US \$)</b>	<b>32,850,000</b>

<b>Total budget (in US \$):</b>	<b>\$ 32,850,000</b>
<b>Sources:</b>	
• Government	\$
• ITF (earmarked: Sweden, Spain, EC)	\$ 32,850,000
• ITF (unearmarked)	\$
<b>UN Core/non-core sources</b>	<b>\$</b>

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<b>Participating UN Organisation</b>	<b>Portion from Budget (USD)</b>
<b>UNDP</b>	9,750,000
<b>ILO</b>	3,358,930
<b>UNOPS</b>	5,541,070
<b>UNIDO</b>	7,700,000
<b>FAO</b>	3,300,000
<b>UN-Habitat</b>	2,000,000
<b>UNIFEM</b>	1,200,000
<b>Total Budget (US \$)</b>	<b>32,850,000</b>

<b>Total budget (in US \$):</b>	<b>\$ 32,850,000</b>
<b>Sources:</b>	
• Government	\$
• ITF (earmarked)	\$ 32,850,000
• ITF (unearmarked)	\$
<b><u>UN Core/non-core sources</u></b>	<b>\$</b>

## 1. Executive Summary

Following decades of centralised control of the Iraqi economy and despite the Government of Iraq's (GoI) recent successes in achieving macroeconomic stabilisation (national budget, retail prices), the capacity of the Iraqi private sector to provide sustainable employment and alleviate poverty continues to encounter difficulties. So far, public efforts have focused on providing a social safety-net to the most vulnerable in the Iraqi population, increasing public sector employment, and on a continuation of the quasi-universal provision of a food basket. Early efforts to promote the Iraqi private sector by the GoI have been limited to foreign investment promotion and have not covered the whole spectrum of legislative and policy instruments required. The impact of GoI efforts have also been heavily constrained by the lack of security, political stability and other governance issues. The potential for short to medium term employment generation and the sustainable growth of domestic investors, which are primarily small and medium sized enterprises, has to-date received insufficient attention thus far under GoI efforts. Concurrently, an inadequate legal framework has hindered the restructuring of the state-owned enterprises (SOEs) and limited employment alternatives for over 600,000 employees currently on SOEs payroll.

The Programme put forth in this document has emerged through a series of structured discussions with the key Government stakeholders in the field of private sector development field and is designed to address the economic challenges outlined. High-level policy roundtables supported by the UN's Economic Reform and Diversification Sector Outcome Team (ERDSOT) under the leadership of the Advisory Board of the Prime Minister's Office, have clearly defined a framework of critical upstream and downstream interventions, in line with the provisions of the National Development Strategy (NDS) and of the International Compact with Iraq (ICI). The development of a growth-orientated and regulated private sector based economy is a central tenet of both the NDS and the ICI and is a cross-cutting issue in both documents. "Revitalising the private sector" is among the four pillars of the NDS and this subject is addressed within section 4.3. of the ICI which aims at "Creat(ing) an enabling environment for investment, public and private, domestic and foreign, as a driver for sustainable and diversified economic growth".

This Programme aims at addressing these challenges and to contribute to the NDS and ICI both at upstream and downstream levels, working with key GoI stakeholders at the central level and local levels. At the upstream level, the Programme aims at improving the institutional environment at legal, regulatory, policy and administrative levels, to make way for sustainable private sector development over the long run. The upstream effort will be overarched by the development of an adequately informed private sector development strategy that will anchor the Government's vision and stipulates required actions to be taken in the field. Supplementary support at the upstream level has been requested to: assist in the strengthening of national capacities for private sector development policies; corporatization and privatization of SOEs; enhancing access to business loans and improved efficiency of the public micro-lending programme; and, the strengthening of operational, regulatory and legislative environment for SME development.

To showcase, but also build momentum for the upstream level work, the Programme will also directly intervene at the downstream level in depressed local areas of three governorates to generate direct impact in local populations. Supplementary support at the downstream level has been requested by GoI stakeholders to: assist in the developing of local economic strategies and plans in line with national and governate-level frameworks, and; in the implementation of economic and socio-economic recovery pilot projects in three selected governorates.

This Programme represents a consolidated strategic approach on the part of the UNCT in response to the multi-sectoral, diverse challenges that are related to private sector development in Iraq. In this Programme, the comparative advantages of six UN member agencies and two non-UN Sector members are pooled within an integrated management structure to deliver targeted and relevant support to the GoI. This pool of agencies will be led by an overall Programme Director and a team of three high-level Programme Advisors channelling the

institutional knowledge of the three UN leading agencies on private sector development: UNDP, ILO and UNIDO.

In line with the Paris Declaration on Aid Effectiveness, a Programme Steering Committee (PSC) will supervise, monitor and facilitate the execution of the Programme. This PSC will be led by the Advisory Board of the Prime Minister's Office (PMO AB), which will also constitute the primary national counterpart for the Programme in its day to day operations. The PMO AB will fulfill the task imparted to it by the GoI to lead and coordinate a concerted effort of all public Iraqi institutions. Those public Iraqi institutions include, but are not limited to: the Ministry of Planning Development and Co-operation (MoPDC), line ministries, the Central Bank of Iraq, the National Investment Commission, and other public Iraqi institutions concerned with the issue of private sector development. The PMO AB will also lead the Task Force for Economic Reform and Private Sector Capacity (TF), which has recently been established with the support of the ERDSOT and assembles these diverse public Iraqi institutions as members. The TF will provide an ideal coordination structure for the Programme to engage with on a strategic level.

In order to create and deliver a comprehensive set of private sector development reforms, GoI officials and the ERDSOT have engaged in the design of the Programme with the key international stakeholders including the World Bank (WB), the International Finance Corporation (IFC), the Organisation for Economic Co-operation and Development (OECD), the International Monetary Fund (IMF) and the US Department of State (DOS). The support for this Programme to be provided from these key international stakeholders has been clarified and will be essential to the achievement of its outcomes. The Programme will rely on analyses produced by the WB and the IMF regarding the ongoing reform efforts and solution identification for private sector development in Iraq. The Programme will furthermore facilitate the participation of these international stakeholders in the work of the above mentioned Task Force for Economic Reform and Private Sector Capacity. This coordinated assistance effort will help to ensure that duplication of efforts are minimised while the specific competencies of international partners can be leveraged and maximised on behalf of private sector development in Iraq.

The resources of non-public Iraqi institutions, including the Chambers of Commerce and relevant NGOs, particularly at downstream level, will also be capitalised upon, making formal use of the wide networks which have been built in recent years. Similarly, there will be a number of opportunities and mechanisms through which the activities of this programme are shared and coordinated with those of the other Sector Outcome Teams, World Bank and other actors in the sector.

Through this intervention, the expected results after 24 months are national private sector development strategy as well as three governorate economic development strategies, supported in their initial implementation through the downstream pilot activities, providing direct support to small business in the three selected governorates. There will also be a comprehensive survey and analysis of existing relevant legislation, leading to the identification of gaps and the development of new legislation as needed.

## 2. Situation Analysis

### Key economic issues

Despite consistent economic growth, relatively contained inflation and a positive fiscal balance, Iraq's overall economy has not stimulated employment or alleviated widespread poverty. As reported by the MoPDC's Central Organisation for Statistics and Information Technology (COSIT) in its *2007 Labour Force Survey*, half of the workforce in Iraq is severely affected by an underperforming labour market, with **unemployment and underemployment** respectively at 17% and 30% of the workforce. Such an employment deficit obviously has serious consequences for the overall living standards of the population, with over 55% of the population facing serious economic hardship, according to the *Unmet Basic Needs Survey* (COSIT/UNDP 2007). Pre-existing jobs in the more productive sectors of the Iraqi economy, controlled by the former State institutions, have in-fact vanished and new employment opportunities in the non-State economy have yet to emerge to begin filling the

employment deficit. Similarly, the flight of professionals and technicians will continue to have an impact on the level of growth within all sectors, and particularly within the private sector.

Overall, the present economic situation in Iraq is increasingly marked by the symptoms of “**Dutch disease**” in which the over-reliance of natural resource exploitation diminishes the ability and seeming need to diversify other non-natural resource based sectors of the economy. As such, the Iraqi economy remains heavily reliant on oil exports. While GoI budget revenues from oil output continue to increase, non-natural resource income growth remains limited making the Iraqi economy highly dependent and vulnerable to price and volume of oil production fluctuations in the international market. The appreciation of the Iraqi dinar as a response to growing net income flows from oil exports has also led to growing difficulties for other economic sectors. Given the capital-intensive nature of the oil sector, this protracted stagnation (or recession) in Iraq’s non-oil sectors contributes to the continued employment deficit. The necessary focus of monetary policies to contain inflation through higher interest rates is also harming potentially productive non-oil sector investments and consumption. This overall economic situation calls for a dedicated effort of the national government, local authorities and their international partners to stimulating private sector development in non-oil sectors of the Iraqi economy.

As it relates to the non-oil sector of the Iraqi economy, **reindustrialisation** efforts to help SOEs to resume activities and compete in international markets have led to minimal results due to their still high labour costs and low productivity rates. Forcing the privatisation of SOEs before transforming them into the proper corporate structure, and without opening them to the risks associated with competing for capital, would be a repetition of mistakes made in other countries in transition where a non-transparent privatisation process led to high levels of corruption and low budget revenues returned to the state. The employment opportunities that Iraqi SOEs are still providing, fully subsidised by the Federal Budget, are an intrinsic part of the underlying economic problem of SOE reform. Past examples in other countries have shown that without specific social impact mitigation packages in place for existing workers in case of major employment retrenchment it is likely to act as an opposing driver, discouraging the governments from sustaining their efforts in reforming SOEs.

Finally, while farmers are rational agents and respond to market demands, agricultural productivity in Iraq is suffering from difficulties at both the national and governorate-levels. These difficulties also exacerbate employment deficit found in Iraq. While the Iraqi oil-sector is capital-intensive, the **agricultural sector** is second only to government in terms of providing employment to the Iraqi population. The difficulties faced by the agricultural sector at both the upstream and downstream levels include: a lack of land title reform; distortion of market-based principles through the provision of the food basket; low productivity due to farm sizes not benefitting from economies of scale; the lack of competitiveness of agricultural output in local markets; and the lack of overall rational trade, tariff and customs policies.

One cross-cutting component hampering the growth of the Iraqi economy is that of legislative and institutional coherency. This overall lack of legislative and institutional coherency leads to private sector development either occurring outside of a common regulatory framework, or being greatly impaired due to the inability of private sector actors to determine the appropriate laws, bodies, rules, and regulations in an efficient manner by which to create and conduct commerce at the national, regional, or governorate-level.

### **Public efforts to date and consensus on key challenges**

To address the continuing employment deficit and social protection challenges, the GoI has focused on a short-term policy of public sector employment expansion, doubling the number of public employees in just three years, increasing cash transfers to the poorest citizens (currently covering 850,000 families), and has resisted any major overhaul (so far) in the provision of the food basket. In the absence of a growth-orientated and rules-based private sector that can sustain such generous social policies through fiscal transfers, continued oil and food price volatility in the international markets presents a great risk for the solvency of such social programmes. Poverty levels in Iraq are unlikely to improve from the current situation of 15.5% of the

population living below \$1 per day per individual and around 53% below the 2\$ line, without the development of private sector economy.

