



Private Sector Development Programme for Iraq (PSDP-I)

An Investment Strategy for Iraq

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Prepared by



NATHAN
ASSOCIATES LONDON LTD

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1. Introduction

This document sets out what is needed for Iraq to deliver the higher levels of private investment that are essential for the country to deliver prosperity for its young population. It is based on the insights that our team has gathered during the preparation of the Investment Map as to what are the real constraints to private investment in Iraq and what is needed for them to be overcome.

The Investment Map is intended as a tool for promoting investment. As such, its audience is potential investors to whom it provides information that would help to interest them in investing in specific industries, provinces and projects in Iraq. Whilst the information provided is accurate, in order to interest investors, it is put in as positive a light as is objectively possible. For instance, where deficiencies exist in the policy and regulatory environment, they are presented in the IM as areas awaiting attention rather than flagged as constraints to investment.

The audience for this document is key policy makers in the Government of Iraq notably the senior management of the NIC, the PICs and the sector ministries that are the policy making bodies for the industries covered in the Investment Map. Of particular note amongst these is the MIM which is preparing, with UNIDO's help, an industrial strategy for the country that will address the measures needed to increase growth, investment and competitiveness in the country's key industries.

Unlike the IM, the Investment Strategy is intended to be an internal document to GoI and so is not intended to reach potential investors. It is therefore far more candid as to what factors constrain investment and what needs to be done about them. It is meant to guide policy makers on the key reforms and initiatives needed to increase private investment. The measures needed may be delivered as part of the investment promotion policies and initiatives for which NIC and the PICs are responsible, the policy making processes of sector ministries and as part of the industrial strategy of the country.

The Investment Strategy starts with a brief recap of why the country needs to substantially increase the levels of private investment and the major opportunities for doing so. It then sets out the key elements of the investment strategy for the country and to the role that the IM should play within it. Lastly, it takes stock of what is needed to broaden the scope of the IM and to keep it up to date.

2. The Challenge of Private Investment

2.1. Low private investment

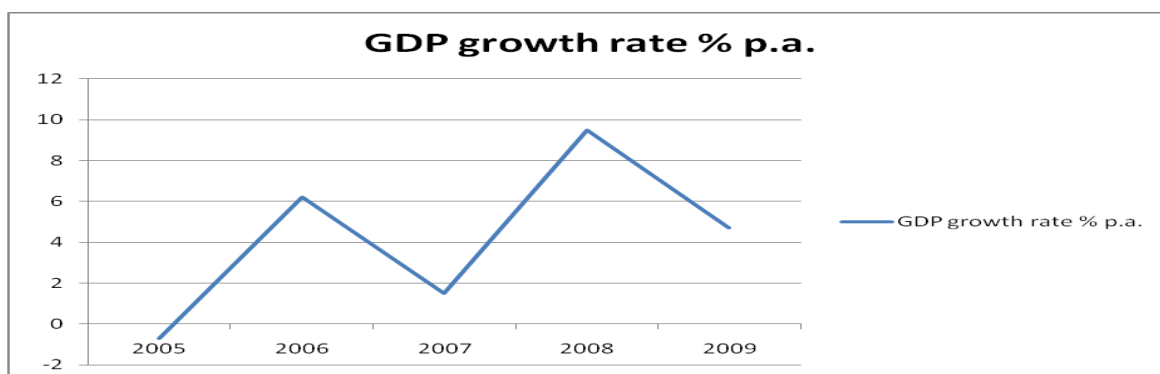
Iraq's guiding document on development is the National Development Plan (NDP) 2010-2014. The NDP's vision for the economy is 'to build a strong and diversified economy that is able to compete internally and externally, laying the foundations for a stronger private sector operating in a market economy with free competition¹'.

¹ NDP Sector paper #12: Vision and Economic activities.

The NDP highlights the following economic challenges facing the country that will need to be overcome if its vision is to be realized:

- i) Over-reliance on oil for growth as the non-oil economy is weak. The fact that oil contributes over 56% of GDP and the overwhelming proportion of government revenues means that Iraq's growth is highly correlated with the price of oil (figure 1). This makes growth volatile, dependent on the fortunes of a single commodity the price of which is increasingly prone to dramatic fluctuations. Over the past decade, oil prices have risen from just over US\$20/barrel to US\$140/barrel in 2008 before falling close to US\$30/barrel in 2009 and rising again to US\$125/barrel before falling to US\$110 in recent weeks.

Figure 1: The Volatility of Growth 2005-2009

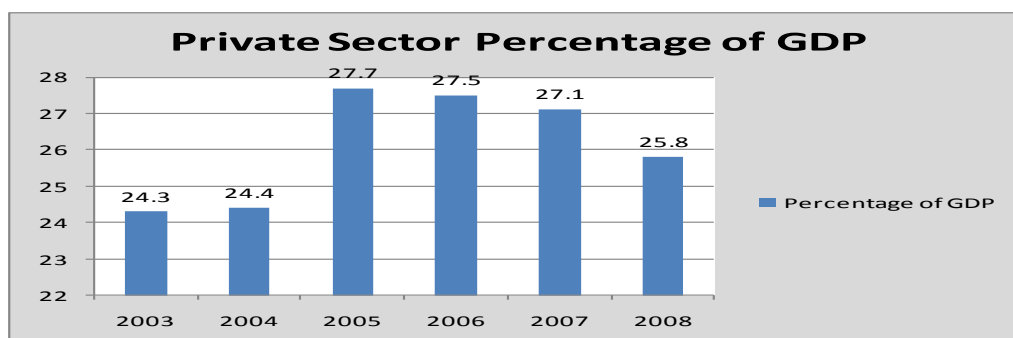


Source: IMF, World Bank and Ministry of Finance

- ii) Dependence on oil for export revenues needed to pay for a rapidly growing import bill. Oil accounts for over 90% of export earnings². Moreover, as a result of sanctions in the 1990s and the war and its aftermath in the 2000s, the decline of agriculture and industries manufacturing consumer goods has led to the country becoming increasingly import dependent in satisfying the needs of its populace. Increased expenditure on consumption and investment has resulted in the import bill rising from just over US\$18 billion in 2005 to US\$40.8 billion in 2008.
- iii) Continued dominance of the economy by the public sector. In 2008, the private sector contributed just over a quarter of the country's GDP making Iraq one of the most state dominated economies in the world. Even in former communist economies such as China, the private sector contributes over 70% of GDP. Moreover, the private sector's contribution to GDP has not increased much after the war (figure 2).

Figure 2: The Share of the Private Sector in GDP

² Estimates of the proportion of exports oil represents vary. The World Bank estimates that it accounted for 98.8% of exports. Other observers state that oil accounts for 84% of exports with crude materials, including products derived from oil, account for a further 8% with food accounting for 5%.



- iv) Unemployment which is high in aggregate (15%) and especially high amongst the young (30%) and women (32.5%). Reducing unemployment is likely to prove especially challenging as the rate of work force participation is increasing and the country is heavily reliant on public sector employment.

These challenges call for much higher levels of private investment in non-oil industries. Private investment is needed to diversify the economy, develop non-oil exports, strengthen the private sector and create jobs for the country's young population.

Against these pressing needs, at present, the rate of private investment in Iraq is amongst the lowest in the world. In the fast growing economies of the world, such as India, private investment represents over 25% of GDP. In the lower middle income countries of the world, it is close to 20% of GDP and in the low income countries, 15% of GDP. In contrast, private investment represents just 4% of GDP in Iraq and its contribution is not expected to increase in the immediate future (table 1 below).

Table 1: Projected GDP and Levels of Private Investment, 2008-2012

	2008	2009	2010	2011	2012
		Est	Proj	Proj	Proj
Real GDP (percentage change)	9.5	4.2	0.8	12.2	11.1
Non-oil real GDP (percentage change)	5.4	4	4.5	5	5.5
GDP per capita (US\$)	2845	2087	2564	2983	3400
GDP (in US\$ billion)	86.5	65.2	82.2	98	114.4
Gross domestic investment	28.4	25.7	24.4	33.5	32.4
Of which: public	26.4	21.9	20.3	28.7	27.3

Source: IMF, 2011.

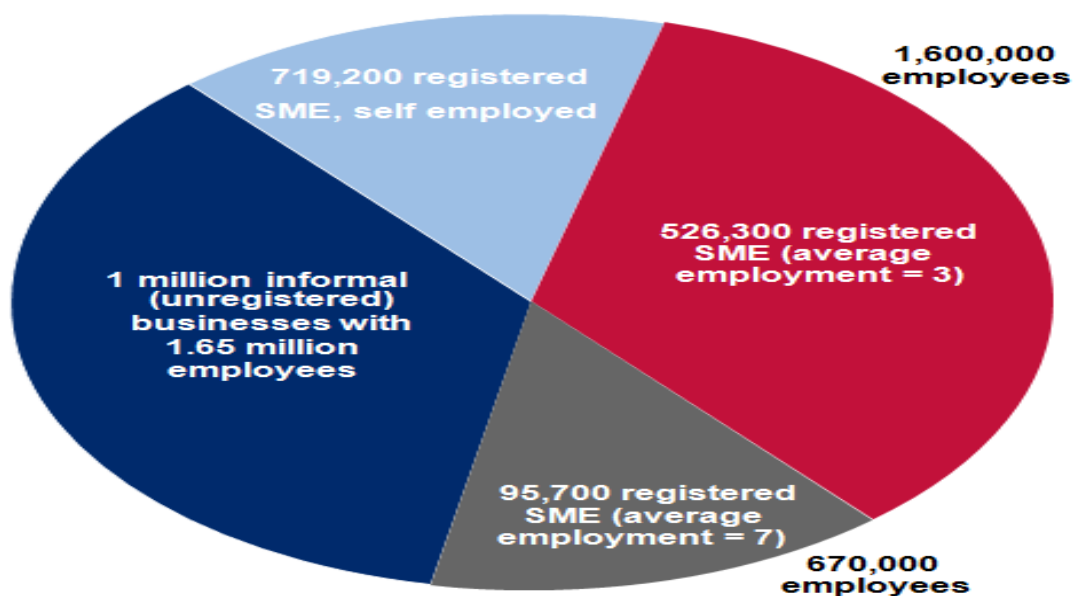
The causes of low private investment include a poor investment climate with concerns over security, corruption, lack of access to infrastructure, especially power, and regulatory barriers the most prominent constraints. The country also has a very poor financial system with credit to the private sector, at 4% of GDP, amongst the lowest in the world. These issues are dealt with in the Key Elements of the Investment Strategy section below.