The need for concerted and significant efforts to promote private sector growth is therefore taking an increasingly central role in the GoI's policy agenda, as reflected by the NDS and the ICI. With the support of the ERDSOT and through a series of high-level policy roundtables led by the PMO AB, the major challenges for the development of an Iraqi private sector in achieving a functional market economy have been substantially identified. During two high-level roundtable meetings held in Baghdad, Iraq (1-2 July 2008) and Paris, France (7-8 July 2008), the following causal factors were identified as hampering the development of a growth-orientated and rules-based private sector in Iraq, and are of paramount importance to the revitalisation of the Iraqi economy:

1) *Absence of a long-term, programmatic agenda* - While both the NDS and ICI outline reforms to be undertaken for economic recovery and market development, to date the GoI economic agenda has chosen to focus on critical short-term needs and, in the absence of other long-term socio-economic options, to improve immediate living standards of the population by expanding public sector jobs and social benefits.

2) *No social dialogue in place for a functional market* - The absence of an institutionalised dialogue with the employers and workers organisations in Iraq, through which challenges facing private sector growth could be addressed, has led to an expanding state-based economic recovery process and to an unbalanced allocation of resources between the State and the non-State economic sectors.

3) *Investment climate still unattractive* - Although important legislation has been passed in an effort to attract foreign investment, much remains to be done to provide international actors with a sound investment environment:

- functional financial markets and banking systems
- rational and coherent trade policies
- a flexible labour market
- guaranteed property rights and competition
- an enabling regulatory framework for access to services through a less bureaucratic business environment

While the Government should limit its direct involvement in the business environment to that of providing an enabling regulatory environment, preventing and addressing market failures by rationalising social protection programs and by promoting Iraq's comparative advantages within the context of globalisation will also be thoroughly considered as part of this Programme.

4) *Low management capacity* - The already inflated employment practices of the public sector, which has expanded from 1.1 million jobs in 2006 to over 2.2 million in 2008 as the only solution for absorbing jobseekers, has lacked the capacity to improve governance and to enhance public spending for development mainly due to poor security, but also owing to weak project management capability, a lack of investment project oversight and increasing social pressure for larger allocations for consumption.

5) *Absent or incomplete legislation/institutions* - The lack of a legal basis for the following areas critical to establishing a properly functioning private sector remain substantially unaddressed:

- Corporatisation / restructuring / privatisation of SOEs,
- Public Private Partnership (PPP) / Private Sector Participation (PSP) that could contribute to the restructuring of the State economy and to private sector development,
- Micro-lending institutions and SME development,
- Active measures for employment generation,



- Competition oversight and a lack of enforcement of investment-related legislation represents a major impediment for significant progress in attracting foreign investment into Iraq.
- Judiciary, contracts and property, land rights must be strengthened

6) *Lack of enforcement of existing legislation* - The absence and incomplete nature of Iraqi legislation/institutions is compounded by the lack of enforcement as it relates to existing legislation associated with economic and private sector development in Iraq. This lack of enforcement is cited as a key deterrent in the facilitation of both domestic and international sources of investment in Iraq. Chief among those laws currently in place but lacking appropriate enforcement mechanisms and to be addressed under this Programme are:

- Tax laws and regulations
- Procurement rules
- Investment regulations

7) *Non-transparency and corruption*- Sizable financial resources combined with slow progress in strengthening the rule of law in Iraq has led to widespread corruption in both the public and private economic sectors. These corrupt practices are substantially undermining public confidence and support for a still fragile democratic government and diverting the provision of resources to the poor and the most disadvantaged social groups.

### **Proposed intervention**

This Programme aims to address the key socio-economic challenges for growth-orientated and rules-based private sector development, as summarised above in this document. These challenges have been identified through structured high-level policy roundtables with GoI counter-parts and in consideration of the main economic context of Iraq. The aim of this Programme and approach is to assist Iraq, both as a country and as a government, in developing a growth-orientated and rules-based private sector economic reality which enhances the living standards of the population as well as laying the groundwork for future economic stability. In this Programme, all ERDSOT member agencies are pooling their respective comparative advantages within an integrated management structure to provide strong, targeted and relevant support in co-operation with the Government of Iraq.

An overall upstream private sector development strategy will be designed in co-operation with the GoI, based upon wide-ranging primary data production exercises, to anchor a long-term policy vision. This strategy will be created with the effective participation of "social partners", ie. the employers and workers organisations of Iraq, to ensure that such a long-term policy vision also mobilises the capacities of private sector actors in the country. The attractiveness of the investment climate, both for international investors, but also (and perhaps most crucially) for domestic market participants (mostly small and medium sized enterprises), will be a major focus of the strategy and of the legislative, regulatory and programmatic reforms the Programme will assist in reforming. With the Iraqi security situation still uncertain, the short to medium term prospects for private sector employment in Iraq will depend primarily on the capacity and willingness of its domestic investors to intervene in the market much more significantly. This in turn can be promoted by bridging key legislative and regulatory gaps and by ensuring that structural reforms are indeed appropriately implemented. Private sector employment and economic diversification can be further promoted by rationalising the agricultural sector, both in terms of outputs and inputs, and in ensuring a competitive, market-based sector. Capacities of key economic institutions shall therefore be supported.

This Programme also recognises the ongoing decentralisation process in the country and the increasing role of governorate-level authorities in the economic recovery and development of their areas. The Programme will therefore undertake similar, as discussed above for the national level, downstream interventions with the relevant governorate-level partners. Local economic recovery and development strategies shall therefore be designed, assistance will be undertaken to improve the regulatory environment at the local level, and capacities of organisations will be enhanced. Programmatic assistance will also be undertaken at the downstream level to

generate direct impact in the local populations and in turn produce more momentum for upstream level work. Downstream interventions will provide assistance to local economic communities in depressed areas of Iraq through co-ordinated and multi-sectoral interventions. The Programme shall work with provincial councils and the offices of Governors to facilitate the mobilisation of their own local resources in the implementation of priority projects as well as in the realisation of the local economic recovery strategies.

### 3. NDS and ICI Relevance, Lessons Learned, Cross-Cutting Issues, and Agency Experience in Iraq/in the Sector

#### Development framework, NDS and ICI Relevance

This Programme is clearly integrated in Iraq’s development framework. The development of a private sector based economy is at the centre of Iraq’s **National Development Strategy (NDS)** and of the common commitments the Government of Iraq has established with the international community as part of the **International Compact with Iraq (ICI)**. “Revitalising the private sector” is one among the four pillars of the NDS and the need to strengthen private economic operators cuts across the entire documentation of the NDS. This Programme will support the following particular objectives under the NDS, Pillar II:

1. Streamlining and simplifying procedures for doing business in Iraq by establishing an Investment Promotion Agency.
2. Implementing commercial and regulatory reforms to develop a transparent legal and institutional framework to encourage entrepreneurship.
3. Effectively utilising agreements with the Overseas Private Investment Corporation (OPIC), Multilateral Investment Guarantee Agency (MIGA) and the International Center for Settlement of Disputes (ICSD).
4. Laying the groundwork for eventual privatisation of State-owned enterprises according to orderly, fair, consistent, and transparent procedures.
5. Promoting private sector-led implementation of local community projects that are executed nationally.
6. Restructuring State-owned banks to encourage consolidation and privatisation.
7. Expanding the availability of commercial capital through concessional financing for micro-lending and small and medium enterprises.

Similar to the NDS, private sector development occupies a central role within the ICI. The critical need of stimulating private sector led-growth in Iraq is catalogued throughout the official ICI documents, but is specifically addressed within section 4.3. which aims at “Creat(ing) an enabling environment for investment, public and private, domestic and foreign, as a driver for sustainable and diversified economic growth”. This Programme will directly support the implementation of the following ICI benchmarks and indicative actions:

<b>ICI Section 4.3.2 - Private Sector Development and Investment promotion</b>	
Goal: Create an enabling environment for private investment and job creation	
1. Undertake specific measures to design and implement private sector development policies	<ul style="list-style-type: none"> <li>• By 2007, establish an institutional framework to conduct and coordinate private sector development activities (Priority Action)</li> <li>• By 2007, implement the recently passed Investment Law (Priority Action)</li> <li>• During 2007, improve availability of financing to private entrepreneurs, particular to SMEs including credit guarantees, concessionary financing including micro and SME specific packages through both state owned and private banks (Priority Action)</li> <li>• During 2007, include provisions for the encouragement of private sector in public procurement legislation and regulations</li> <li>• During 2008, streamline a commercial code and develop effective enforcement</li> </ul>

	mechanisms
2. Design and implement policies including legislation and institutions for the Restructuring or SOE's	<ul style="list-style-type: none"> <li>• By 2007, enunciate a clear policy on privatisation of SOEs (Priority Action)</li> <li>• By 2007, establish the legislative and institutional framework for privatisation and initiate privatisation for selected SOEs</li> <li>• By 2007, establish a State Property Fund according to an appropriate legal framework, and transfer state share in all SOE's to it</li> </ul>
3. Remove key Private sector development constraints	<ul style="list-style-type: none"> <li>• By 2007, initiate a detailed administrative barriers diagnostic at the national and governorate- level (Priority Action)</li> <li>• By mid 2008, based on the diagnostic, the Government will identify a series of priority regulatory reforms in the trade, business establishment and operation areas (Priority Action)</li> <li>• By end of year 2008, commence implementation of regulatory reforms to improve the ease of starting a business, employing workers, registering property, getting credit, dealing with licenses, trading across borders, closing a business and enforcing contracts with due attention to equality of opportunities</li> <li>• By 2007, establish an Iraqi Interstate Commerce provision that prohibits governorates and regions from establishing barriers that inhibit the movement of goods within Iraq</li> </ul>

Within the overall national framework of the NDS and the ICI, this Programme represents the centerpiece of the UN's support to Economic Reform and Diversification (ERD). This integrated Programme unites the efforts of 8 members of the ERD Sector Outcome Team (ERDSOT) in pursuit of two (of its three) key outcomes: **Outcome 1) Improved policies, strategies and related institutional developments that are sensitive to the MDGs, social inclusiveness, gender equality and pro-poor economic growth, and Outcome 2) Enhanced key sectors of local economy in most deprived areas.** More particularly, this Programme is the vehicle of the ERDSOT for the achievement of the following key sector outcomes and outputs:

ECONOMIC REFORM AND DIVERSIFICATION SOT OUTCOMES AND OUTPUTS		PSDP OUTCOMES/OUTPUTS
<b>Outcome 1.0</b>	Improved policies, strategies and related institutional developments that are sensitive to the MDGs, social inclusiveness, gender equality and pro-poor economic growth	<b>Outcome 1.0</b>
Output 1.1	Strengthened capacities for federal budget preparation and execution	Output 2.1
Output 1.3	Strengthened capacity of public authorities and other service providers for equality-based SME development	Output 1.2, 1.3
Output 1.4	Private sector development strategy drafted and investment promoted	Output 1.1
Output 1.5	Awareness of MDGs promoted at national and local levels	Throughout
<b>Outcome 2.0</b>	Enhance key sectors of local economy in most deprived areas	<b>Outcome 2.0</b>
Output 2.1	Local economic strategies and plans developed in line with national and governorate-level frameworks in most deprived geographical areas	Output 2.1
Output 2.2	Economic and social regeneration pilot projects implemented in most deprived areas	Output 2.2

## Lessons Learned

In designing and implementing this Programme, participant agencies have been and shall be able to build upon a substantial understanding of the challenges and opportunities associated with private sector development in Iraq.