2.2. The Weakness of the Domestic Private Sector

What is most noteworthy, however, is the weakness of the domestic private sector in general which results in the low contribution to GDP shown in table 1 above. In most countries, the domestic private sector leads private investment with foreign direct investment (FDI) making a useful contribution to supplement it. In Iraq, roughly half the total private investment is in the form of FDI essentially because the domestic private sector is weak.

The country's domestic private sector has been undermined by years of state domination of the economy, economic sanctions and the disruption caused by two wars. In 2005-2006, as a result of improved security and a more pro-private sector policy, there was resurgence in the number of businesses in the country. Business density in the country is in line with levels found in other middle income countries but the over whelming number of businesses are very small (figure 3).

Figure 3: Numbers of Businesses and Employment in the Private Sector in Iraq



Source: USAID Tijara Economy at a Glance, 2009

In the main, the new businesses that were formed were micro businesses engaged in importing and trading goods as part of the country's wholesale and retail industry. The enthusiasm for investing in more substantial, manufacturing businesses that need investment in fixed assets and longer gestation before they make profits remained low. What little investment took place in manufacturing was in industries such as brick making that enjoy natural protection from imports. In others, even when manufacturing operations were established, such as in the making of plastic bags for the booming wholesale and retail trade, the poor supply of electricity and the high cost of doing business in Iraq led to the closure of businesses as they could not compete with imports.

2.3. The Lack of Competitiveness of Iraqi Industry

What the above facts point to is that Iraq's private sector is not short of entrepreneurs. However, many of these entrepreneurs are young and inexperienced and lack the resources to invest large sums of money long term. Further, as a result of failures in the investment climate, large parts of

Iraq's industries are unable to compete against imports. The lack of competitiveness is a huge constraint to investment as, ever since the days of the Coalition Provisional Authority, Iraq has adopted a liberal trade regime with low tariff barriers for imports. Hence, it results in low returns to investment or the closure of businesses in many industries.

Hence, an investment strategy for Iraq must go hand in hand with its industrial strategy. The former needs to create the conditions to attract investment, the latter enable the country to bridge the competitiveness gap with its neighbours and competitors thereby enabling investors to earn reasonable returns to their investment in a broader range of economic activities than is possible at present.

Further, for the foreseeable future, FDI will have to play a major role in increasing private investment. Iraq will need to rely on foreign investors to mobilise capital and provide the know-how of technology and business models that Iraq's inexperienced entrepreneurs currently lack. To ensure that the domestic private sector is able to develop the capacity it currently lacks to compete, it will be important for the process of investment promotion to ensure that foreign investors establish alliances with domestic investors and help to transfer technology through business to business linkages.

3. The Major Opportunities

An investment strategy for the country has to be informed by answers to two key questions:

1. On which industries should the country focus its effort to attract investment?
2. How can it position itself to maximise its potential to attract investment into those industries?

With respect to the first question, evidence of where the most attractive opportunities lie can be gathered through a combined analysis of trends in foreign investment, the resource base of the country and the drivers of the economy. This is what is examined in this section. The next section then sets out how Iraq can position itself to attract investment in the face of competition from other countries.

3.1. Foreign Commercial Activity

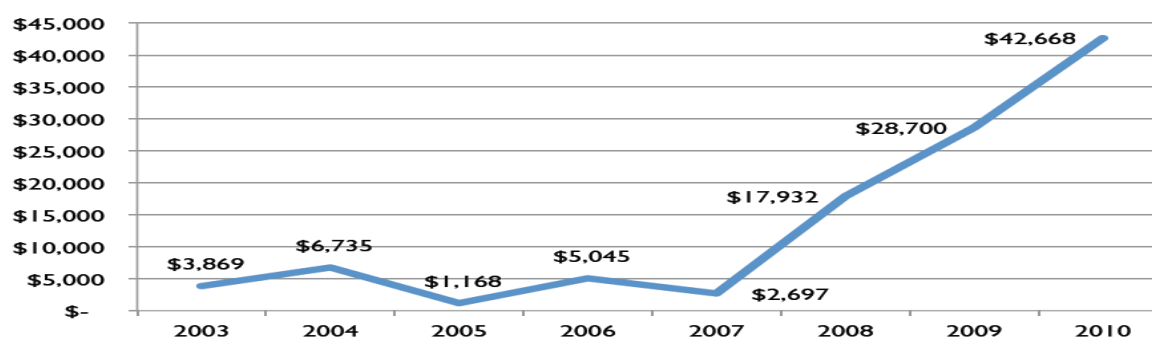
The most informed survey of FDI into Iraq is prepared annually by Dunia Frontier Consultants (DFC) the latest of which was published earlier this year³. In recognition of the fact that the overwhelming proportion of investment in Iraq is by the public sector, instead of tracking FDI, Dunia now tracks foreign commercial activity which includes both FDI as well as public sector funded contracts undertaken by foreign firms⁴.

³ Foreign Commercial Activity in Iraq, 2010 Year In Review, Dunia Frontier Consultants, 2011.

⁴ For instance, concessions to develop oil fields in Iraq take the form of international oil companies in effect working to a contract with the Ministry of Oil whereby they agree to be paid a set amount per barrel of oil or gas produced.

According to DFC, despite the uncertainty that ensued as a result of the failure to form a new government for a considerable period of time following parliamentary elections in 2010, the level of foreign commercial activity continued to increase. In fact, levels of foreign commercial activity were 48.7% higher in 2010 compared to 2009, continuing the sharp upward trend that started from 2007 (figure 4).

Figure 4: Trends in Foreign Commercial Activity in Iraq,



Source: DFC, 2011.

It is important to note that the figures above are the value of deals announced not the actual level of foreign commercial activity or investment in that year. In 2010, total private investment in Iraq was around US\$5 billion of which roughly half was foreign. Nevertheless, the figures above show a growing appetite amongst foreigners for investing in or undertaking contracts in Iraq.

Surprisingly, despite the country opening up its huge oil and gas reserves for development to international oil companies (IOCs), Dunia reports that the highest level of foreign commercial activity is in the residential real estate industry followed by transport infrastructure, electricity and water and sanitation. Oil and gas comes fourth as shown in table 2. This is because the way that oil and gas concessions have been let has taken the form of large numbers of technical service contracts (TSCs) for drilling, other services and construction. Even the concessions given to IOCs for major oil fields are awarded in the form of TSCs in which the contractor is remunerated on an agreed price per barrel of oil or unit of gas produced.

Table 2: Foreign Commercial Activity in Iraq 2010 by Sector

Sector	\$ (millions)	% Total
Real Estate (Residential)	14,107	33.1%
Transportation (Infrastructure)	6,733	15.8%
Electricity	6,074	14.2%
Industry	6,040	14.2%
Oil & Gas	5,443	12.8%
Real Estate (Commercial)	1,829	4.3%
Water & Sanitation	1,317	3.1%
Health	757	1.8%
Agriculture	244	0.6%

Source: DFC, 20100

Residential real estate investment reflects the huge housing deficit in the country and the general need to re-build community infrastructure, as documented in the IM. Much of the investment is public sector with GoI asking firms to compete for contracts to build housing and social infrastructure. Deals for such investment can be huge. For example, the contract to rebuild Sadr City, a suburb of Baghdad, was worth US\$11.3 billion. Late in 2010, the NIC issued a call for investors to express interest in building 3.5 million housing units by 2020, a deal worth US\$25 billion.

The reported deals in transport infrastructure covered ports, airports, road and rail. The decision to award a contract to build and operate a major new port at al-Faw near Basra was a major cause of this sector gaining such prominence. The pressing need to increase the generation of electricity is documented in the IM. The MoE and NIC have awarded huge contracts to supply turbines and other equipment and for investors to bid for contracts to rehabilitate existing plants and/or build new ones. Several deals have been concluded to build, own, operate and transfer new power plants under IPP arrangements, especially in KRG, even though the national policy framework for such contracts is not, as yet, in place. Projects to rehabilitate the country's water and sanitation infrastructure, damaged during the war, are being awarded by various government agencies.

Thus, what is driving foreign commercial activity is the need to rebuild Iraq's housing and infrastructure damaged during the war. Despite the difficulties caused by the decline in government revenues, caused by the global slowdown in 2009 and the resultant collapse in oil prices, GoI has been able to maintain a high level of public investment in infrastructure and housing. With the recovery of oil prices and increasing oil output, these sectors are likely to continue to attract large levels of foreign commercial activity for some time to come.

Oil and gas is an industry that is likely also to continue to attract sizable levels of foreign commercial activity for the foreseeable future. As set out in the IM, Iraq still has large untapped hydrocarbon reserves that will require major investment to develop. GoI has so far held three licensing rounds for the country's oil and gas fields. Despite the considerable uncertainty over the legality of the licensing regime and the fact that government has been at pains to ensure the bona fides of bidders, up to now there has been considerable appetite shown by IOCs to invest in Iraq.

The country is also starting to see sizable investment flows to develop industries that use oil and gas. The generation of power using hydrocarbons is an obvious example. In addition, investors have shown interest in petrochemicals, as described in the profile on that industry in the IM.

The huge construction of activity that is resulting from the high levels of investment in residential and commercial real estate and the rebuilding of infrastructure is causing the demand for construction materials to boom. Where the country has the natural resources to manufacture construction materials competitively, substantial levels of investment are taking place. A prime example is the manufacture of cement using locally available limestone and gypsum. The entry into Iraq of Lafarge, the world's largest cement producer, is testimony to the huge demand for cement in Iraq and the ready availability of raw materials. Several Chinese companies have now followed Lafarge into Iraq.

The sizable level of foreign commercial activity reported by Dunia in the industrial sector reflects interest in using natural resources such as hydrocarbons and limestone. In addition, guided by the NDP, the Ministry of Finance has started to make available sizable sums to state owned enterprises (SOEs) to enable them to rehabilitate their plant and equipment as it was neglected during the period of economic sanctions and/or damaged during the war. There is some evidence that suggests that the MIM's policy of attracting investment to rehabilitate SOEs may, in one or two areas, prove attractive to investors, provided agreement can be reached on labour use and other contingent liabilities. The deal signed with Lafarge is a prime example.