To-date Iraq has been the beneficiary of the largest level of international support for a post-conflict reconstruction environment. Over the past five years most of the reconstruction efforts related to Iraq have relied upon sometimes poorly tested and conceived down-stream activities. Since 2003, a considerable body of knowledge has been gathered in an effort to design more contextualised, effective, and informed downstream efforts. UN specialized agencies and their partners in the ERDSOT will be building upon this body of knowledge in implementing this Programme. Relevant experiences include multi-year programs aiming to promote investment and enhance the effectiveness of lending programs for SME creation. USAID-funded Izdihar and Local Governance Programmes have been directly involved in supporting private sector development in Iraq by developing a micro-lending system for small and medium businesses and by training entrepreneurs in business startup activities. These programmes have also assisted the GoI in preparing economic development strategies and the promotion of investment opportunities. Projects led by UNDP, ILO and UNIDO have also achieved important results, particularly in the area of SME development. These UN-implemented projects have also provided relevant lessons, as well as operational arrangements, networks, local capacities, for this Programme to build upon in the future.

This Programme in particular will pursue activities that are closely aligned with governorate and national economic strategies. This Programme will be implemented in close partnership with, as well as with the financial participation of, local and national authorities. Key non-governmental stakeholders (Chambers of commerce and industry, unions and associations, most relevant and capable NGOs) will also participate in the design and implementation of this Programme.

Additionally, the lack of significant progress in building a sustainable, large base of small and medium sized enterprises at the local-level in Iraq stems from insufficient efforts being placed on reforming and strengthening the institutional and legal framework for economic regeneration of these enterprises. In the absence of appropriate legislation and adequate legal provisions the GoI has been, and will continue to be, severely hampered in implementing economic reforms. As an example, the Investment Law (2006-13) already enacted cannot begin to produce expected economic, investment, and employment results due to the implementing rules and regulations required to make the law operational not yet being finalised. Other examples would include the lack of legislation on competition and clear access to land rights.

Since 2003 lending programs guaranteed by the Government have been designed to increase private sector development, create business opportunities, and facilitate employment creation, including for women. These programmes have not achieved their goals primarily due to a still poorly regulated and non-conducive business climate, poor targeting of beneficiaries, the absence of sustained entrepreneurial training, the lack of non-financial business services, and weak commercial financial services for entrepreneurs. This Programme seeks to avoid the problems of past lending programs by improving the design and management of the GoI guaranteed Micro-Lending Programme via a review of micro-lending legislation and assisting in the design and implementation of other mechanisms to enhance the access to credit by SMEs.

Current Iraqi private sector actors and their supporting institutions are also operating within an institutional vacuum, often with little support or coherent regulation from relevant public authorities. The transition to a healthy private sector based economy requires not only substantial legislative reforms but successful institutional reform as well. This lack of institutional and legal framework is one of the fundamental building blocks for private sector development which this Programme seeks to address.

Finally, gaps in efficiency and a lack of impact in the last five years may also be attributed to a lack of coordination among key national and international players. This Programme directly addresses this challenge by

introducing an integrated management structure and results framework. As further described in section 6 of this document, this Programme builds upon the joint capacities of UNDP, ILO, UNIDO, FAO, UN-HABITAT, UNIFEM, IOM and CHF, a team of agencies that is led from Baghdad by a core team of three Policy advisors from the leading agencies (UNDP, ILO, UNIDO), under the overall coordination of a (UNDP) Programme Director. The high level presence in Baghdad of a core team of four persons will also ensure day to day interaction with other major international stakeholders (including WB, IFC, OECD, IMF, and DOS), who have been associated with the design of this Programme. Through consultations with these international stakeholders, the ERDSOT has established its leadership and key co-ordination role for Private Sector Development in Iraq. To ensure the co-ordination of diverse Iraqi stakeholders in the achievement of its outcomes, this Programme shall counterpart with the afore-mentioned Economic Reform and Private Sector Capacity Task Force, established under the leadership of the Prime Minister's Office. These Iraqi counterparts have the mandate and capacity to coalesce the efforts and capacities of a diverse Iraqi public and civil society constituency (also cf section 6).

## **Assessment of Cross-cutting Issues**

### **Human Rights**

The full realization of economic, social and cultural right does not necessitate a particular form of government or a particular economic system, but it does require meaningful and popular participation at all levels. The realization of human rights and sustainable human development requires a government that is active, intervenes where necessary, and engages in economic and social planning. Economic policies must not be a tool to appease people with an increasing disposable income while their political participation rights are stagnating or shrinking. In addition, the obligation of a state is continuous: it must always increase social well-being, and a state must use its existing resources (which include foreign aid and technical assistance) to improve human rights as a matter of priority. An innate linkage exists between economic development and human rights: depending on the setting, economic development can either undermine or reinforce human rights. In the worst case, processes misleadingly labeled "economic development" will increase social inequality, aggravate poverty levels, benefit only elites, violate human rights, and provide an excuse to the state to withdraw from its obligations under international law. In this sense the Programme will contribute to an environment of genuine, people-centered economic development, one that is conducive to the respect of human rights. This will be done by promoting a strategy where economic development stands for the strengthening of economic *rights* for the benefit of all people. Instead of profit maximization masquerading as economic growth or economic "development," genuine development (in all sectors including the economy) will be achieved, and this development and strengthened human rights will mutually reinforce each other. This Programme will contribute to the realization of the human rights pertaining to articles 22 and 23 of the Universal Declaration of Human Rights. By assisting the GoI and the Council of Representatives (CoR) to enact commercial and social legislation for private sector development that is supportive of human rights, the project aims to encourage economic development that helps eradicate poverty, empowers women and disadvantaged groups, enables people to assume control of their lives, and promotes social equality.

### **Gender**

At both the upstream and downstream levels, the gender dimension of private sector development will be a priority for the Programme. This will take the shape of direct interventions in support to women economic empowerment, as part of the downstream interventions of this Programme, but also of an effort to mainstream gender concerns associated to private sector development throughout the policy, legislative and regulatory work that shall be conducted.

The participation of Iraqi women in all aspects of private sector development will be assured through involvement and consultation with parents, community leaders, as well as their own involvement at all stages of project implementation and more importantly in the development of both community-based and centre-based

approaches to micro-lending. Expanding employment and business participation rates of women by removing legislative and institutional barriers in Iraq will underpin poverty reduction and will expand the country's economic output.

Gender is a key determinant of vulnerability in periods of economic transition. Women are more likely to be vulnerable to increased poverty or insecurity during these periods. While job losses may affect men and women, women may find it harder than men to regain employment or become self-employed. These difficulties are primarily due to a relative lack of education and skills, lifecycle issues and the lack of independent access to capital. Poor women are more likely to have no other adult earners in the household and to have a higher dependency ratio and may be especially vulnerable to the removal of public subsidies, increasing charges for services, and rising prices. The combination of these issues normally affects women the hardest forcing them into a deepening cycle of poverty<sup>1</sup>.

The Beijing Platform for Action (BPFA) gave special attention to the situation of women in the economy and found that the success of policies and measures aimed at supporting or strengthening the promotion of gender equality and the improvement of the status of women should be based on the integration of the gender perspective in policies relating to all spheres of society as well as the implementation of positive measures with adequate institutional and financial support at all levels. The BPFA identifies six strategic objectives to address the continued integration of the gender perspective in policies including: (1) Promoting women's economic rights and independence, including access to employment, appropriate working conditions and control over economic resources; (2) Facilitating women's equal access to resources, employment, markets and trade; (3) Providing business services, training and access to markets, information and technology, particularly to low-income women; (4) Strengthening women's economic capacity and commercial networks; (5) Eliminate occupational segregation and all forms of employment discrimination; and, (6) Promoting harmonisation of work and family responsibilities for women and men.

Today in Iraq women are amongst the most vulnerable members of society with low participation in the labor force (69% low participation for women compared to 13% for men). One of every ten Iraqi household is female-headed of which 76% are widowed women. On the other hand, while women comprise 46% of government employees, most of them occupy traditional jobs at the Ministry of Education (MoE) and the Ministry of Health (MoH). Additionally, a minority of female government employees do hold high or decision-making positions especially at the level of deciding economic policy. The same situation applies to the private sector and women are also under-represented in the professional and the trade unions.

The full participation of women and their active role in private sector development— is crucial for overall economic growth and development. There is a demonstrable and strong correlation between women's incomes and expenditures for the family welfare. Existing literature and empirical evidence at the household level from a number of countries have shown a strong correlation between an increase in women's income, or control over economic resources, and greater expenditure on family welfare and children, this when compared to a similar increase in income and control for men. These correlations strongly suggest the active participation of women in the private sector can lead to higher living standards for women, their children, and the family as a whole. In order to realise these higher living standards, Iraqi women must be given a greater opportunity to play an active role in the decision-making processes that set economic policies in motion. There is also a strong need to help Iraqi women re-enter the labour force and build entrepreneurial skills, especially for those in small and medium enterprises (SMEs) who face additional barriers working in the private sector. The rise in women-owned businesses is an critical factor in increased female labour force participation overall and will allow more women to take part in the economic reconstruction of Iraq.

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<sup>1</sup> Economic Reform and Poverty: A Gender Analysis Report prepared for the Gender Equality Unit, Swedish International Development Co-operation Agency (Sida)

This Programme will target women on an equal participatory level and as priority beneficiaries. Their active participation will be assured through their direct involvement at all stages of the project implementation and more importantly in the development of both community-based and centre-based approaches to micro-lending. Gender equality and participation by women will be assured in all outcomes and outputs of the project including the policies, strategic approach, institutional development, capacity building and the pilot projects on both the national and governorate-levels.

### **Environment**

This Programme will have an overall positive impact on the health and environment concerns facing Iraq. The project will support the achievement the **Millennium Development Goal 7**, which urges all countries to promote sustainable consumption and production patterns with programmes addressing the de-linking of economic growth and environmental degradation through improved efficiency and sustainability. A conscious effort to mainstream environmental concerns associated with the design of a more conducive environment for private sector development (including in industrial and agricultural sectors in particular) will be ensured under the leadership of the PD. Effective use of resources, including energy, and production processes and the reduction in resource degradation, pollution and waste, will be prominent themes in this work. Beyond mainstreaming efforts, specific measures to be undertaken to promote social and environmental friendly private enterprise in this Programme will include:

- introducing cleaner production processes to enhance production efficiency and reduce effluents of hazardous and toxic chemicals;
- promoting continued reuse and recycling of raw material and shifting from nonrenewable to renewable sources of energy;
- as well as to contribute to environmental sustainability by restructuring aging SOEs, which currently are a major source of pollution and a threat for the quality of life of the surrounding communities.

### **Employment generation**

In order to address the employment deficit, this Programme is inherently driven towards employment creation both for the immediate and long-term in Iraq. This approach is consistent with the ERDSOT's leading role within the UNCT strategy to focus efforts on employment promotion as well as to mainstream employment and decent work concerns. Considering that 93% of private sector employment is found in enterprises of less than ten employees, the ERDSOT will focus efforts on building a more conducive environment for SME development, and to consolidate a vision and a plan for sustainable private sector development. Agricultural employment is another critical component in this Programme that shall be at the core of the development of the private sector development strategy. Downstream activities at the governorate-level will include sustainable employment generating projects such as micro-lending programmes, private sector led real estate and housing development, or technical support to small and medium-sized enterprises. In assisting the corporatisation of SOEs, several thousand jobs will be converted from non-productive to productive employment. It should be noted that the corporatising of SOEs may also result in the reduction, at least in the short term, of those SOEs payrolls. This adverse impact is counterbalanced by the generation of productive, ie. sustainable and non-subsidised employment and the related increase in capital budget income for the State. Employment services will be involved in carrying out a labour survey and in adjusting vocational and on the job training programs to meet the corresponding labour market needs. In the medium and long term, sustainable private sector employment is directly related to the conduciveness of the institutional, structural and legislative environment for business creation and investment.

### **Agency Experience in Iraq/in the Sector**

UNDP Iraq has an extensive and diverse experience in governance reform, recovery and poverty reduction in Iraq since 1995. The UNDP Iraq team has experience in delivering recovery programmes and building legislative and institutional capacity in Iraq. UNDP has successfully introduced the precepts of private sector

participation in the electricity sector, and it continues to support the strengthening of Basrah Governorate institutions in order to enhance public spending for economic infrastructure. In supporting the reform of the Board of Supreme Audit, UNDP is also playing a key role in maintaining healthy relation between public and private sector. UNDP Iraq permanently has 3 offices, 5 international and 6 national staff in Iraq, in addition to trusted national partners experienced in the delivery of development activities. UNDP is in the process of expanding further both in Baghdad and at the local level of governorates.

UNDP will also draw on experience gained in similar conflict-affected and transition countries,(i.e. Afghanistan, Somalia, Rwanda & Great Lakes, Tajikistan, the emerging countries of former Yugoslavia, Sudan). The team is experienced in working under the current challenges faced by Iraq in 2008.

Since 2003, ILO has been promoting economic recovery and development in Iraq at the local (governorate, district) level in deprived areas, by supporting reforms of local economic governance processes, small business promotion measures (business development centres, micro-lending, entrepreneurship and business management training). ILO has done so by supporting and strengthening the capacities of local government (governors offices, provincial councils and directorates) and key private sector organisations, in particular the Chambers of Commerce and Industry. ILO has also supported the Ministry of Labour and Social Affairs (MoLSA) and other key stakeholders (the National Committee for Employment, Ministries of Education and Higher Education) at the upstream level with reforming and upgrading the national technical and vocational training curriculum and the tripartite (government, employers, workers) design of employment promotion strategies. ILO will be executing a significant component of its work through a joint execution model with UNOPS. This model has been regulated and operationalised in Iraq since 2006 in the context of the implementation of similar economic recovery projects (Skills development for employment promotion (SDE), economic recovery component of the Local Area Development Programme (LADP), Governance for Employment Creation (GEC)).

This partnership builds on the comparative advantage of both organisations, with ILO ensuring the technical leadership functions of the jointly executed work, while UNOPS builds on its longstanding experience both at the upstream level in Baghdad and at the downstream level across the country, personnel based inside the country, implementing partner networks, and other related managerial aspects.

UNIDO's specific focus in the field of poverty reduction through enhancing the development contribution of the private sector consists in supporting the formulation of industrial policies that improve the general business environment for private sector development, as well as in building up local productive capacities in a private sector-led process. In particular, the activities of UNIDO aim at promoting industrial enterprises that drive the economic growth process and foster entrepreneurship, technological dynamism and associated productivity growth. These activities, in turn, create skilled jobs, contribute to the achievement of gender equality and women empowerment, and support the integration of local economies into national and global value chains. UNIDO Iraq possesses the required knowledge and experience in private sector development and has already shown relevant results through its on-going project "Enterprise Development and Investment Promotion" which is being enacted in co-operation with the Ministry of Industry and Minerals (MIM), the Kurdish Regional Government and Provincial Councils with aims at promoting domestic and foreign investment in the SME sector.

FAO has been associated historically with the Iraq agriculture sector and has accumulated valuable experience on programme delivery and shown effective response to the needs of the sector. Throughout the years, FAO has consistently demonstrated its broad and unique expertise in Iraqi agricultural development. FAO currently is involved in a number of emergency field projects in Iraq which have been conceived and implemented along sub-sector lines including rehabilitation of water supply systems, livestock and veterinary services, cottage industries, food safety and processing capacity, fisheries, rehabilitation of the seed industry and rehabilitation of the date palms sub sector. As a fundamental component in private sector development, a joint FAO/UNIDO Cottage Industries programme has helped established SMEs and micro-enterprises and has received much



appreciation from the donor community and the GoI. The programme, has to date, covered Basra, KRG, Qadissyah and Anbar governorates and was requested by the GoI to be replicated in other regions.

To date, this approach has been operationally effective for emergency relief purposes. At this stage however, sustainable development of the agriculture sector requires a different strategy, based on an integrated, holistic effort aimed at improving farming systems through transfer of technology, promoting participatory community projects for agricultural development, and the introduction of value chains for adding value to local production. Furthermore, steps need to be taken to empower local farmers' groups in order to create the conditions for building up social capital. In addition, FAO believes it necessary to continue the on-going efforts for capacity building of Government institutions to promote their substantive involvement in the development of the agricultural sector while responding to the expectations of rural stakeholders and enhancing the skills of Iraqi professionals for effective sector planning and project formulation. Finally, FAO believes it of paramount importance to create the conditions to further develop the private agricultural sector which is a key to long term economic growth and diversification.

**UN-HABITAT** is thoroughly familiar with city planning processes and land allocation and titling systems through the implementation of its Urban Sector Strengthening Project and Housing Sector Strengthening Projects in Iraq. It has worked with Iraqi government counterparts to complete baseline assessments of these processes and systems and has prepared action plans for their reform at the national and governorate-levels. These baseline assessments have been carried out in addition to providing technical support for policy and programme development, capacity building and institutional strengthening in the housing and urban sectors. UN-HABITAT is currently working on local area development strategies in seven districts in three governorates through its involvement in the Local Area Development Programme. It has also provided training to management staff from construction and development companies and basic construction skills training to unemployed youth through this programme and is now implementing a capacity building project involving urban planners from the Ministry of Municipalities and Public Works and planners and economists from the Ministry of Planning and Development Co-operation.

Through its ongoing work in Iraq, **UNIFEM** has recognized the existing opportunities to expand the role of women in governing structures, reconstruction processes and economic development. UNIFEM programmatic focus since 2003, has been on promoting women participation in the political and reconstruction processes guided by CEDAW, Beijing Platform of Action and SC resolution 1325. UNIFEM is dedicated to reducing feminized poverty, as poverty traps women in multiple layers of discrimination and hinders their ability to claim their rights. With many poor women either locked out of economic opportunities or into a growing number of low-wage informal jobs, UNIFEM assists women in securing the tools that offer a way out, including job training, information on labour laws and rights, credit, and access to land and water. With a focus on fostering opportunities across economic sectors, UNIFEM also helps build the capacity of economic institutions and networks to provide women with these forms of support and to ensure women participation all levels including in decision making.

Since 2003, **IOM** has implemented a wide range of socio-economic re-integration programs to benefit both displaced and host populations in Iraq. In the last year, the Programme for Human Security and Stabilization, in partnership with the Iraq Ministry of Labour and Social Affairs, has provided sustainable employment to the unemployed in Iraq. PHSS is assisting people to achieve economic security in their community by connecting local market requirements with the interests, aptitudes, and abilities of the local labour force to increase local employment. The PHSS uses an in depth interview/counseling process to determine the skills and interests of beneficiaries. PHSS then provides an in-kind grant of tools, materials and vocational and business training to people to enable them to begin or expand a small business in their community. Through experience gained with PHSS, IOM is well placed to deliver these same business development services to the people of Iraq.

**CHF** has over seven hundred staff working in twelve governorates implementing various financing programs including Iraq's largest micro-lending institution with over \$130m of loans disbursed and an active client

portfolio of 18,000 Iraqi individuals and businesses. Drawing upon the Iraq experience and its regional expertise as the largest micro-finance provider in the Middle East, CHF will contribute to both the downstream lending and improved efficiency of the public micro-lending program.

#### **4. The Proposed Integrated Programme**

This Programme represents the centre-piece of the UN Iraq country team's support to economic reform and private sector development. This Programme will directly contribute to the achievement of two out of the three outcomes of the Economic Reform and Diversification Sector Outcome Team (ERDSOT) Strategy, which in itself responds to the NDS and ICI objectives as described above in this document. The capacities and mandates of the Sector Outcome Team members including of UNDP, ILO, UNIDO, FAO, UNHABITAT, UNIFEM, IOM and CHF will jointly contribute to the multi-agency results framework presented under section 5 of this document.

Furthermore, this Programme will be carried out in a co-ordinated manner with the UNCT's complementary and reinforcing programmes of Public Sector Reform, Decentralisation of Government Services, Public Distribution System Reform, and additional Sector Outcome Team (SOT) initiatives such as the Disarmament, Demobilisation, and Reintegration (DDR) Programme. Cooperation and synchrony with these other key initiatives will be a central leading responsibility of the Programme Director (PD), and will be undertaken primarily through interaction with the UN Baghdad Policy Group. The PD will ensure through the Policy Group and other relevant channels, appropriate coordination with other Sector Outcome Teams. The Agricultural and Governance SOTs are first cases in point but the work of other SOTs will also be leveraged, including on education, health, shelter, protection.

##### **Integrated management**

Operating under an integrated management structure shall ensure the coordinated, complementary execution of the Programme by this team of agencies. As further described in section 6 of this document, the Programme will be led by a senior UNDP Programme Director (PD), based in Baghdad, reporting to the UNCT Resident Co-ordinator and ERDSOT representatives from the UNDP, ILO and UNIDO, the three leading agencies in this Programme. The PM will interface directly with GoI counterparts on behalf of all participating agencies and ensure the co-ordination and complementarities of agencies work-plans and their timely execution. The PM shall be supported in Baghdad by a team of three high-level advisors, representatives of the three leading agencies. These high-level advisors shall support the GoI and the implementation of the Programme in their respective areas of responsibility. Other partner agencies (FAO, UNHABITAT, UNIFEM, CHF and IOM) shall support the work of the leading agencies for specific Programme outputs and activities.

##### **Integrated programming**

The Private Sector Development Programme Results Framework is structured along the two outcomes that mirror the ERDSOT Results Framework. The first outcome focuses on improving the policy and regulatory environment for enterprise development. As discussed above, in the medium and longer term private sector growth is first and foremost a function of the conduciveness of the overall normative and policy environment for domestic and international private investment at the national level. UNCT's support to the private sector cannot however be limited to intervention yielding concrete results in the medium and longer term. The second outcome to be pursued by the Programme will focus on stimulating local economic recovery in particularly depressed local areas through a holistic enterprise creation and promotion package. Consistent with the decentralisation process now firmly in progress in the country, this second outcome will also pursue downstream efforts at the local level by taking forward the governorate authorities plans and capacities to promote economic recovery and private sector development locally.