The pattern of foreign commercial activity also reveals three other significant trends that should inform the development of the industrial strategy:

- I. **The country of origin of investors is changing and becoming more diverse.** In earlier years, FDI in Iraq was dominated by countries of the Middle East with UAE, Lebanon and Jordan contributing the lions share. In 2010, firms from 34 countries announced that they were undertaking commercial activities in Iraq. This is an encouraging sign showing that firms from more and more countries now find it attractive to invest and work in Iraq. However, activity is still dominated by firms from Turkey, Italy, France, Korea and USA who together accounted for over 70% of the activity announced in 2010 (table 3).

Figure 5: Sources of Foreign Commercial Activity, 2010

Country	\$ (millions)	% Total
Turkey	14,883	34.9%
Italy	5,292	12.4%
France	4,243	9.9%
South Korea	3,269	7.7%
USA	1,997	4.7%
China	1,736	4.1%
UAE	1,318	3.1%
Canada	1,247	2.9%
UK	1,215	2.8%
Australia	883	2.1%
Russia	752	1.8%
Jordan	669	1.6%

Source: DFC, 2011

- II. **Foreign firms are being attracted to a wider range of governorates than in the past.** Much of the foreign activity reported in 2010 was concentrated in Baghdad, where government sponsored housing led the way, and around Basra where hydrocarbon and infrastructure investment were the drivers. As in the past, the KRG, with its relatively better security and pro-private sector policies, continued to attract the attention of foreign firms. What has been most encouraging, however, is the emergence of governorates such as Karbala, Maysan, Wassit and Najaf as centres of foreign commercial activity. This reflects the spread

of security in Iraq, the opening up of the oil and gas sector and a greater appreciation amongst investors of the economic strength of governorates such as Karbala and Najaf with their large religious tourism driven economies.

- III. **Deals are becoming more numerous and their average value is falling.** In the past, foreign activity in Iraq owed much to a small number of mega real estate projects valued at over US\$1 billion⁵⁵. The numbers of projects has increased and the average size has fallen from US\$683 million in 2009 to US\$320 million in 2010. This is a reflection of foreign firms becoming aware of a greater variety of opportunities and appreciating that the risk of investing and working in Iraq has fallen resulting in an acceptable trade off of reward to risk even if the reward from smaller projects is lower than from the large.

These three trends suggest that investment promotion has good foundations on which to build and, in fact, its importance is likely to increase. More effective provision of information on what will be a greater variety of small opportunities across the country will be necessary if the country is to build on the modest levels of actual FDI flows it receives at present. In addition, more effective investment facilitation could help to deepen the interest of firms from existing and new countries. Italy has established advisory centres to support its firms bid for work Iraq and this has paid dividends because the processes of doing business in Iraq remains opaque. The success of French firms owes much to the work of the previous French Ambassador in facilitating investment and bids for contracts. Both these examples highlight the importance of investment facilitation to overcome the difficulties of doing business in Iraq.

3.2. Other Natural Resource Based Industries

The review of foreign commercial activity highlights the role that natural resources can play in attracting private investment. The oil and gas and downstream petrochemicals and power generation industries are obvious examples. But other natural resources are also attracting investment such as the cement industry.

Iraq has a very wide range of minerals that can also attract investment. The presence of industrial silica and clay has given rise to a glass and ceramics industry and sulphur and phosphate are used to manufacture fertiliser. The country is also reported to have commercial deposits of iron ore, copper, barite and gem stones.

The presence of these minerals provides the basis of industries to serve the domestic market and to export any surplus. The local availability of raw materials is a huge source of comparative advantage in these industries.

In the past, Iraq was also a sizable agricultural producer and exporter of food products. The country's agricultural productivity was ensured by the presence of major rivers and significant quantities of good quality arable land. For example, as shown in the IM, it was the world's largest exporter of dates. The decline of agriculture has led to the country becoming a huge importer of food and even the date industry is in poor shape, unable to export to premium markets, as documented in the IM.

⁵⁵ This is documented in the Diagnostic Report of the IM, see Private Sector Development Program for Iraq, Investment Map for Iraq-Diagnostic Report, UNIDO, October 2010.

The revival of agriculture is taking place and there is some interest from foreign companies in investing in Iraqi agriculture.

Their appetite to invest is held back by the shortage of water for irrigation caused by countries upstream diverting water from the main rivers for their own use. Iraq is attempting to negotiate a more equitable agreement with these countries on the use of water from the rivers. Another constraint is the unavailability of land in significant quantities to make commercial farming worthwhile. It is likely therefore that investment in agriculture from foreign firms, looking to invest on a large scale, will remain limited for some time until the irrigation and land issues are addressed.

Nevertheless, there will still be significant opportunities for smaller scale investment by domestic investors. Already, provinces such as Erbil have shown that there is considerable scope for investing in the production of high value horticulture and livestock products to serve the domestic market. Though local produce may not be price competitive against imports, as shown by the profiles on dairy and meat in the IM, there is a premium available for fresh, local produce that makes such investment attractive. In the date industry, Iraq could regain its international status by supporting replanting of trees and investment in processing plants to improve quality. Agricultural investment is unlikely to match the huge investment in real estate, infrastructure or minerals, but it could be a significant source of small scale, domestic private investment.

Lastly, the country's resources include the natural and cultural assets needed for a sizable tourism industry. Already, religious tourism to the Shia holy shrines in Karbala and Najaf has made Iraq a major tourism destination in the region and worldwide. At present, such tourism is highly seasonal with low length of stay and visitor expenditure (see IM Tourism Profile for details). But the enormous pulling power of the shrines provides a foundation to add on better accommodation and cultural attractions and products that could increase expenditure per visitor dramatically

On the international front, the possibility exists to increase cultural tourism based on Iraq's exceptional heritage assets. However, such cultural tourism is unlikely to attract major investment in accommodation or attractions for some time: the cultural segment of the market, on its own, is relatively small world wide and heritage destinations benefit from joint packaging with sun, sand and sea, as demonstrated by Egypt. Iraq lacks the sun, sand and sea element of the package.

The country has witnessed also major investment in up market hotels to cater for business travellers and that is likely to continue with the economic revival of the country. There has also been some investment in the leisure segment of the tourism market, essentially catering for domestic tourists or overseas residents visiting friends and relatives. Such tourism is most evident in the KRG where security returned earlier. However, there are now boat tours and other excursions being offered in other parts of the country and weekend breaks using the country's lakes and mountains.

Whilst investment in tourism is unlikely to rival the quantum of investment in rebuilding the country's housing and infrastructure, or to develop its mineral assets, it is likely to offer opportunities for large numbers of local investors to invest in accommodation, attractions and transport/tours. It is worth supporting such investment essentially because it provides an avenue for fostering the country's weak private sector.

3.3. Economic Trends

The two main economic trends that have important implications for providing opportunities for private investment are:

- The increasing role played by public investment in driving growth. Public investment is providing opportunities for the private sector to rebuild the country including by supplying goods and services to industries benefitting from public investment.
- The growing importance of private consumption. This will provide major opportunities for suppliers of fast moving consumer goods (FMCG) and household appliances to invest in establishing manufacturing and distribution facilities in Iraq.

In recent years, investment has increased its share of GDP substantially. In 2006, total Gross Domestic Investment (GDI) represented 18.4% of GDP. By 2010, GDI represented close to 25% of GDP. Both public and private investment has increased but the lead role was played by public investment as it helped to catalyse private investment. It is public investment in housing, infrastructure and oil and gas that has catalysed foreign commercial activity in these sectors. In future, it will provide strong opportunities also for supplying the needs of these industries.

Thus, suppliers of contracting services and construction materials will have major opportunities to benefit from the boom in real estate investment; suppliers of design and installation services and equipment (e.g. transformers, cables etc.) will benefit from investment in the electricity industry; and suppliers of surveying, drilling and engineering services and equipment used by the industry (i.e. fabricated metal structures, rubber hoses, plastic containers and pipes) will benefit from investment in the oil and gas industry. The IM draws the attention of potential foreign and domestic firms to these opportunities for supplying goods and services to industries that are benefitting from large levels of public investment.

As the economy has recovered, both investment and consumption have increased, especially consumption. Although consumption expenditure has fallen as a proportion of GDP from 78.8% in 2005 to 61.8% in 2008, the amount spent on consumption has increased rapidly. In 2005, consumption expenditure was valued at US\$24.7 billion. By 2008, the figure had increased nearly 2.5 times to US\$58 billion⁶.

Private consumption expenditure has increased even faster than total consumption. Economic recovery and high levels of remittances from abroad have helped raise household incomes and this has enabled private consumer spending to increase dramatically. World Bank data shows that private consumption increased from US\$5.9 billion in 2005 to US\$26.6 billion in 2008, a 4.5 fold increase. Data from the Ministry of Planning confirms this sharp increase in private consumption.

The growth of consumption should have led to a major increase in domestic non-oil output as the nation's industries responded to increased demand for their products. However, the poor state of SOEs and weaknesses in the private sector noted earlier have meant that domestic output has increased but not as fast as consumption expenditure. The result has been that the economy has

⁶ World Bank, Interim Strategy Note, 2009.

been importing more and more to meet consumption needs. In 2005, imports were worth just over US\$18 billion. By 2008, the figure was US\$40.8 billion.

This sucking in of imports has caused much concern in Iraq with policy makers attempting to ward off a situation where the country simply uses its oil revenues to import goods and services. There have been calls for greater protection of domestic industries.

However, unless domestic capacity to produce is increased, there would be little point in increasing protection. Further, the gap in competitiveness between Iraqi and international industries is also very large so protection would have to be very high in tariff terms to make Iraqi goods competitive. This is not just a matter of price competitiveness but also of the quality of products. Many Iraqi products fail to meet international standards.

The more sustainable solution to the sucking in of imports lies in attracting foreign and domestic investment to seize the opportunity provided by markets currently served by imports. Attracting foreign investment that can help to transfer technology and business models that can help to close the gap in competitiveness would be especially effective as it may, in turn, make domestic investment attractive.

An example of how FDI might help catalyse domestic investment and bridge the competitiveness gap, taken from the IM, is provided by the dairy industry. The price of raw milk at the farm gate in Iraq, though not the cheapest worldwide, is not uncompetitive against many countries. However, the absence of efficient networks to collect raw milk efficiently, whilst coping with the high ambient temperatures prevailing, leads to the price of raw milk at the factory gate being much higher than international levels. At the same time, the SOEs in the dairy industry are not competitive in producing high quality, branded products.

So, attracting a foreign producer of high quality, branded, dairy products, that can invest in organising an efficient collection systems for raw milk using refrigerated collection points, could transform the dairy industry in Iraq. It would provide the incentive for domestic investment in dairying and would transfer the technology and business model for operating chilled milk collection centres to the domestic industry enabling it to become more competitive.

No doubt the most immediate opportunities lie in FMCG products that can source raw materials in Iraq. Such products have a huge amount of natural protection available because of the high cost of transport faced by imports. For instance, as set out in the profile on beverages in the IM, the cost of transporting a truck of bottled water from Jordan to Baghdad is now US\$1,900. This has made imports from Jordan, which once dominated the Iraqi market, too expensive. Imports through over congested Iraqi ports also face high port handling charges and delays and the cost of transport from Basra to Baghdad is also high.

The market to supply bottled water to Iraq's rapidly growing population that has little access to safe water from the public water supply is therefore very attractive. The price of imported bottled water is high and domestic competition limited. Such arguments apply also to the whole range of food and beverages that could be produced in Iraq using local agricultural products. Pasta products produced from locally grown and milled wheat are an obvious opportunity to which investors are now beginning to respond.

In addition, there are also a range of household appliances which can be assembled competitively in Iraq. 'White goods' such as refrigerators, washing machines, dishwashers are obvious examples. The more bulky housings for these products can be manufactured in Iraq. Iraqi wages, though not as low as in China, are certainly lower than European wages and there is a good track record of assembling good quality products in Iraq. The recent investment in the assembly of buses and trucks by several leading European automobile manufacturers is testament to the economics of domestic assembly.

One other economic trend that will provide major opportunities for private investment is the rehabilitation and restructuring of SOEs. These opportunities may take one of two forms:

1. With government revenues now in much better shape, the Ministry of Finance is providing finance to the SOEs to invest in capital equipment and services needed to rehabilitate and/or restructure their operations. The tendering for contracts to supply goods and services to the SOEs will provide major opportunities for foreign and domestic investors.
2. The ministries responsible for the SOEs, especially progressive ministries such as MIM, are keen to attract investment into the SOEs. To date, they have chosen to offer mainly production sharing agreements to private investors but there could be a wider range of opportunities on offer now that the GoI is also able to invest alongside the private investor. Certainly, if the major constraints to restructuring, such as how to deal with surplus labour employed by the SOEs, could be dealt with, then the current limited interest from investors could be increased dramatically. As noted earlier, it looks as if the interest in investing in some parts of Iraqi industry, through SOEs, is increasing.

Thus the major opportunities for investment in Iraq come from the need to rebuild the country's housing and infrastructure and to develop its huge oil and gas reserves. Much of this activity is being led by public investment and/or the letting of concessions by the public sector. In turn, this offers major opportunities for suppliers of goods and services needed by these industries to invest in Iraq. Iraq's natural resources offer also major opportunities for the downstream processing of petrochemicals, producing all three types of fertiliser (nitrogen, phosphates and potassium), the manufacture of cement and glass and ceramics. And the country has the water and climatic conditions to resume its place as a major regional producer of food and beverages, manufacturer of other FMCG products, assembler of household appliances and to build on its substantial tourism assets.

The profiles of sectors, provinces and projects produced for the IM were selected to enable the NIC and PICs to promote these major opportunities.

4. Key Elements of the Investment Strategy

Having identified the major opportunities, the second question that needs to be answered is how can the country position itself to maximise the potential investment into priority industries? Iraq competes with its neighbours and countries with similar natural resources and is not unique in offering sizable markets with growth potential. It, therefore, needs to ensure that it is able to out-compete its rivals in attracting investment.

No doubt there are many factors that potentially make Iraq an attractive place for private investment for the long term. The large and rapidly growing population with its high proportion of young people and its relatively modest levels of per capita income for a major world exporter of oil and gas are the two stand-out factors. However, as the current modest levels of private investment show, it cannot be assumed that such potential will automatically lead to major investment.

In examining what is needed to help realise the undoubted potential of the country to attract private investment, it is important to understand what motivates private investors. In summary, private investors seek to maximize *the risk adjusted rate of return on investment after tax*.

Prior to adjusting for risk, investors will look at the scale of opportunity to earn high returns. This may come from demographic or economic factors. Certainly, the potential size of an economy, and hence markets within it, is a major explanatory factor in accounting for world FDI flows as evidenced by UNCTAD and many academic researchers. In addition, the presence of raw materials, cheap labour, land or capital, a low cost base, the absence of competition that provides scope for first mover advantage and other project specific factors, add to the scope for earning attractive returns to investment.

However, once they have assured themselves that there are attractive returns to be had from a potential investment; investors turn their attention to the risks involved in the investment. In general, these can be of three types; i) general macro level risks brought about by the investment climate; ii) risk at the sector or industry level, including potential policy or regulatory risk; iii) project level risk brought about by uncertainties in the market or the timing and cost of project implementation. Only after considering the level of risk adjusted rate of return on offer do investors consider the rate of taxation or the possibility of tax exemptions⁷.

So, what investors are looking for is a good rate of return, a low risk environment and, only then, a favourable tax regime. The role of an Investment Strategy is to help bring about the conditions that they are looking for.

To gauge what is at stake in developing and implementing a sound Investment Strategy, we have analysed the consequences for the Iraqi economy and work force of three scenarios: 1) business as usual without an Investment Strategy in place; 2) where, using the Investment Map, the NIC and PICs engage in pro-active investment promotion and 3) realizing Iraq's potential by implementing an Investment Strategy. The last one sets out how Iraq could benefit from an Investment Strategy.

1. Business as usual (do nothing): Iraq will continue to attract investment in three main categories because they offer high rates of return: i) investment in housing and infrastructure as a result of government expenditure; ii) oil & gas and other natural resources; and iii) consumer goods where the country's industries can source raw materials locally and/or there is natural protection from imports (through transport and logistic costs. This scenario will likely lead to the following results:

- Foreign investment will still be concentrated in a few industries;
- Investment climate constraints and limited technology transfer will hamper the growth of the domestic private sector.

⁷ See for Instance, The role of Taxation in Attracting FDI into Eastern Europe, OECD, 2003.

- Iraq will continue to rely on imports to meet domestic needs.
- Iraq will not be known as a production base for manufacturers and will not be able to compete in all but a few export markets.
- Much of the investment in key infrastructure industries such as housing, electricity and transport will have to come from Government.
- The number of jobs and investments created by the Iraqi private sector will be low condemning many young people to unemployment.

Overall GDP will remain dependent on oil. The current volatility of GDP, caused by the volatility of the oil price, will continue. The economy will be narrowly based and fail to deliver the prosperity that the people of Iraq are seeking.

2. Pro-active investment promotion: In this scenario, the NIC and PICs will engage in generic and targeted investor mobilisation using the Investment Map suitable widened and deepened by other studies and their own effort. Under this scenario Iraq is likely to experience the following:

- Iraq will attract FDI into a wider range of industries
- Industries attracting foreign and domestic investment will include areas that Iraq can be competitive in, such as the manufacturing of natural resources and food products, a wider range of consumer goods and manufactured consumer durables and services to support investment in infrastructure and housing.
- Growth will be broader based
- More technology transfer from foreign investors will lead to more capability in the domestic private sector
- However, Iraq will not have addressed the fundamental causes of low competitiveness.
- Iraq will still be perceived as a difficult place to do business with slow investment climate reforms, opaque policies and weak competition.
- Despite growth being broader based, Iraq will continue to rely on oil and therefore will continue to be subject to volatility of growth.
- Not enough jobs will be created for the rapidly growing work force.

Iraq would be able to use and expand the Investment Map to highlight available opportunities to investors, and to engage in pro-active targeted promotion, by identifying investors and approaching them with opportunities. It would be able to tell more positive stories to counter the negative perception of the country in the outside world. But, in the end, the poor investment climate and lack of competitiveness will continue to hamper the country from fulfilling its full potential.

3. Developing and Implementing a coherent Investment Strategy

In this scenario, the country is able to develop and implement a sound Investment Strategy alongside and coordinated with the development of an Industrial Strategy. Improving the Investment climate and business environment will facilitate investment and send positive signal to investors. Iraq will also make progress in addressing issues of security and corruption. It is expected that a series of actions will be taken simultaneously:

- Pro-active promotion as in scenario 2

- More transparent, less discretionary regulation and investment processes improve investment facilitation.
- A series of quick wins in regulation that can improve investment climate in the short term, such as business registration, reducing the number of permits etc. to improve the business environment.
- Changes to sector policy that reduce bottlenecks to competitiveness and the incentive for to investors are implemented for the priority industries
- Improve infrastructure and access to finance.
- The Industrial Strategy helps to build support infrastructure (skills, standards, research and development etc.) that addresses the competitiveness of priority industries.

Under this scenario, the following outcomes are likely:

- Iraq will attract foreign and domestic private investments in a much greater variety of industries.
- The improved risk adjusted rate of return for investors will mobilise much higher rates of private investment that will make the private sector the driver of growth
- Private sector capability will grow rapidly spurring entrepreneurship and creating more jobs.
- Iraq will depend less on volatile oil price and will be able to deliver broader and more sustained growth.

Clearly, scenario 3 is a major step up from the others and the only scenario that delivers prosperity for the people. In this section, we set out what needs to be done for Iraq to fulfil its potential for generating the substantially higher levels of private investment it needs to become a diversified, private sector led economy able to generate jobs for its young and growing population. The actions needed are presented under the following five headings:

1. Investment Promotion: what needs to be done to make investors aware of the potentially high levels of returns that Iraq has to offer;
2. Improving the Investment Climate to reduce macro level risks
3. Ensuring transparency in sector policies and regulation;
4. An industrial strategy to improve competitiveness; and
5. Improving investment facilitation to minimise project risk.

4.1. Investment Promotion

Given Iraq's recent history, negative perceptions of the country abound. These perceptions concern economic, political and social stability, security, corruption and the lack of a level playing field, the state of infrastructure, the true cost of doing business because of opaque policies and bureaucracy and so on. These negative perceptions tend to magnify risk in the minds of investors outweighing the potential returns to investment.

In addition, there is considerable ignorance with respect to the strong economic and demographic fundamentals of the country and the opportunities they provide for profitable investment long term. Moreover, at the level of individual sectors and industries, provinces and projects, there is a real

scarcity of hard, credible information that investors can trust without having to pay huge sums for bespoke research or expensive specialist industry research, when such is available.

Combatting negative perceptions depends, in the end, on addressing the investment climate constraints that matter for investors. Improvements in the country's position in influential indices that measure transparency and corruption, the cost of doing business and the availability and cost of infrastructure etc. will be far more effective than any communication through the mass or targeted media.