A comprehensive, focused effort at improving and bridging gaps in reforming and strengthening the institutional and legal framework for private sector development has not been implemented so far in Iraq. The initial phase of this Programme (the initial three quarters of activity) will involve an intensive effort by all agencies, in their area of expertise, to conduct a set of surveys and assessments of the state of GoI institutional and legislative frameworks currently in place and practice. This initial phase of the Programme will not delay participating agencies from working in parallel in regards to previously identified institutional and legislative framework needs, in co-operation with the relevant GoI counterparts.

Based upon the outputs of the planned surveys and of the overall legislative and institutional assessments, assistance will be rendered to the GoI in preparing a comprehensive private sector development strategy, the first of its kind since the fall of the old regime in 2003. This is the focus of the Programme's first pillar. To begin with, the project implementation team will assess legislation and prepare a legislative agenda in co-operation with the GoI to: (1) facilitate the corporatisation and restructuring of SOEs with a final goal of enhancing competitiveness through privatisation; (2) create a legal basis for public private partnership in ownership, management, funding, service delivery, etc. in order to allow the private sector to be actively involved in the restructuring of the State economy and in the development of a functional market; (3) enhance incentives for investors by facilitating access to land through revising regulations for land titles, by creating a proper legal environment for competition, contract execution, arbitration and attempt to diversify funding instruments by improving banking and financial market legal provisions pertaining to investment; (4) adjust legislation for social safety nets, employment services (training, job mediation, on-the-job training) and provide other active measures, such as improved micro-lending access, to stimulate SME development, including incubators and other services for business startups; and, (5) assist in the rationalisation of the agricultural sector in terms of outputs, inputs and competitive market access.

To expand capacity in line ministries for an effective public private partnership for growth, an institutional assessment will be conducted to map entities and their operations in order to assisting private companies and to promote foreign and domestic investment in Iraq. As it relates to improving the regulatory environment for SMEs, a nationwide survey will be conducted to identify barriers impeding private sector expansion and business stability in Iraq. In co-operation with the National Commission for Investment, specific measures to attract investment and expand participation of foreign companies in the reconstruction of Iraq's economy will be designed and incorporated into the overall vision for development of a growth-orientated and rules-based business climate in Iraq. More importantly, to facilitate Iraq's reintegration in the region, an extensive analysis of existing bilateral and regional instruments for economic co-operation and trade will be conducted and a comprehensive set of recommendations for economic diversification and regional engagement in investment projects, particularly in key economic areas such as natural resource extraction, energy production, agriculture and water resource utilisation.

The second pillar in this two-pronged private sector development approach will engage key stakeholders at the governorate-level, including the local executive and legislative representatives (governors and provincial councils), private sector representatives (such as the Chambers of Commerce, unions and business associations), and civil society groups. The Programme shall build upon previous efforts (notably the first and sometimes second generation Provincial Development Plans) to expand and refine local understanding of private sector needs and efficient avenues to address these locally. Local economic recovery strategies will be designed to address the specific governorate's comparative advantage in the regional, national and international economies. Downstream interventions shall be implemented to kick start the execution of these local economic recovery strategies. The precise definition of such strategies will be defined in close consultation with the local authorities, but shall cover key areas for local private sector growth, including: key economic infrastructures, agriculture, industries, business development services, and micro-lending facilities. These close consultations will be more enhanced and effective than past efforts given the UN's transition to encompass not only national-level Iraqi stakeholders but also a more robust provincial-level presence through the current and future operations of UN regional offices. Conceived and implemented in a strategic process, these interventions amount to quite a comprehensive stimulus package for local economic recovery. The financial participation of

the governorate authorities in the implementation of this stimulus package is explicitly provided for in the Programme. It is neither practicable nor appropriate at this stage to determine the specific nature and financial scope of such governorate-level participation. However, initial consultations at the local and national level have elicited the willingness of local governments to contribute to these activities in various forms. The Programme will offer technical assistance to local governments in the design and implementation of projects making use of their funds.

The local level component of the Programme shall focus on three governorates to be selected for priority intervention. These three governorates will be selected in co-operation with the Programme Steering Committee (see Section 6) using the following criteria:

- Regional balance
- Economic potential
- Vulnerability analysis (2006, UNCT, based on UBN, ILCS, WFP Surveys)
- Access and security conditions in the area
- Previous UN experience in the area
- Political support from local government (governor and provincial council)

## 5. Results Framework

Table 1: Results Framework and Indicators

Programme Title:	Private Sector Development Programme					
NDS/ICI priority/ goal(s):	<p><b>NDS:</b> GOAL 1: Mitigate Poverty and Hunger GOAL 3: Enhancing gender equity and strengthening women issues</p> <p><b>ICI Benchmarks (as per the Joint Monitoring Matrix 2008):</b> 4.3.2 Create an enabling environment for private investment and job creation 4.4 Build human capital necessary to sustain growth 4.4.1 Eradicate Extreme Poverty and Promote Area Based Development 4.4.1.2 Reduce unemployment by one half and double labor force participation for women</p>					
UNCT Outcome	Sustainable, socially inclusive and gender-balanced economic reform and development in Iraq					
Sector Outcome	<p><b>Outcome 1: Improved policies, strategies and related institutional developments that are sensitive to MDGs, social inclusiveness, gender equality and pro-poor economic growth</b></p> <p>Output 1.3: Strengthened capacity of public authorities and other service providers for equality-based SME development, Output 1.4: Private sector development strategy drafted and investment promoted</p> <p><b>Outcome 2: Enhance key sectors of local economy in most deprived areas</b></p> <p>Output 2.1: Local economic strategies and plans developed in line with national and governance-level frameworks in most deprived areas Output 2.2: Economic and social regeneration pilot projects implemented in most deprived areas</p>					
IP Outcome 1	<p><b>The policy and regulatory environment is more conducive to private sector development</b></p> <p><b>NDS / ICI Priorities:</b> GOAL 1: Mitigate Poverty and Hunger</p> <p><b>ICI Benchmarks (as per the Joint Monitoring Matrix 2008):</b> 4.3.2 Create an enabling environment for private investment and job creation 4.4 Build human capital necessary to sustain growth</p>					
IP Outputs	UN Agency Specific Output	UN Agency	Partner	Indicators	Source of Data	Baseline Data Indicator Target

IP Output 1.1: Strengthened national capacities and policies for private sector development.	1.1.1 Technical support is provided to the taskforce working within the Prime Minister's Office to formulate, implement and monitor the public PSD initiatives of the GoI.	UNDP/ILO/ UNIDO (lead agency UNDP)	BoA, Economic Affairs Department	ToR of task force completed and adopted (2008). Participation of key national stakeholder in the Task Force Task force is administratively operational and substantively functional	Programme records	Task Force was recently formed in August 2008	Task Force formed and meeting regularly
	1.1.2 A comprehensive assessment of legislative, institutional and sectoral needs to assist GoI to properly design policies for PSD is in place.	UNIDO	BoA, Economic Affairs Department Relevant GoI Ministries	Number of assessments of legislative, institutional and sectoral needs completed (2009)	Programme Records, Assessment reports	Not Available	3 Assessments available by Sept. 2009 (Updated for 2010 2011)
	1.1.3 Draft legislations related to SoE corporatisation (amendment of Law 22), privatisation, investment law rules and regulations, land title reform, competition, PPPs, mitigation package, agricultural and trade policies are available.	UNDP/UNIDO / UN HABITAT/ FAO (lead agency UNDP)	BoA, Economic Affairs Department OECD Relevant GoI Ministries	Number of Laws and or by-laws drafted	Programme Records, Copy of law drafted	Missing laws Corporatisation Privatisation Competition, Arbitration Land titles, PPS Missing regulations: For investment and for all laws above	5 Laws and or by-laws (by Q4 in 2009)
	1.1.4 Increased knowledge of officials on key policy issues for enterprise development to support the design and implementation of	UNIDO/ UN HABITAT/ UN DP/ ILO/ FAO (lead agency)	BoA, Economic Affairs Department	% of governmental officials trained out of total (planned)	Programme Records	No SoE assessed in detail	X number of trainees TBD (2009)

relevant legislative and institutional frameworks.	UNIDO)	Ministry of Industry Ministry of Trade Ministry of Labor And other relevant Ministries	% of trained officials participating in development and implementation of key policy issues		100% participation of trainees in development and implementation of key policy issues
1.1.5 A national investment map is available (including sector and geographic-specific).	UNIDO	BoA, Economic Affairs Department INIC Chamber of Commerce and Industries	A National comprehensive investment map is completed	Programme Records Investment Maps	Map completed (2009)  No Map available
1.1.6 A tripartite consultation mechanism of the Government, Employers and Workers representatives in the Socio-Economic Council of Iraq is available to promote social dialogue.	UNIDO/UNDP /ILO (lead agency UNDP)	BoA, Economic Affairs Department Relevant GOI Ministries	Consultation mechanism established Quarterly consultation dialogues are held	Programme Records	Tripartite consultation mechanism established by Q2 2009  No consultation mechanism available
1.1.7 A comprehensive Private Sector Development Strategy for Iraq is available.	UNIDO/UNDP /ILO/FAO (lead agency UNDP)	Department INIC Relevant GOI Ministries	Availability of a Private Sector Development Strategy including investment, private farming, trade. ....	Programme Records Strategy paper	Strategy Completed by (when in 2009)  No strategy Available
1.1.8 Gender is mainstreamed in the program ensuring women's full participation in policy and strategy	UNIFEM	Ministry of State for women affairs	Gender sensitive strategy completed	Programme Records	Gender sensitive strategy completed by  No gender strategy Available

IP Output 1.2: Improved efficiency of the Public Micro Lending Programme and access to business loans	design.			Number and percentage of women participating in high level policy discussions Number and percentage of key officials trained in gender issues			Q4 2009 X number and percentage of women participating in high level policy discussions (TBD, 2009)  Number and percentage of key officials to be trained in gender issues (TBD, 2009)
	1.2.1 Improved management of Governmental guaranteed Micro-Lending Programme. (implemented by MoLSA and MoIM)	UNDP	CHF MoLSA MoIM	Number of workshops on micro-lending held for GoI officials  Number study tours held for GoI officials  % of increase of the number of loans issued under the GOI micro-lending programme	Programme Records	0	3 workshop (2009) 3 study tour (2009)  50% increase of the number of loans issued under the GOI micro-lending programme
	1.2.2 Enhanced Mechanisms to access to credit by SMEs.	UNDP	CHF MoLSA MoIM	Number of new management tools produced by the Programme	Programme Records List of Instruments	0	3 new management tools by (Q4 2009)





						programme Number and % of universities supported through the business development services programme				by 2009	
<b>IP Outcome 2</b>	<b>Strengthened Economic recovery in three governorates in the south, central and northern areas of Iraq</b> <b>NDS / ICI Priorities:</b> <b>GOAL 1: Mitigate Poverty and Hunger</b> <b>ICI Benchmarks (as per the Joint Monitoring Matrix 2008):</b> <b>4.4.1.1. Eradicate Extreme Poverty and Promote Area Based Development</b>										
<b>IP Outputs</b>	<b>UN Agency Specific Output</b>	<b>UN Agency</b>	<b>Partner</b>	<b>Indicators</b>	<b>Source of Data</b>	<b>Baseline Data</b>	<b>Indicator Target</b>				
<b>IP Output 2.1:</b> Local economic strategies and development plans are in line with national and provincial frameworks in three governorates	2.1.1. Identified economic comparative advantages at governorate level	ILO	Provincial Councils, Local Planning Units, Governor's office	Number of local Economic environment surveys conducted Participation of private sector, civil society and deprived groups in the analysis of comparative advantages	Programme Records Surveys report	No Survey	3 surveys (2009) Participation of private sector, civil society and deprived groups in the analysis of comparative advantages				
	2.1.2. Local Economic Recovery (LER) strategies are in harmony with Provincial Development Strategies (PDS).	ILO/UNIDO (ILO lead agency_	Provincial Councils, Local Planning Units, Governors' office	Number of technical training workshops organised Participation of Public and private sectors, Civil Society and deprived groups Number of new	Programme Records Economic development Plans	0	12 technical training workshops (6 in 2009, and 6 in 2010)  3 new Economic Development Plans drafted				

	<p>2.1.3 Strengthen governorate-level construction and development institutions to implement and sustain local planning capacities</p> <p>2.1.4 Gender is mainstreamed ensuring women participation in local strategies and plans</p>	<p>UNDP UN-HABITAT (lead agency UNDP)</p> <p>UNIFEM</p>	<p>Provincial Councils, Local Planning Units, Governor's office</p> <p>Ministry of State for women affairs Provincial Councils, Local Planning Units, Governor's office</p>	<p>Economic Development Plans drafted</p> <p>Number of governorate-level institutions supported</p> <p>Gender sensitive strategy completed</p> <p>Number of women participating in high level policy discussions</p> <p>Number of key officials trained in gender issues</p>	<p>Programme Records</p> <p>Programme Records</p>	<p>0</p> <p>No strategy Available</p>	<p>3 governorate level institution supported (2009)</p> <p>Strategy produced X number and percentage of women participating in high level policy discussions( TBD, 2009)</p> <p>Number and percentage of key officials to be trained in gender issues ( TBD, 2009)</p>
<p>IP Output 2.2: Economic and social regeneration pilot projects implemented in three selected governorates</p>	<p>2.2.1. Technical support provided to identify priorities and program implementation in the following sectors</p> <ul style="list-style-type: none"> <li>• Key Economic infrastructure (UNDP)</li> <li>• Agriculture (FAO)</li> <li>• Industries (UNIDO)</li> <li>• Business Development Services (ILO/IOM)</li> <li>• Micro-lending (CHF)</li> <li>• Construction and Development Companies (UN-HABITAT)</li> </ul>	<p>UNDP/FAO/UNIDO/ILO/CHF/UNIFEM/UN HABITAT/IOM</p> <p>(lead agency UNDP)</p>	<p>Provincial Councils, Local Planning Units, Governor's office, Line Ministries</p>	<p>Number of pilot project implemented per governorate</p> <p>Number of local enterprises supported financially and technically</p> <p>Number of unemployed and other marginalised groups supported for entrepreneurship</p>	<p>Programme Records</p>	<p>0</p>	<p>3 priority economic infrastructure projects identified and completed</p> <p>3 SOEs supported technically for restructuring</p> <p>1000 persons trained for enterprise development</p> <p>1000 micro and SMEs supported financially;</p>



## 6. Management and Coordination Arrangements

### Management and delivery structure

The **Programme Steering Committee (PSC)** is tasked with the overall supervision, ownership of decisions taken and close monitoring and support in this Programme. The PSC will review for approval the Programme work plan and shall meet on a six-monthly basis or more often if required by its members to monitor its execution. It shall be co-chaired by the Chair of the Prime Minister Advisory Board and the UN Resident Coordinator. The MoPDCs and key line Ministries (including Finance, Oil, Labour and Social Affairs, Industry and Minerals, Trade, Agriculture, Construction and Public Works) and other national governmental counterparts (National Investment Commission, Central Bank, Anti-Poverty and Employment National Committees, etc) will be invited to take part as members. Representatives of Employers and Workers Organisations shall also be invited to participate. All UN participating Heads of Agencies or their representatives will be members of the Steering Committee. The Programme Steering Committee will receive progress reports and future work outlook on a six-monthly basis.

The **Programme Director (PD)**, hired at the L6 level) will act as *primus inter pares* within the UN Programme team, and will therefore be the single interface with the PSC and other relevant stakeholders. The PD will report on behalf of all member agencies to the PSC, and consolidate for that purpose progress reports and other required documentation from other agencies. The PM will report to the UN Resident Coordinator and to the three leading agencies of the Programme (UNDP, ILO and UNIDO). The PD shall ensure the coordination and complementarities of agency work-plans and their timely execution.

The PD shall be based in Baghdad and supported there by **three high-level Programme Advisors (PAs)**, hired at the L5/L4 level), representing the three leading agencies. The high-level advisors will support the Government of Iraq in their respective technical area, and act as the project managers for the execution of their agency's Programme components. The PAs and the PD will constitute the **Programme Management Team (PMT)**, whose presence in Baghdad will ensure a close, day to day coordination with the Programme's main counterpart, the Task Force for Economic Reform and Private Sector Capacity, as well as other key national and international actors in the area of private sector development. Along with the Task Force, the PMT will be physically based in the premises of the Advisory Board of the Prime Minister<sup>2</sup>.

The PMT will be located in Baghdad and act as the Programme's primary interlocutor with Iraqi stakeholders participating in the Programme. It is foreseen, unless security and operational conditions evolve significantly during the course of implementation, that the Programme personnel of other UN agencies and implementing partners members of the ERDSOT will be located in Jordan and will technically report to the PMT in Baghdad and to the lead agency identified for each programme deliverable.

The other UN agencies (FAO, UNHABITAT, UNIFEM and UNOPS) and other ERDSOT members (IOM and CHF) participating in this Programme will support the execution of the Programme and the role of the PMT in their respective areas of competence. They will work directly through their lead agency (see chart at the end of this section) for regular implementation issues, but would also provide information and participate in consultation within the framework of the PMT as requested/needed.

Notwithstanding the above integrated management structure, this Programme will be directly executed by partner UN agencies who retain the overall management responsibility and accountability for their respective Programme components. For the purpose of relations with the donor (the UNDG ITF), and in accordance with its regulations, each agency component in this Programme shall be considered a separate project for which

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<sup>2</sup> The Advisory Board has already made space available to this effect.

individual project budgets are submitted (see Annex A). Financial reporting shall be done by individual agencies to the UNDG ITF. As specified above, narrative Programme progress reports shall be consolidated by the PM making use of individual agencies inputs.

**UNOPS** will be an executing agency for ILO in this Programme. Both agencies are submitting a consolidated budget for their joint execution, with a breakdown by agency.

**IOM and CHF** are members of the ERDSOT and partners in this Programme. Their contribution is part of the results framework and a related budget has been specified in this document. However, not being signatory agencies of the UNDG ITF, they will not be considered direct executing agencies. They shall contribute to this Programme through ILO/UNOPS and UNDP respectively. IOM shall be sub-contracted by UNOPS to execute a Business Development Services (BDS) component of the Programme as described in the Results Framework (see activity 2.2.1.). CHF shall be sub-contracted by UNDP to support the execution of output 1.2 and activity 2.2.1. The corresponding sub-grants budget amounts for IOM and CHF are indicated in the Programme work-plan and budgets.

### **Local level management and coordination**

This Programme includes local level interventions in three selected governorates (outputs 2.1. and 2.2.). To ensure coordination and coherence in delivery in these three areas, a **UNDP Area Coordinator (AC)** will be designated in each of the three areas of work. The ACs shall be responsible for facilitating interaction of all participating agencies with the local authorities, in particular the governor's office and the provincial councils. **Governorate Steering Committees (GSC)** will be established, and supported by the ACs, to institutionalise this partnership and coordination at the local level. These GSCs will be composed of members of the governor's offices and provincial councils relevant to economic recovery and project delivery, as well as representatives of the local private sector community (in particular Chambers of Commerce, business associations, and workers representatives). The GSCs shall supervise and monitor the governorate-level work of the Programme, and facilitate the design and implementation of cost-shared or parallel-funded projects. The Chairs of these GSCs shall be members of the PSC.

The ACs will be responsible for regular reporting to the GSCs for all agencies within the specific governorate, which will then share these with the PSC. These reports will also be shared with the Programme Director, who will serve as the direct supervisor of the ACs.

### **Coordination with GoI and donors**

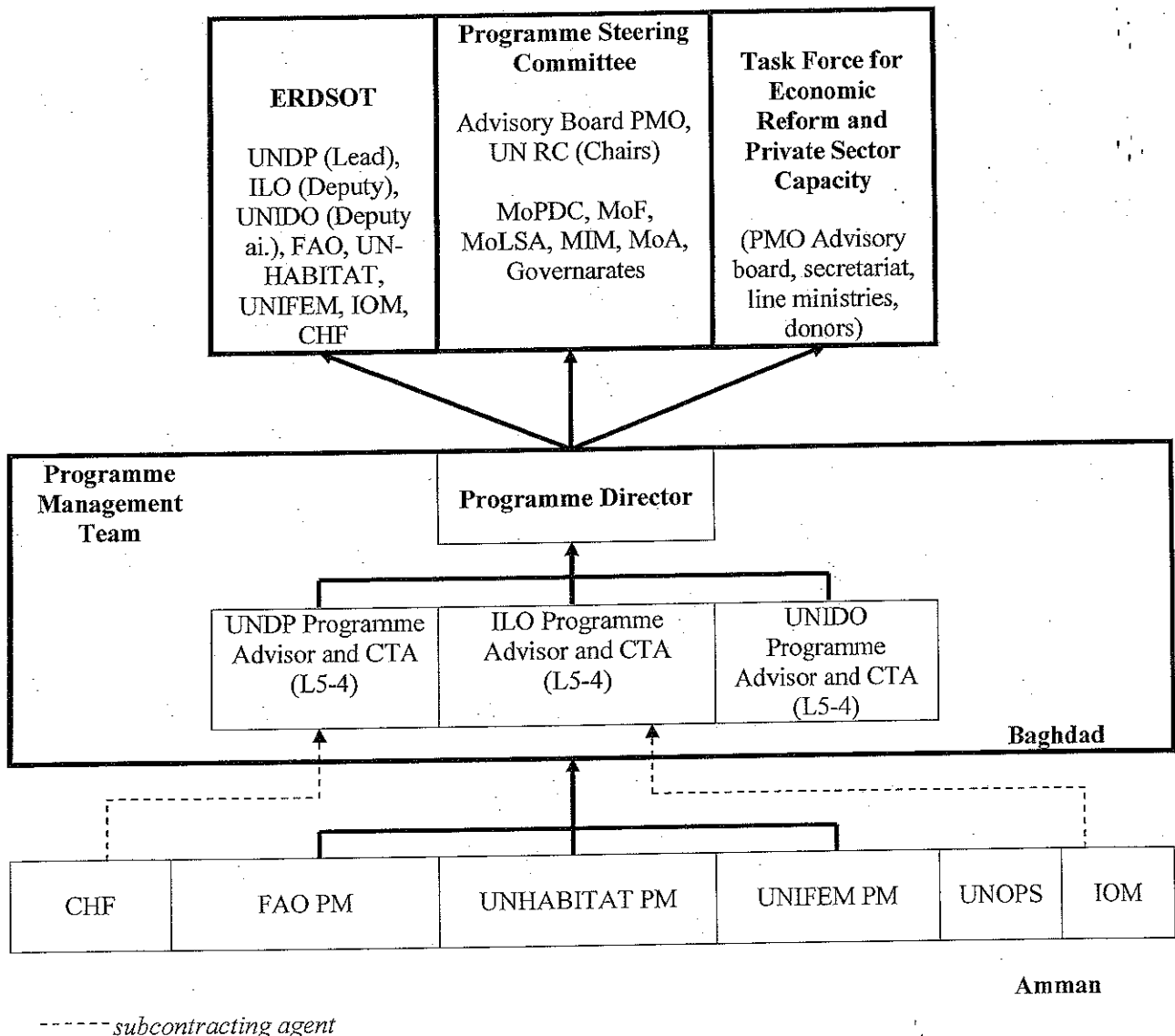
The Programme's main counterpart in its day-to-day operation is the **Task Force for Economic Reform and Private Sector Capacity**. The establishment of the Task Force has been provided by a high-level meeting on Economic Reform and Private Sector Capacity held in Paris on 8-10 July 2008. The Task Force has been empowered with the mandate and capacity to coalesce the numerous and diverse Iraqi stakeholder base required to efficiently undertake progress in the multi-sectoral field of private sector development. The Task Force's secretariat is ensured by the Economic Committee of the Prime Minister Advisory Board. Under the leadership of the PD, the Programme will facilitate the participation of key international donors to the work of the Task Force, to ensure as mentioned earlier, the inclusion of all key international players in decision making regarding PSD and economic reform.