Nevertheless, there is something to be gained from better provision of information on conditions in the country bringing to the fore positive developments such as the improved political, economic and security situation. Showing what lies behind adverse news can help to allay unnecessary fears. For instance, highlighting the targeted nature of the recent wave of violence and its links to political uncertainty could dissuade investors from jumping to the erroneous conclusion that Iraq was reverting to the pre-2008 levels of sectarian violence.

Further, there is much to be gained by publicising the actual processes and procedures of dealing with the government and its bureaucracy. Such information should help to make more transparent what seems to investors to be opaque and hence prone to corruption. This should go beyond the description of obtaining licenses and business registration to the actual processes by which investors can take part in major tenders and the approval criteria for contracts and concessions.

In addition, there is a need to highlight the opportunities for profitable investment in Iraq. Highlighting economic and demographic fundamentals that underpin the country's future prosperity, opportunities in the major sectors and industries, special features of particular provinces and the types of project opportunities that exist can go a long way to addressing current ignorance. The fact that foreign investment is so concentrated amongst a few countries provides the evidence needed to show how worthwhile such investment promotion efforts could be. This is what the IM is meant to contribute to.

In general, investment promotion agencies such as the NIC and the PICs undertake investment promotion of two kinds:

- Generic investment promotion which is largely focused on promoting the country and takes the form of informing investors of why the country offers the potential for high risk adjusted rates of return to investment, the major opportunities available (in sectors, industries and provinces) and familiarising them with the processes and procedures for investment. This often takes the form of mass media communication, road shows and investor workshops and communication using web sites and materials (audio visual and printed) distributed by the agency.
- Targeted investment promotion whereby, having identified the opportunity, the agency progressively promotes it to a range of investors it has identified as having the credentials to make a success of it and/or deliver gains (i.e. technology, business model) that would benefit the country. This takes the form of industry specialists establishing and cultivating points of contacts within selected firms and progressively helping them through the decision making process for investment by providing information, arranging for visits to the country to look

for potential sites, facilitating research etc. until the point that the firm decides to make the investment and can be handed over to an investment facilitation unit.

The NIC and the PICs should be able to use the IM for both types of investment promotion. The Why Invest in Iraq section, the section on the economy and the sector, provincial and project profiles provided useful material to upload onto the NIC website, incorporate in communication materials and to be used in more active generic promotion (i.e. for road shows). The industry, provincial and project profiles should be used to help identify a list of investors for pro-active targeting and to generate interest through sending them investment profiles and other information interest so that they are persuaded to take a more in-depth look at the opportunity in Iraq.

It must be noted that, in the end, no matter how detailed a project profile is prepared by the agency, investors will not invest on the basis of information and analysis prepared by others, especially an investment promotion agency. If they are interested, they will undertake their own investigations on the ground to deny or confirm the material provided by the agency and to assess the returns they are likely to earn based on their particular technology, business model and operational parameters.

Hence, the main role of the profiles presented in the IM is to elicit sufficient interest to persuade investors to undertake their own studies of the likely returns to the investment opportunity. Nevertheless, they are vital assets in the promotion of investment using generic and targeted promotional methods.

Over time, the NIC and the PICs should invest in keeping up to date the IM and its profiles and, if resources permit, to broaden its scope to other sectors, provinces and projects. How this can be done cost effectively is set out in the concluding section of this document.

4.2. Improving the Investment Climate

The first level of risk that investors look to is at the macro and country level. They start by assessing the political, economic and social stability of the country, before turning to investment climate factors.

The country has made impressive strides in terms of stability. Even though it took months to achieve, the political settlement reached at the end of last year showed that Iraq had embraced democracy and its political elite are prepared to compromise in the interest of national unity and stability. This reassured many investors.

In its Second Review under the Stand By Arrangement for Iraq, in March 2011, the IMF expressed its satisfaction with the progress achieved to ensure economic stability: inflation was in low single digits; the budget deficit high, but less than expected and likely to disappear as oil revenues increased; monetary policy was being conducted effectively by an independent Central Bank of Iraq; the exchange rate was stable; and international reserves were higher than expected as a result of stronger export revenues.

Although social stability was undermined by the recent wave of violence, that violence largely resulted from the political impasse. It has died down after the formation of the new government that brought together representatives of both the Sunni and Shia populations.

Thus, as noted in the Diagnostic Report of the IM, the major investment climate concerns in Iraq are security, corruption, infrastructure, access to finance and complex business regulations and opaque policies.

Security is by far the most important issue impeding private investment and hampering the development of Iraq as a country. According to an EIU survey published in 2010, where 367 senior executives from 52 countries were questioned about their perceptions of investment in Iraq, 67% of respondents said security was the biggest deterrent to investment in Iraq. This was followed by corruption (44%), and the lack of infrastructure (35%).⁸ Security pervades every aspect of investment increasing the cost of investment and affecting key operational parameters such as transport costs.

The authorities are making major investments to improve security, especially in the light of forthcoming troop reductions by the US. However, politically motivated violence in the middle of last year detracted from the strides that had been made in the past. The authorities will need to give the security situation the top priority if private investment is to increase.

Corruption is the second biggest constraint to investment in Iraq and, similar to the security situation, it pervades every level of government. Transparency International's *Corruption Perception Index* rates Iraq as the 4th most corrupt country in the world, with a score of 1.5.⁹

Corruption is thus endemic and accepted, impacting all areas of business and finance and reducing competition through price wars at chokepoints that require payments to penetrate. The USAID *Tijara Market Assessment Report* states that [among small and medium enterprises], *'a frequent complaint has been the overwhelming presence of corruption throughout the value chain, from the complexities of the registration process, through the acquisition of materials and supplies, through sales to SOEs and major purchasers, to the banking structure'*.¹⁰

Corruption is proving hard to tackle despite the government establishing bodies to investigate and punish offenders. It is made easier by the country's complex regulations and opaque policies that grant considerable powers of approval to bureaucrats and politicians. There is also evidence that it is ingrained in the norms of doing business so that those awarded loans or given contracts are expected to provide (illegal) payments.

Given its current pervasiveness, addressing corruption will take time. The investment promotion agencies can, in the interim, play a useful role in combatting it by supporting efforts to make regulation less complex and policies and processes less opaque. They can also provide information on policies and regulations and processes for obtaining licenses and participating in tenders thus helping investors to deal with the bureaucracy. Their efforts should aim to limit the discretionary power of bureaucrats and politicians so that their scope for earning rents off investors is diminished.

The third largest impediment to investing in Iraq is the lack of infrastructure. 78% of SMEs surveyed in Baghdad responded that their businesses were seriously affected by the lack of electricity. Supply is unreliable, and high rates are charged by private suppliers (see IM profile). Also, 3 phase supply is

⁸ France 24 "Iraq investors wary but optimistic: survey" (23rd Aug 2010)

⁹ Transparency International "Corruption Perception Index" (2009)

¹⁰ USAID p.27, "Baghdad – Tijara Market Assessment Report" (Dec 2009)

not available, which impacts manufacturing enterprises that have to use machinery needing 3 phase power. The lack of reliable electric supply affects productivity of all industries.

Besides electricity, other areas of infrastructure provision seen as particularly lacking are transportation, communications and water. Broad based private investment, beyond a few industries that offer very high returns (e.g. oil and gas, housing), will not take place unless these issues are addressed by the Government.

Government has budgeted huge sums for investing in the country's infrastructure. However, to date, progress has been slow. Last year, the absence of an effective government for much of the year was a major obstacle to decision making. Pressure is mounting on government to deliver against the promises made by politicians. Each summer, the lack of electricity is felt acutely by the populace resulting in street protests.

One of the main bottlenecks to progress remains the absence of a clear policy towards the key infrastructure sectors. In electricity, for instance, there is no national policy on IPP and key parameters such as the price of oil and gas and feed-in tariffs to supply the national grid are yet to be agreed.

Even when government seeks to let contracts to rehabilitate publically owned power plants or establish new ones, there is a lack of clarity on the criteria that will be used to award contracts. Under the guidance of UNDP, to make any sort of progress at all, what has emerged is, in effect, case by case policy making. Such an arrangement requires huge to-ing and fro-ing between the government agencies (NIC and MoE) and potential investors to seek clarifications and negotiate agreements all of which takes time. Moreover, without objective criteria, decisions can only be made at the highest level (i.e. ministers) and that causes delays.

To make the process quicker and more transparent, government has to adopt clearer policies addressing the main issues for investors in each infrastructure industry as set out below. Until that happens, however, Iraq's damaged infrastructure will remain a huge impediment to investment, especially in industry.

As noted in the Diagnostic Report, access to finance is a major constraint to domestic private investment. At 4% of GDP, the ratio of private credit to GDP in Iraq is amongst the lowest in the world. The entry of many new banks has not helped to increase the availability of credit to the private sector. The state owned banks remain dominant in the mainstream commercial banking market. The new entrants have mainly focused on lending to government and niche segments of the market. The inefficiency and risk aversion of the state owned banks helps to constrain the availability of credit.

To mitigate this constraint, ministries, such as the MIM, run programmes to finance SMEs providing loans at preferential rates. These programmes are, however, relatively small in scale and hence not sufficient to ease the constraint. Efforts by USAID and others to address SME financing have also not been of sufficient scale. It requires effective government policy, developed and implemented by the Central Bank of Iraq, to change the situation dramatically.

As the security situation has improved, so investors have started to focus more on other issues. Increasingly, their focus has turned to the unsuitability of laws and regulations for doing business. In

its recent Investment Climate Statement assessment, 2010 on Iraq, the US State Department states *“Investors still note security concerns, but now are more likely to cite regulatory hindrances and other practical barriers to doing business.”*

The licensing regime is complex involving several government agencies, the registration process is lengthy involving many steps and there are problems in every one of the 10 indicators of the cost of doing business. Despite recent reforms, Iraq ranked 166 out of 183 countries in the World Bank Doing Business Report, 2011.

This is an area where the investment promotion agencies can play a huge role to improve the investment climate. They are involved as both regulators and investment facilitators. For example, all large scale investments need to be licensed by the NIC and smaller scale ones by PICs. To obtain a license, investors have to submit a business plan that must be vetted for viability by the concerned agency all of which makes huge demands on the scarce resource of appropriately trained staff. The investor still needs to obtain industry specific licenses.

The Iraqi system is similar to systems operated in several countries of the Middle East including Egypt. However, they are a throwback to a time when investment promotion agencies offered huge tax concessions for suitable investors. Countries that have moved away from such systems have made tax policy less discretionary and done away with the need for general business licensing. They have reaped the reward of much faster, less costly and less risky business formation and hence increased private investment.

4.3. Transparent Sector Policy and Regulation

The example above of lack of clear sector policy is the tip of an iceberg. In almost all the industries covered by the IM, there are major policy and regulatory issues that must be addressed to increase private investment. A few examples, taken from the major opportunities for investment are:

- Housing: difficulties in obtaining land for construction with the state owning much of the prime land, opacity of policy in zoning and obtaining regulatory approvals (i.e. construction permits) poor institutions for registering property etc.
- Electricity; lack of clear policy on IPP and opacity of criteria for awarding publically funded contracts.
- Oil and gas: lack of clarity on legal basis of awarding contracts. There is a case before the courts that could render all contracts awarded under previous bidding rounds invalid.
- Roads: policy stance precludes private financing of roads.
- Petrochemicals: A transparent policy towards the price of oil and gas used as feedstock.
- Cement: A stable and consistent regime for the award of concessions and the payment of royalties that provides a level playing field for investors in SOEs and green-field ventures.
- Telecommunications: Unclear division of tasks and authorities, overlapping roles and responsibilities between the Ministry of Communications and the Communications and Media Commission. Joint venture ownership and cost of licensing varies by contract.
- Fertilisers: Weak inter-ministerial partnerships between the Ministry of Oil (for inputs), the Ministry of Agriculture (main purchaser) and the Ministry of Transport (for infrastructure).
- Financial Services: lack of interbank lending and state control of banking system.

If proof is needed of what a more transparent policy and regulatory framework could achieve, it is to be found in the experience with ports. The establishing of a system of tendering for concessions, under a clear policy, has led to the major investment at al-Faw. Similarly, the clearer policy towards IPP adopted by the KRG has enabled that region to make more progress towards meeting its power needs than the rest of the country.

In addition, there is a need for more joined up policy between the Key ministries. So, for instance, the MoO and MoE need to coordinate policy with respect to the pricing policy of fuel oil and gas supplied to power producers, the MOO and MIM on the pricing of gas supplied to downstream fertiliser and plastics factories and the MIM and Ministry of Agriculture on how to promote greater supply of agricultural raw materials for industry at competitive prices.

4.4. Improving Competitiveness: Links with the Industrial Strategy

At present, the bulk of investment is public sector driven or is confined to a few industries that produce goods and services that are not traded internationally or exploit Iraq's natural resources. This is because, in many instances, Iraqi industries are unable to compete in the domestic market let alone internationally. Ultimately, in goods and services that are traded internationally, the rates of return on offer to investors depend upon the ability of the country to produce goods and services at an internationally competitive cost. So many industries do not offer attractive returns to investors.

If the country is to diversify its economy to become less reliant on oil and gas, develop its private sector and create jobs for its young population, a major initiative will be needed to improve competitiveness. This will call for benchmarking of Iraqi industries against international competitors to assess the extent of the gap in competitiveness and identify the main causes of inability to compete, for instance, higher costs of factors of production (land, labour and capital, disadvantages in costs of raw materials or infrastructure, lower productivity etc.

Such analysis can then lead to a programme of action to improve competitiveness. Whereas programmes of action will need to be tailored to each industry, the types of actions that may be required are:

1. Changes in policies, regulations and institutions. The examples above of measures required to make policy and regulations more transparent should be regarded as a minimum of what is needed. For key industries, there is a need for more pro-active policies that enable the country to take advantage of its comparative advantage. For example, in the case of petrochemicals, policies are needed for the pricing of feedstock, for the availability and pricing of power, for the use of foreign, skilled labour and the training of Iraqi personnel that will help to make Iraq a major international exporter. Such pro-active policies will need to be informed by practices in competitor countries.
2. Public private Partnerships to address bottlenecks in the value chain. The benchmarking exercise will highlight functions in the value chain that are the main cause of loss of competitiveness. The programme of action will require a partnership between the public and private sectors to address them. For example, public investment may be needed to address the lack of electricity that is hampering the competitiveness of manufacturing or improved road access to reduce transport costs. Or, the private sector may need to invest in

improving the efficiency of their operations, for instance, by improving their raw material collection systems, production systems or distribution systems.

3. Greater investment in modern technology and better business models. Much of Iraq's state owned industry cannot compete because the plant and equipment used is old and out-dated. In several instances (e.g. glass, petrochemicals), plants are well below modern economic scale. And, as illustrated by the dairy industry, the lack of suitable business models (i.e. milk collection points linked to dairies), can undermine underlying comparative advantage. What is needed to address this is to promote suitable foreign and domestic investment.
4. Improved research and development (R&D) and support for innovation and technology transfer. Over the years of economic sanctions and wars, Iraq's R&D system, comprising universities and research institutes, has been seriously undermined. With the SOEs unable to invest, the process of innovation and technology transfer from abroad has virtually ceased. So there is a need to rehabilitate R&D systems and strengthen the links between Iraqi businesses and foreign technology institutes and suppliers of technology.
5. Strengthening the country's standards, quality, accreditation and metrology systems. These too have been neglected and are barely functioning. Improving these systems is crucial if Iraqi firms are to close the current huge difference in the quality of their products versus international competitors. The attainment of quality (e.g. ISO 9000) and food safety certification (HACCP) is increasingly a requirement for firms to be able to supply international markets.
6. Investing in the skills of the work force. The country's system of technical and vocational education and training (TVET) also stopped functioning effectively so the skills of the work force are out dated. Establishing a system of TVET that is responsive to the needs of employers is a key requirement for improving competitiveness.

The MIM, with the support of UNIDO, is undertaking the preparation of an industrial strategy for Iraq. The aim is to establish working groups that will steer the preparation of a national industrial strategy that prioritises industries and sets out what is needed to improve competitiveness across industry as a whole. Working groups will also set out the programmes of action needed to improve competitiveness in the priority industries.

The Industrial Strategy will be a vital tool for increasing competitiveness and investment. The process of preparing the Industrial Strategy should therefore be supported strongly by the investment promotion agencies.

4.5. Investment Facilitation

The difficulty of doing business in Iraq is reflected in Iraq's rank of 166 out of 183 in the World Bank's Doing Business report. For starting a business, the country ranks 174 out of 183. Indices such as Doing Business often fail to pick up the true obstacles to investment in a country such as Iraq where it is not just the need to comply with regulations that hinder investment but the actual processes of winning contracts, obtaining rights to land and property and securing agreements to use natural resources that are bigger obstacles.

The need to overcome the bureaucratic obstacles has been recognised by the investment promotion agencies: for instance, NIC has established a one-stop-shop for this purpose. The goals of the one-stop-shop are to:

- Process investment applications in a single easily accessible spot
- Create a single clearinghouse where investors can get answers to all their questions
- Streamline the investing process by clarifying legislation, and improving service quality in registration, licensing, permitting, and land allocation
- Provide investors with pre-approval support including approval facilitation, local partnering, and information on markets, sectors, and investment incentives
- Provide post-approval support including permits application, equipment and raw material import, and profit repatriation

Because of the pressure on resources, NIC's one stop shop is largely concerned with the processing of applications for licensing and providing post approval support. Its ability to provide the type of pre-approval support that investors need is limited. For example, access to information on markets and sectors is limited which is what prompted the preparation of the IM. In addition, it has not been able to guide investors on participating in the procedural aspects and selection criteria for several major tenders, including the ones it has been involved in, essentially because there was a lack of clarity over them in the sponsoring ministry.

Whilst the capabilities of PICs vary tremendously, in general, the PICs are much weaker than the NIC. As a result, most limit themselves to the issuance of business licenses. Most lack information on markets and investment opportunities in their governorates. They are also hard pressed to help investors through the complex labyrinth of bureaucracy in Iraq let alone partner with local investors or to prepare for bids. This is why the Italians have chosen to establish investment facilitation centres in selected provinces to serve the needs of their businesses and the French have majored on supporting their businesses.

From an Iraqi point of view, the greater the number and diversity of investors, the better in fulfilling the objective of increasing the quantity and quality of private investment. So, there is much to be gained by strengthening the investment facilitation function of the NIC and the PICs. They must be able to provide the pre and post approval support that helps reduce the time and cost of preparing to invest in Iraq.

The one stop shops need to become just what their title suggests: a single point at which investors can get all the permits and licenses they need to operate a business. Thus, at the national level, the representatives of the company registry, key ministries and agencies involved in issuing permits and licenses, the providers of utilities and people trained in the procedures for registering property and complying with governorate and municipal level regulations should be on hand to guide investors through the process of starting their business in Iraq. All national agencies and ministries involved should operate within timeframes for reviewing applications set out in law, as the NIC does under Investment Law No: 13. Similar arrangements are needed at the governorate level.

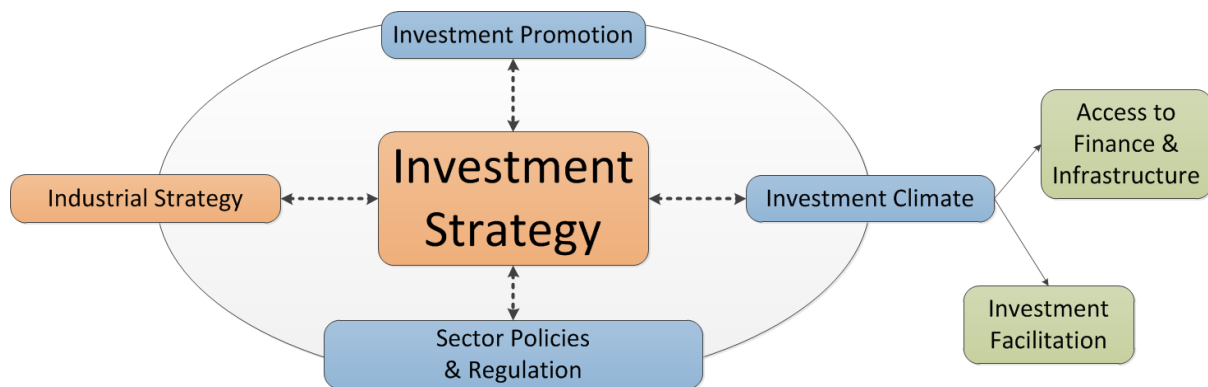
In addition, as per the goal set by the NIC, all investment promotion agencies should be involved in streamlining the investment process by helping to increase the clarity of legislation and improving standards of service. In Iraq, as in other countries, bureaucrats will not willingly agree to give up

their regulatory powers. They will need to be persuaded to do so. The investment promotion agencies need to join with the private sector in demanding such improvements as they share the common interest of increasing investment.