### **Coordination with other stakeholders**

A close interaction with the UN's Baghdad Policy Group will further ensure adequate cross-sectoral collaboration within the UNCT, in particular with the Governance and the Agricultural and Food Security Sector Outcome Teams.

The ERDSOT team will play a leading role on behalf of donors aiming to expedite progress and to ensure consistency across private sector development programs in Iraq. Key donors in this area include the WB, the OECD, the IMF and USAID. In line with the recently issued World Bank (WB) strategy for Iraq that spells out the Bank's major interest in underpinning structural reforms to promote sustainable growth and building on the OECD's efforts in strengthening the GOI's capacity to enable the business environment in Iraq and to promote investment, the implementation of the ERDSOT project will be done in consultation with the WB experts assisting the Government of Iraq on the ground, based upon relevant studies that the WB has produced for poverty reduction and State economy restructuring, and will pursue co-operation objectives with OECD as set out in the tripartite GOI / OECD / UNCT agreement signed in Paris in July 2008. To secure the implementation of the new IMF Stand-By Arrangement and to support the GoI in meeting its performance criteria pertaining to structural reforms and private sector involvement in strategic economic sectors in Iraq, regular coordination meetings with the IMF mission for Iraq will be organised.

### PSDP MANAGEMENT STRUCTURE



## **7. Feasibility, risk management and sustainability of results**

### **Upstream level**

This Programme, as described throughout this document, focuses strongly on upstream interventions. It will perform legislative reviews and produce new texts for parliamentary consideration. It also aims at bridging gaps and structural reforms in the policy, regulatory and administrative structures of Iraqi institutions.

The feasibility, management of risks and sustainability of work at this level are a factor of the capacity of the Programme to mobilise the active participation and commitment of the adequate stakeholders in the GoI, and beyond this of the centrality of this Programme's intended outcomes within the GoI institutional structure and policy agenda. The design of this Programme is firmly based on both of these prerequisites.

The Programme partners, for its day to day execution with the Advisory Board of the Prime Minister and the Task Force for Economic Reforms and Private Sector Capacity, will be led by the aforementioned Task Force. The formation of this Task Force is a clear signal of the prominence of the subjects to be addressed in cooperation with the GoI. The Task Force is composed of all key line ministries and other national institutions, this will further guarantee ownership from all relevant Iraqi stakeholders. The Advisory Board has confirmed its support to this Programme through official letters and by offering required office space within its premises to the Programme's management team.

More broadly, the Programme complements GoI priorities as it is in line with the NDS and ICI strategy<sup>7</sup> which will further ensure its sustainability. The recent mandate given to the Prime Minister's Office to oversee the ICI Steering Committee, this development is another significant opportunity to enhance synergies between the Programme results and ICI benchmarks. Despite turnover within the GoI, ie. the possibility that line Ministers may change through the duration of the Programme, the Prime Minister's position, and his focus on national development appear to remain constant for the remaining term in office, therefore it is unlikely that the high-level support for this Programme from the Prime Minister's Office (Advisory Board) will change in the immediate future. Though the risk of change in political affiliations is always present, the process of sensitisation of all levels of government machinery will ensure that there will be officials present in the government who will understand the importance of the project activities and provide the necessary support. This level of support is critical to managing potential risks associated with the more politically sensitive steps of the Programme and will also serve to support the passage of key legislative reforms through the Council of Ministers (COM). Participation of relevant COR committees in the meetings of the joint UN/ WB/ GOI Task Force devoted to legislative assessment and revision will ensure the necessary parliamentary support to achieve the expected results in having key laws enforced for economic restructuring and private sector development.

The specific operational challenges associated with working in Iraq at this level have also been carefully taken into account, and build upon the experience of the partner agencies in this Programme in working in Iraq in the last five years. The location of key Programme staff (the PMT) within the Prime Minister's Office will assist in sustaining a close interaction with GoI counterparts, due to the proximity of the team to relevant players within the Ministry of Planning and the Ministry of Finance. Programme support staff will be based in Amman or elsewhere as required, and will conduct missions to Iraq as necessary. Another key operational aspect that has been considered is related to potential delays in processing the key personnel contracts in this Programme. The 3 leading agencies have committed to this end to delegate existing staff to ensure an orderly transition period while initiating recruitment procedures in advance of availability of funds, in line with existing agency-specific provisions.

This Programme will count on the support of other key international stakeholders, and builds on a clear definition of roles among those. The OECD and the World Bank (and the IFC) in particular, but also the



International Monetary Fund and the US Department of State, have been closely associated to the definition of this Programme in a series of policy meetings held in conjunction with the GoI. Their information and technical resources in the areas of corporatisation, public private partnership, banking restructuring, investment promotion and poverty reduction will be of great support to the Programme.

### **Downstream level**

The design of downstream level outcomes and operational modalities of this Programme have been built upon the partner agencies understanding of the current decentralisation and devolution process. Agencies have acquired a detailed understanding of working within Iraq with Governmental-level organisations (provincial councils, governorates). The selection of the three target governorates for this work, which is delegated to the Programme Steering Committee at inception stage, will take into consideration key operational aspects to maximise effectiveness and impact. The Programme shall pool resources at the local level, with an Area Coordinator posted in each governorate who will facilitate and streamline relations with local authorities and ensure efficient co-ordination. Vertical relations between the local and central levels are also provided for in the Programme management arrangements. Involvement of non-governmental actors, such as NGOs or other local implementing partners, will be important to ensuring a high-level of access at all times. Involving the local communities in the different capacity building activities will also ensure sustainability and continued adoption of private sector development practices for the future.

### **Exit strategy**

The nature of work envisaged in this Programme, ie. legislative and structural reforms and policy support, requires the close involvement of key public stakeholders and the social partners. The outcomes of the Programme will indeed be owned entirely by the GoI. In working at this level, the capacities of the various Iraqi stakeholders directly involved will be developed to ensure their effective participation and their ability to follow-up on Programme outcomes in the future. The Programme includes capacity building exercises through training, study tours, technical assistance in the selected fields of intervention.

With regard to upstream activities, the scope of the Programme ends with debates beginning with the *plenum* of the CoR on the drafted legislation. The Programme does not control the issue of the debates themselves. In co-ordination with the legislative review process, the Programme will continue with capacity building, future implementation, and local economic recovery components to maximise preparedness for the moment related legislation is enacted.

As it relates to downstream activities, the Programme will ensure not only that local legal and regulatory frameworks, along with pilot projects, are designed to meet local needs within the structure of national-level economic policies, but also that the capacity of local stakeholders (public and private) are built to ensure the sustainability and reforms of private sector development are carried forward. Examples of ensuring local capacity would include adherence to Consultative Group to Assist the Poor (CGAP) micro-finance principles incorporated by CHF, as well as enhancing the capacities of national and local business development services providers.

The Programme will seek the financial participation of the Government of Iraq in areas where operating costs and investment allocations required are in line with the legal provisions of the Federal Budget law and with ICI goals which the GOI intends to fund from its own sources of revenue. Programme components designed to be co-funded, for which the GOI fails to allocate its part within the implementation timeframe, will be subject to adjustment / removal from the list of activities included in the Programme document and relevant UN agencies will be absolved of any further obligations related to those components.

Any security problem hindering the realisation of Programme outputs will be regularly assessed along with the general political developments. By doing so, the Programme will adapt to the situation as it evolves and stay relevant in close consultation with the Task Force.

For the implementation of various subcomponents of the Programme, MOUs with relevant Iraqi counterparts will be signed to outline activities, timing, resources etc. and will reflect roles and responsibilities for UN agencies involved, the GoI's Task Force, and relevant line ministries. Failure to deliver by the GoI side, measured against performance indicators and analysed with all implementing partners will result in re-evaluating specific subcomponents and in reconsidering the UN's participation in the Programme.

## **8. Monitoring, Evaluation and Reporting**

Aside from meeting the requirements for monitoring, evaluation and reporting as stipulated within the MoUs of the UNDG ITF as well as by the standard policies and procedures of each agency, the following will be undertaken within the context of the programme.

### **Monitoring and Evaluation**

As stated in section 6 of this document, the Programme Steering Committee (PSC) will be responsible for the overall monitoring and supervision of this Programme. The PSC will meet on a semesterial basis, and more frequently if required by its members, to review progress against the workplan it shall approve, on the basis of six-monthly reports submitted by the Programme Director on behalf of all partner agencies.

The **six-monthly progress reports** will provide an assessment of progress for all outcomes and outputs as stated on the Results Framework, and as measured by the corresponding indicators. Collection of relevant data will be scheduled well in advance of the reporting deadlines so that the evaluation of indicators can be based on facts and as much as possible on independent sources.

In addition to the above, the Programme Management Team (UNDP, ILO, UNIDO) shall hold **quarterly progress reviews** of the activities of all partners. This internal exercise shall ensure an additional opportunity to ensure timeliness and coordination of partner activities. The PMT shall recommend, if need be, to individual agencies any relevant remedies required to meet those obligations. A quarterly progress report shall be prepared for this purpose by the Programme Director with the inputs of all concerned.

A **yearly Programme review exercise** will be organised to (internally) evaluate the results of the Programme, and agree on any revisions required in the work-plans and implementation modalities. This Programme review will involve all members of the PSC.

An overall **external evaluation** of the Programme will be implemented at its conclusion. It shall be sub-contracted by UNDP as indicated in the Results Framework (activity 1.1.1.) and will cover the activities of all partner agencies, to comprehensively assess the results achieved, at both upstream and downstream levels.

Two years after completion of project, an **impact assessment** will be carried out. An arrangement to host and finance such evaluation should be reached with GoI counterparts and the UNDP evaluation department will support this exercise.

At the **local level**, the Programme activities shall be monitored and supervised by Governorate Steering Committees. These GSCs will be supported by UNDP Area Coordinators (AC) in each one of the three selected governorates. The GSCs will meet on a quarterly basis to review progress against reports submitted by the ACs and consolidating all partner agencies inputs.