4.6. The process

We set out below the process that we suggest for developing and implementing the Investment Strategy.

As illustrated in the figure below, the Investment Strategy needs to be shaped by and influence all the five elements. It is a mechanism for coordinating them and ensuring that lack of progress on one or more elements does not hinder progress on the others. Moreover, what the figure shows is that the process of development and implementing the Investment Strategy involves more than the one-off production of a document or the declaration of a policy. It is an iterative process of identifying what needs to be done across the five elements, making progress on the agenda for changes identified and then revisiting what needs to be done next until the country is able to reach the target of private investment exceeding 20% of GDP that its comparators have achieved.



Because the task involves a wide cross section of ministries and public agencies and requires oversight across the public and private sectors, it is advised that the task of preparing the Investment Strategy should be undertaken by a high level body. It would appear appropriate that the task be entrusted to the Task Force on Economic Reforms. It has the authority to coordinate reforms across the public sector and a mandate to create the conditions for private sector led growth.

The Task Force on Economic Reforms needs to appoint an Investment Strategy Task Team to be the focal point for the development of the Strategy. The Task Team would be an ad hoc body but able to sue the delegated authority of the Task Force to prepare the Investment Strategy. Such a team can be drawn from across the public and private sectors made up of individuals that have the required areas of expertise. Clearly, the NIC must play a prominent role but it is essential that key ministries such as oil, electricity, housing, transport, commerce, industry and the central bank are involved. In addition, it would be hugely valuable to have private sector representation on the Task Team including the Iraqi Federation of industries and selected individuals from the financial sector.

The Task Team should be assisted to fulfil its task by commissioning a firm or group of experts to undertake the data collection, analysis and evaluation of policy options. The team of experts need

not be large but it should be high powered comprising individuals knowledgeable about Iraq and those with international experience.

The Investment Strategy Team will undertake the following tasks;

- Based on the elements above, the Team should work out a plan for action; identify priorities of intervention across different areas.
- There are already initiatives on the way to reform Investment Climate, initially marked by the establishment of one-stop shops, National and Provincial Investment Commissions, and attempts in improving regulatory environment. The Team need to make sure that these initiatives inform the Investment Strategy and vice versa.
- On-going work under PSDP-I on policy and regulatory reforms needs to take on board findings from the Investment Map and needs to be informed by the role of the NIC regarding Investment Promotion and facilitation.
- The MIM working groups responsible for developing the Industrial Strategy, supported by UNIDO, have to take into account the Investment Map's findings on investment opportunities and in return feed into the Investment Strategy the priorities for investment that will help to unlock the competitiveness of Iraqi industries
- The Investment Map has gathered materials for both generic and targeted Investment Promotion. As this work is carried out by the NIC and PICs, the Investment Strategy Team needs to be informed of progress and the key bottlenecks for mobilizing investment so that they can be addressed by the Investment Strategy
- Most importantly, the Team needs to coordinate with other initiatives that are taking place in Iraq to better construct the Investment Strategy, such as Booz Allen's work on Iraq's Integrated National Energy Strategy and work under the PSDP-I.
- The Team will need to set out priorities for policy reforms for the Task Team and to set out the options for policy change. It will need to evaluate the policy options but leave it to the Task Team to make the key decisions to ensure local ownership.
- It will need to synthesise findings and agreed policy changes and document the Investment Strategy.

We do believe it worthwhile to finalise and publish the Investment Strategy. It will provide a good signal to investors of the policy direction that government will take. It is worth reiterating, however, that the development of the Investment Strategy should not be a one-off action. Investment Climate reforms take a long time. There are short term wins but policy needs to respond to changes in economic conditions.

An Investment Strategy is therefore very much a "live" product that needs to go through several re-iterations before its objectives are achieved (i.e. private investment reaches 20% of GDP). Going through the process will help Iraq understand better where it wants to be in the medium and long term and what it needs to do to get there.

5. The Role of the Investment Map

The IM that has been prepared for use by the NIC and the PIC can serve as a vital instrument of the Investment Strategy. It has a role to play in two key aspects of the Investment Strategy: i) investment promotion and; ii) improving competitiveness. Further, it may serve the key purpose of

servicing to provide a baseline for monitoring progress on key aspects of both the Investment and Industrial strategies, as set out below.

5.1. The Investment Map and Investment Promotion

The IM's section on Why Invest in Iraq is meant to add to what the NIC currently uses, at the outset, to attract the attention of foreign investors. It supplements what is presented under Why Iraq in its website. Also useful for generic investor promotion is the section of the IM on Economic Trends that can be used to add to the Iraq Overview section on the NIC website. It sets out the evidence of Iraq's growing economic stability and the scope for private investment to increase.

The sector, provincial and project profiles can be used to add to the information that the NIC website presents on sectors of the economy through its website. They can be used also to prepare communication materials for use in generic investment promotion. Not all the information presented in the profiles need be uploaded in the website. The more detailed information on the market, the current supply base, potential Iraqi partners for foreign investors and the regulatory regime may be provided to investors as part of the pre-approval flow of information to investors during the pre-approval period.

The profiles can really start to add value, however, if they are used for pro-active investor promotion. The sector profiles set out the opportunities that are available for investment. They also point to the attributes needed for an investor to be successful in Iraq such as the ability to manufacture branded, high quality products, knowledge of particular technologies or ability to introduce new business models. The NIC, and selected PICs, should use this information to develop criteria to screen potential investors to identify those most able to contribute to the development of Iraqi industries.

Having developed the screening criteria for each sector, a simple consultation of international directories that list and profile the leading firms in the industry should help to provide a long list of potential investors to target. When this has been arrived at, initial contact may be made to introduce the opportunity to invest in Iraq to them. That may be followed up by sending detailed sector profiles.

5.2. The Investment Map: A tool for improving competitiveness

Potentially, there are two ways that the IM can help to improve competitiveness: i) by mobilising the type of investment in new technologies and business models that Iraq's industries need to become competitive and; ii) to help partner international investors with local businesses thereby helping to transfer technology.

The first of these potential contributions is best realised by the type of strategic investor targeting set out above. NIC can chase the right type of investor from the outset knowing that success will not only contribute to higher private investment but will also help to make Iraqi industry more competitive. The second potential, that of helping to transfer technology through forging alliances between international and domestic businesses, can be best realised through the project profiles.

The project profiles prepared for the IM are of three types: i) profiles of SOE projects; ii) projects proposed by Iraqi businesses looking for international partners; and iii) profiles of projects in which

foreign investors have already shown an interest and. Promoting investment in SOEs is a ready-made vehicle for transferring international technology to Iraq. Promoting projects proposed by Iraqi businesses also provides an obvious way to transfer technology. In the main, the reason why Iraqi businesses contacted the Investment Mapping team was because they were looking for international partners that could not only inject funds for investment but also provide the technology and operational expertise that they lacked.

There is potential also to promote technology transfer using the profiles of projects in which foreign investors had already shown interest. Once foreign investors have shown interest, they could, as recognised by the NIC, be helped to partner with suitable domestic businesses. There are several reasons why foreign investors may find it attractive to partner with Iraqi businesses:

- As recognised by the NIC already, partnership with domestic businesses could help to overcome the complex regulatory environment in Iraq: in effect, the domestic business fulfils the investment facilitation function. Domestic businesses, with their stronger local networks, could also help their foreign partners to understand the criteria for winning tenders. They may also help to overcome the misgivings that local decision makers may have in awarding contracts to investors that have no track record in Iraq and over whom they have little reputational leverage: the track record of the domestic business and the reputational risk it runs could help overcome the misgivings over dealing with an unknown quantity that does not have to remain in Iraq.
- Iraqi businesses are far more attuned to the norms of doing business in Iraq. Hence, they could contribute valuable knowledge that would contribute to the success of the venture. For example, they could help their partners enter into suitable agreements with suppliers, distributors and the banks that are more likely to be honoured as they conform to Iraqi business ethics.
- Iraqi businesses could contribute other non-tangible assets that would help the venture build a strong market position such as established market share or knowledge of the market, the tastes and preferences of consumers and the way that economic and demographic factors are likely to shape markets in future.

To fulfil this role of helping to partner foreign investors with domestic businesses, the NIC and PICs need to reach out to the Iraqi private sector, through formal representative bodies such as the Federation of Iraqi Industries and the chambers of commerce but also by reaching out directly to businesses. Although the NIC and some PICs have made it clear that partnering domestic businesses with foreign investors is part of their mandate and a service they offer, domestic businesses are either not aware of this role or do not believe that it is a priority for the agencies.

This can be remedied by establishing and publicising a match -making service for domestic businesses seeking foreign partners. Domestic businesses would be invited to submit details of the projects for which they are seeking partners and to set out the attributes of the foreign partner that they are looking for. The investment promotion agencies, especially NIC, would then use their pro-active investor promotion to target suitable foreign investors introducing those that show interest to the domestic business. This does, of course, require the investment promotion agencies, especially NIC, to strengthen its pro-active investor targeting capabilities.

5.3. Using the IM for Monitoring Purposes

The Investment Map could also serve the vital purpose of setting the baseline against which progress on the Investment and Industrial strategies can be monitored. The section on Economic Trends shows the extent to which the economy is currently deficit in terms of total investment and private investment in particular. It also sets out the relative shares of domestic and foreign investment in total private investment.

It can, therefore, serve as the baseline for tracking progress on mobilising private investment, both foreign and domestic. Its usefulness as a monitoring tool would be advanced if a more accurate breakdown of foreign and domestic private investment could be made. This requires the help of the Central Organization for Statistics and Information Technology (COSIT) and the Central Bank of Iraq.

The sector profiles set out the size of Iraqi markets and the share of domestic industry. Monitoring the growth of the market would reveal the extent of the opportunity for Iraqi industry to grow on the back of domestic demand. Monitoring the share of domestic industry would reveal the extent to which Iraqi industry has been able to avail itself of the opportunity highlighting its progress in achieving international competitiveness. The findings on domestic market share and competitiveness should be passed on to the working group that is addressing the industry as part of the Industrial Strategy process.

Lastly, the IM highlights a set of investments in each industry that would help to realise its full potential. It should be possible to assess whether the country has been able to mobilise such investments and, if so, the contribution they are making to the growth of the domestic industry and its competitiveness. The growth of industries and the development of competitiveness is a dynamic process whereby addressing one issue may serve only to reveal another, less visible issue, which then becomes the binding constraint to progress.

Thus, the IM will need to be updated from time to time to take a look periodically at markets, the investment opportunities they present, the growth of the domestic industry and its competitiveness and the types of investment that can help to reduce the binding constraint to its development. No doubt this will require effort on the part of the NIC but the payback in terms of updating opportunities for investment, assessing competitiveness of the domestic industry and identifying the type of investment that can unlock the potential of Iraqi industry can be huge.

A similar logic holds also for the PICs to update their provincial profiles. As investment in the provinces increases, it will start to change their economies. In turn, that will change the types of investment opportunities on offer including a few that would play a critical role in improving competitiveness and hence unlocking the full potential of the province's industries. The PICs need to update their provincial profiles, helping to refocus their priorities for investment promotion.

5.4. Maintaining the IM

The preparation of the IM has taken considerable time and effort from a team of consultants, recruited by UNIDO, which included both Iraqis and internationals. Repeating such an exercise again would involve considerable time and expense for NIC and the PICs. Moreover, the collection and

analysis of data and information needed to promote investment is normally part and parcel of the activities of investment promotion agencies worldwide. Now that the NIC and (some) PICs have been established for some time, this is a function that they need to carry out in house. NIC has a research department that can take on this activity and the PICs will need to build such capacity over time.

The critical problem that any research department is likely to face to maintain the IM is the lack of sound, statistical data on markets, investments and industries in Iraq. COSIT is in the process of developing its data capture and analytical capabilities and the information it does have to hand is not widely available. Longer term, the best solution will be for NIC and the PICs to agree with COSIT the information they need and, through a process of supplementing the resources that organization has, ensure that it has the incentive and capability to provide it.

In the short to medium term, the research departments will have to use the methods that we have had to use to collect the data. These were to collate data from the following sources:

1. COSIT which supplies both production and trade data though the data is frequently in aggregate form and may be out of date.
2. Information available to the line ministries on domestic output (e.g. on MoO, MoE, industries).
3. Information on investment trends from PICs, including the Board of Investment in Kurdistan.
4. Research on markets and industries produced by donor funded projects (e.g. USAID Tijara, FAO, World Bank etc.).
5. Reports produce by international market research agencies on markets and industries (e.g. Euromonitor, Frost & Sullivan). The more specialised and detailed reports can be expensive but contain valuable information.
6. Reports prepared by consultancies and research organisations focusing on Iraq (e.g. Dunia, Upper Quartile etc.).
7. Press reports and web based articles submitted by leaders of Iraqi and international industries.
8. Face to face interviews with key informants in Iraq such as the Iraqi Federation of Industries, chamber of commerce, importers and Iraqi producers.

The research department needs to collect data regularly from all these sources and, when a sufficient body of new data and information has been collected, aim to update the IM by analysing it. Because of the paucity of sound data, it may not be possible to gather all the data needed, so the analysts will need to be careful in ensuring that there are no inconsistencies introduced by using data from different time periods.

The collection and analysis of data to form insightful profiles of sector and project profiles is, at present, not a skill widely available in Iraq today. This is an area where the NIC and the PICs stand to gain from training provided by UNIDO.

6. Building capacity for the NIC

Over the course of preparing the Investment Map, it has become clear to us that the NIC will need capacity building assistance to make effective use of the Map to promote investment and to be able

to play its central role in developing and implementing the Investment Strategy. In this section, we set out the priority area for capacity building assistance.

6.1. Familiarisation with information source and analyses

The Economic directorate of the NIC, headed by Dr Ikram and Basim Hassan will be the focal point to collect information from different sources. They need to be familiarised with the sources of information and their use elaborated in the Annex to this Investment Strategy. In summary, training can focus on the following:

- The types of information that needs to be collected domestically from ministries and the Central Organization for Statistics and Information Technology (COSIT)
- Non-government sources of information: private sector, industry associations, international companies, business intelligence reports, donor organisations.
- Comparative and complementary information from the region and internationally
- Data triangulation and validation to overcome data contradictions
- Methods of data and presentation

This training can be conducted by UNIDO using either its own-house expertise, commissioning other investment promotion agencies facing similar data issues or using market research agencies working in Iraq.

6.2. Targeted Investment Promotion

The Investment Promotion function of the NIC headed by Dr Sami Al Araji is already working with countries friendly to Iraq's interest, such as the US, the UK, Germany, Japan to attract foreign investment into Iraq. Bilateral agreements are also being discussed with Oman, Lebanon, Ukraine, France and Germany. The NIC has attended and organised Investor Conferences abroad with the objective to promote investment.

However, much of what has taken place in the past is of a generic nature and these activities usually take place on a reactive basis, when partners are willing to collaborate. The actual staff resources available to undertake investment promotion function is limited to 2. Notwithstanding the lack of resources, there is a need to make the investment promotion unit more effective. The Unit needs to move from generic to targeted promotion and hence from reactive to proactive in its efforts.

The capacity of the Investment Promotion Unit (IPU) within the NIC can be developed to undertake the targeted investment promotion needed to mobilize the type of investment that the country would most benefit from by providing training and guidance in undertaking the following processes:

Developing a long list of investors to target

To start with, the IPU needs to develop a long list of investors to target. This may be done by looking at what the sector profiles in the Investment Map state is the type of investment that is needed to develop the sector. This should help to draw up a profile of the type of investor that has the wherewithal (level of investment, type of technology/expertise) that would most benefit Iraq

industry. The IPU will need training and guidance in how to use the sector profiles to develop a profile of the type of investor that Iraq should be trying to attract.

The next step involves the IPU listing investors that meet the profile. This requires the IPU to consult international industry directories, industry association directories of countries that have strong industries (i.e. Germany for chemical and machine tool manufacturers) and contacting the industry associations or chambers of commerce (i.e. UKCCI, AmCham, German Chamber of Commerce etc. Of such countries. The associations and chambers of commerce may help to identify firms in these countries that have invested abroad in the past. The IPU will need to be trained in developing such long lists and developing relationships with industry associations and chambers of commerce in target countries.

Use information in industry and project profiles to attract the firms from the list

Once the list is established it can be sorted by industry and types of investment. The NIC will then need to approach the firms with information about the Iraqi economy and the industry to attract their interest. If a firm is interested they will conduct their own appraisal of the investment opportunity so the NIC will just need to provide enough information about the opportunity so that the appraisal can be done. The project profiles can be used as a preliminary tool to whet investors' appetite. Once interest is developed, the IPU can provide specific information that the firm needs to carry out its own appraisal of the investment opportunity in Iraq. The IPU will need to be trained to approach firms to develop interest and how to service their needs for information needed to carry out their own appraisals.

To recap, training is needed on:

- Developing Profiling the types of investors that Iraqi industry needs
- How to develop long lists of investors to target
- How to approach firms to develop their interest in Iraq
- How to get the decision making individuals in the firms interested in investigating Iraq
- How to support decision makers undertake their own analysis of the investment opportunity in Iraq
- Types of information that firms need to whet their appetite and to facilitate their appraisal of the investment opportunity

The NIC should learn from other countries' experience in investment promotion. Training can be conducted in co-ordination with foreign Investment Promotion Agencies, especially those in the Middle East. There are also consulting companies specialised in investment promotion that can deliver hands on training to the NIC.

6.3. Improve Investment Facilitation by Strengthening the capacity of the One Stop Shop (OSS)

Currently the One Stop Shop regards itself as the custodian of the viability of investment projects and attracting as a vetting body to ensure only sound businesses are granted investment licenses in Iraq. The One Stop Shop is not operating as it was intended to for two reasons:

- A one stop shop (OSS) should coordinate with other Ministries to ensure that almost all the major processes of obtaining licenses and permits needed to operate in a country can be carried out at the OSS. The OSS at the NIC does not provide such a comprehensive service. UNIDO can help to familiarize OSS staff and staff from key ministries with how an OSS should operate through carrying out study tours to effective IPAs in the Middle East.
- To fulfil its role of ensuring that investors are genuine and are putting forward projects that have the potential for viability, the OSS needs to have the skills to appraise business plans required from the potential investor by law. In fact, the staff of the OSS have very little training on how to appraise business plans. While COMFAR is helpful in appraising projects, using COMFAR to approve investment licenses is often impractical as business plans do not provide the data and assumptions needed. Currently when the investors fill in the Investment Application form, the OSS is not sure what to look for in a business plan and there are no instructions to investors what information should be presented in the Investment application. Thus the process becomes very opaque and is usually solved when the Investors arrange to meet with the NIC/OSS to discuss the investment application, thus leading to a “regulation by contract” system. The “regulation by contract” mechanism which allows decision on a per contract basis does not provide investor confidence.

The OSS can be trained on what to look for in a business plan while appraising and approving investment license. This is training that UNIDO may well be able to undertake using its in-house resources. In addition, to COMFAR, training should include simple ratio analysis to analyse the strength of balance sheets and the extent of operating profit to cover interest.

Looking forward, the NIC could take lead in regulatory reform first by increasing transparency in decision making. This is a long and difficult process to change the way Iraqi government likes to conduct business. However, in the short term, there are regulatory reforms that can generate immediate impacts on business environment, such as the simplification of procedural requirements for investment licensing, land titling, the compliance of various sector regulations, and public tendering processes.

If the Prime Minister’s Economic Task Force is keen to promote this, deregulation is an area UNIDO could provide technical assistance to NIC.

6.4. The NIC can contribute to the economic strategy and industrial strategy

The NIC should play a pro-active role in providing information to the Sector working groups, and at the same time should get feedback from the sector working groups in terms of the prioritisation of the Industries. This should help the NIC prioritise the industries they want to promote which both have potential to grow and also have spill-over effects to encourage growth in other industries.

The NIC currently does not regard itself an active player in economic reform. It should be aware of and have the capacity to participate in the process of economic reform. The policy advisory unit within the NIC should be interacting with other policy makers on strategies that have implications for investment. the Unit will need to be trained to participate in such strategy and economic reform processes.

6.5. Maintaining the website

The IT function of the NIC should update the Investment Map on a regular basis. This requires coordination within the NIC, between the Economic Directorate of the NIC and the IT support function. For the moment we do not need to create a new website with interactive inputs, but rather should focus on the quality of the information provided to external investors. In the future technical assistance might be necessary to upgrade the website.