## **Reporting**

The Programme Director shall report progress of the Programme on a semesterial basis, and on behalf of all participating agencies, to the PSC. It shall solicit and compile inputs from all partners to this end. Internal quarterly reports will also be prepared for the purpose of Programme Management Team quarterly reviews.

The Area Coordinators at the local level will produce reports in each one of the target governorates, on a quarterly and semesterial basis, by compiling area-specific agency contributions, for submission to the PMT, the PSC and the Governorate Steering Committees.

In terms of UNDG ITF reporting, the Programme Director shall consolidate narrative progress reports from all member agencies in accordance with MDTF Office requirements, so as to provide a comprehensive account of progress for the entire Programme. In accordance with UNDG ITF regulations, each individual UN agency shall issue separate financial statements and reports and directly submit to the UNDG ITF. IOM and CHF shall be considered for the purpose of UNDG ITF reporting as sub-contracted by ILO and UNDP respectively and shall not therefore submit separate reports.

9. Work Plans and Budgets

Work Plan for Private Sector Development Programme Period Covered: 01 January 2009- 31 December 2010

Sector Outcome (s): Outcome 1: Improved policies, strategies and related institutional developments that are sensitive to MDGs, social inclusiveness, gender equality and pro-poor economic growth		Time Frame (by activity)										implementing Partner	PLANNED BUDGET (MLN USD) (by output)
Outcome 2: Enhance key sectors of local economy in most deprived areas		Major Activities											
IP-Outcome(s): The policy and regulatory environment is more conducive to private sector development	UN Organisation-specific Annual targets	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8				
<b>IP Output 1: Strengthened national capacities and policies for private sector development</b>													
UNDP/ILO/UNIDO	1.1.1 Assist technically a Task Force within the Prime Minister Office to support the formulation, implementation and monitoring of public PSD initiatives of the GoI, and conduct a final Programme evaluation;											ILO ITC	1.65 (UNDP) 1 (ILO/UNOPS) 1 (UNIDO)
UNIDO/UNDP/UN-HABITAT	1.1.2 Conduct a comprehensive assessment of legislative, institutional and sectoral needs to assist GoI to properly design policies for PSD												0.9(UNIDO) 0.3(UNDP) 0.1(UN HABITAT)
UNDP/UNIDO/UNHABITAT/FAO	1.1.3 Support the drafting, parliamentary review, and implementation of legislation including SoE, corporatisation (amendment of Law 22), privatisation, investment law rules and regulations, land title reform, competition, arbitration, PPPs, mitigation package, agricultural and trade policies												0.4 (UNDP) 0.4 (UNIDO) 0.2 (UN HABITAT) 0.1 (FAO)
UNIDO/UNHABITAT/UNDP	1.1.4 Build the capacity of officials regarding key policy issues for enterprise development, including PPPs, corporatisation and												0.4(UNIDO) 0.4(UNDP) 0.1(FAO)



UNDP	1.2.2 Assist with the design and implementation of other mechanisms to enhance access to credit by SMEs																		CHF	0.5	
UNDP	1.2.3 Review of micro-lending legislation and draft of laws and by-laws																		CHF	0.5	
ILO	1.3.1 Provide assistance for a survey of SMEs (including formal and informal sector)																			1	
ILO	1.3.2 Support GoI Prime Minister's Advisory Board and other concerned ministries for an SME-friendly regulatory framework.																			0.5	
ILO/UNIDO	1.3.3 Strengthen capacities of business development services and Non-Bank Financial Institutions at the national level																			1.4 (ILO/UNOPS) 1 (UNIDO)	
Sector Outcome 2: Enhance key sectors of local economy in most deprived areas																					
IP Outcome 2 : Strengthened Economic recovery in three governorates in the south, central and northern areas of Iraq																					
UN Organisation-specific Annual targets		Major Activities										Time Frame (by activity)								implementing Partner	PLANNED BUDGET (MLN USD) (by output)
												Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8									
IP Output 2.1: Local economic strategies and development plans are in line with national and provincial frameworks in three governorates																					
ILO	2.1.1 Identify, in a participatory,																		ILO ITC	0.5	

	evidence-based framework, local economic comparative advantage of the areas;																				
ILO/UNIDO	2.1.2 Support local Institutions in the production of Local Economic Recovery strategies (LER)																			ILO ITC	0.5 (ILO/UNOPS)
UNDP/UN HABITAT	2.1.3 Strengthen provincial institutions to implement and sustain Local Economic Recovery (LER) strategies in harmony with Provincial Development Strategies (PDS)																				0.5 (UNDP) 0.45 (UN HABITAT)
UNIFEM	2.1.4 Promote gender mainstreaming and women participation in local strategies and plans																				0.5
IP Output 2.2: Economic and social regeneration pilot projects implemented in three selected governorates																					
UNDP/ILO/UNIDO/FAO/	2.2.1 Directly implement pilot projects and support local governor's office and line ministries at provincial level to identify priorities and implementing their programs in the following sectors in the selected governorates: <ul style="list-style-type: none"> <li>• Key Economic infrastructure (UNDP)</li> <li>• Agriculture (FAO)</li> <li>• Industries (UNIDO)</li> <li>• Business Development Services (ILO/IOM)</li> <li>• Micro-lending (CHF)</li> <li>• Capacity-building for Construction and Development Companies (UN-HABITAT)</li> </ul>																				
																				CHF IOM	2.9 (UNDP) 3 (FAO) 2.7 (ILO) 2 (CHF) 1 (IOM) 1.25 (UN-HABITAT)
																				Total UNDP	9,750,000
																				Total ILO	3,358,930
																				Total UNOPS	5,541,070
																				Total UNIDO	7,700,000

Total FAO	3,300,000
Total UN-Habitat	2,000,000
Total UNIFEM	1,200,000
<b>Total Planned Budget</b>	<b>32,850,000</b>

Notes:

- In Programme activities where several agencies contribute, the lead agency is marked in bold.



Overall Programme Budget<sup>3</sup>:

Budget Category	Item Description	Subtotals	Total Budget US\$	ESTIMATED UTILIZATION OF RESOURCES US\$	
				2009 Budget	2010 Budget
<b>1. PERSONNEL</b>			<b>7,930,227.34</b>	<b>4,357,413.67</b>	<b>3,572,813.67</b>
1.1 National Programme Personnel		1,180,851.30		590,425.65	590,425.65
1.2 International Programme Personnel		4,185,376.04		2,101,488.02	2,083,888.02
1.3 National Consultants		686,000.00		394,200.00	291,800.00
1.4 International Consultants		1,878,000.00		1,271,300.00	606,700.00
<b>2. CONTRACTS</b>			<b>12,575,000.00</b>	<b>6,381,000.00</b>	<b>6,194,000.00</b>
<b>3. TRAINING</b>			<b>3,712,000.00</b>	<b>1,963,000.00</b>	<b>1,749,000.00</b>
<b>4. EQUIPMENT</b>			<b>3,143,000.00</b>	<b>1,354,800.00</b>	<b>1,788,200.00</b>
<b>5. SUPPLIES &amp; COMMODITIES</b>			<b>423,600.00</b>	<b>238,440.00</b>	<b>185,160.00</b>
<b>6. TRANSPORT (ONLY FOR WEP PROJECTS)</b>			<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>7. TRAVEL</b>			<b>1,848,206.00</b>	<b>978,153.00</b>	<b>870,053.00</b>
<b>8. PROGRAMME/PROJECT SUB-TOTAL</b>			<b>29,632,033.34</b>	<b>15,272,806.67</b>	<b>14,359,226.67</b>
<b>9. MISCELLANEOUS</b> (Should Not Exceed 3% of BL 8)			<b>828,953.67</b>	<b>492,976.84</b>	<b>335,976.84</b>
<b>10. SECURITY</b> (Should Not Exceed 2% of BL 8)			<b>437,491.39</b>	<b>218,745.70</b>	<b>218,745.69</b>
<b>11. AGENCY MANAGEMENT SUPPORT COST (Including Monitoring &amp; Reporting) - PSDP TOTAL 6.59 %</b>			<b>1,951,521.60</b>	<b>975,760.80</b>	<b>975,760.80</b>
<b>12. PROGRAMME BUDGET TOTAL</b>			<b>32,850,000.00</b>	<b>16,960,290.01</b>	<b>15,889,709.99</b>

<sup>3</sup> Please refer to individual agency budget sheets attached to this document for further details

**Annex A. Agency Project Status Profile**  
**UNIDO**

Sl. #	Project ID #	Project Title	Total Budget (US\$)	Implementation Rate (% complete)	Commitments (% as of 31_05_08)	Disbursements (% as of 31_05_08)	Remarks
1	A5-17	Community Livelihoods and Micro-industry Support in Rural and Urban Areas of North Iraq	5,800,116	75%	58%	50%	
2	C10-07	Enterprise Development and Investment Promotion in the SME Sector in Iraq	3,057,537	50%	30%	20%	
3	E4-17	Technical Assessment for the Development of Agro - Industries Sector in Iraq	586,880	90%	77%	63%	
<b>TOTALS (US\$)</b>			<b>9,444,533</b>	<b>71.67%</b>	<b>55%</b>	<b>44.34%</b>	

**UNDP**

Sl. #	Project ID #	Project Title	Total Budget (US\$)	Implementation Rate (% complete)	Commitments (% as of _____)	Disbursements (% as of _____)	Remarks
1.	E4-01	Emergency Power Supply	11,999,140	94.79%	100%	94.79%	
2.	E4-02	National Dispatch Centre	11,947,978	93.18%	96.30%	93.18%	
3.	E4-15	Rehabilitation of Mussayb Thermal Power Station - Stage 2	33,000,000	33%	60%	33%	
<b>TOTALS (US\$)</b>			<b>\$56,947,118</b>	<b>73.66%</b>	<b>85.44%</b>	<b>73.66%</b>	

FAO

Sl. #	Project ID #	Project Title	Total Budget (US\$)	Implementation Rate (% complete)	Commitments (% as of 31/05/08)	Disbursements (% as of 31/05/08)	Remarks
1.	A5-22a	Support for Job Creation and Self Employment through Promotion of Micro-Industries in Ninewa Governorate of Iraq	2,117,832	9%	9%	4%	
		<b>TOTALS (US\$)</b>	<b>2,117,832</b>	<b>9%</b>	<b>9%</b>	<b>4%</b>	

UNIFEM

Sl. #	Project ID #	Project Title	Total Budget (US\$)	Implementation Rate (% complete)	Commitments (% as of )	Disbursements (% as of )	Remarks
1.	C10-09g	Area Based Development programme-Local Areas Development Plans (LADP)	1,519,276	%70.94	%68.82	%68	
		<b>Totals (US\$)</b>	<b>1,519,276</b>	<b>%70.94</b>	<b>%68.82</b>	<b>%68</b>	

UNOPS

Sl. #	Project ID #	Project Title	Total Budget (US\$)	Implementation Rate (% complete)	Commitments (% as of )	Disbursements (% as of )	Remarks
1.	C10-06	Governance in Support of Employment Creation Programme (GEC)	4,126,284	70%	83%	63%	
		<b>TOTALS (US\$)</b>	<b>4,126,284</b>	<b>70%</b>	<b>83%</b>	<b>63%</b>	