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Q1: Respondent details

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Q2: Country or Customs territory

IRAQ

Q3: Organization

Other (please specify) Public Multi-lateral aid agency

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Q4: Title of case story

KURDISTAN REGION OF IRAQ :

REGIONAL CONNECTIVITY FOR SHARED PROSPERITY

Q5: Case story focus

Infrastructure upgrading and the development of related services markets, including through support for investment climate reforms.

Q6: Case story abstract

The Kurdistan Region of Iraq (KRI) has recently sought to increase the autonomy of its economic policy-making. The KRI is unique in combining exportable oil surpluses with a trade-strategic location at the nexus of goods flows between Turkey, Iran, Syria, KRI and the rest of Iraq. In 2015, KRG asked the Bank for assistance in developing a comprehensive economic plan. After extensive collaboration and formal adoption in early 2016, this roadmap focuses on trade and connectivity, integrating elements of trade facilitation, transport, ICT, energy and infrastructure. The Bank has now launched a technical assistance program designed to support implementation of this agenda. The context for implementation is quite difficult with the drop in world oil prices, regional conflicts with ISIS, and refugees from neighbouring Syria. Nevertheless, international economic relations are critical for KRI, and the Government's plan puts regional connectivity at the center of its economic strategy.

Q7: Who provided funding?

Multilateral organization

Q8: Project/Programme type

Single country

Q9: Your text case story

- The origin of the project

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The Kurdistan Region of Iraq (KRI) is unique in combining exportable oil surpluses with a trade-strategic location at the nexus of goods flows between Turkey, Iran, Syria, and the rest of Iraq. In seeking increased autonomy for economic planning, the Kurdistan Regional Government (KRG) had not previously been fully organized to optimize the use of subnational regional resources for its region's economic development. In 2015, KRG asked the World Bank Group for assistance in developing a comprehensive plan for enhancing economic growth. Funded jointly and developed through extensive collaboration between KRG and the Bank Group, the plan was based on data and studies from various sources and involved broad consultation with private sector representatives.

- How the project was designed

Formally adopted in early 2016, the roadmap includes a major component on trade and connectivity, integrating elements of trade facilitation, transport, ICT, energy, and infrastructure. It plans a role for technical assistance from several donors and institutions.

The Bank Group has now launched a technical assistance program designed to support implementation of the project agenda. The context for implementation is quite difficult as KRI's economy confronts both a drop in world oil prices and regional conflicts, with ISIS affecting nearby Mosul. Fighting in the region has created massive refugee flows, including some 2 million refugees from neighbouring Syria, besides IDPs from elsewhere in Iraq. Nevertheless, international economic relations are critical for KRI, and the Government's plan puts (multi-country) regional connectivity at the center of its economic strategy.

Below is an indication of the program's objectives and progress achieved so far:

- How the project has been managed and who has participated

The intervention has been organized as a World Bank-funded technical assistance project, including preparatory study and analysis, public-private dialogue, investment climate advisory work on issues such as business licensing, industry-related policy work, trade policy, and sector work in areas such as tourism. Development partners have provided substantive as well as financial support, offering inputs and technical assistance to enhance and supplement the work of Bank Group staff.

- What the project sought to achieve and short and medium-term outputs and outcomes

The project has focused technical assistance, analysis, and advisory in several economic sectors: electricity; economic diversification; transport; ICT; infrastructure; business environment; and trade policy.

In the transport sector, the team has helped develop plans to update regulations and establish procedures for the distribution of licenses. A primary road network has been completed and tertiary roads have been expanded and improved. Concessions for a new bus terminal have been successfully conducted. Basic staff training has been completed, and a transport master plan for the entire country, which includes plans for development of a railway network, is being coordinated with regional transport officials.

In the ICT sector, KRG has developed price ceilings on wholesale and infrastructure services. The measure does not yet ensure open access to essential facilities, and dominant operators are still likely to discriminate between their affiliated service providers and new entrants. This is an area of ongoing dialogue with Bank Group staff. Greater cooperation with central government authorities is needed to disentangle administrative issues, as when different ministries had responsibility for issuing 3G versus 4G licenses. KRG has developed an information technology blueprint strategy, aiming to digitize government processes and services. Full implementation of the strategy will help boost demand for IT services and help the market mature and expand beyond KRI. Implementation progress has been slow to date.

In the electricity sector, private sector participation has been introduced in power generation through an independent power producer program that has generated favorable results. The availability of power has increased from less than 500 megawatts in 2005 to more than 5,000 megawatts in 2015. The government is working with independent power producers on construction of transmission lines, but further investment of \$568 million is needed for the critical high voltage network. With the help of the Bank Group's technical assistance study, KRG is examining options for private sector participation in power distribution. Work in the electricity sector also includes a cost-of-service and tariff design study, as well as a study on improving pathways for distribution, loss reduction, and revenue enhancement. These efforts include examining options for corporatization and privatization of the distribution business.

Progress in the area of business registration and industrial licensing has included: adoption of a public procurement legal framework; issuance of standard bidding documents; launch of an electronic payment system to employees in the

region to reduce corruption in the work place and enhance transparency. This is particularly important in a region in which nearly two-thirds of the work force is on the government payroll.

To comply with transparency requirements in the oil and gas sector, the KRG Council of Ministers authorized an independent audit of the revenues generated by the Ministry of Natural Resources from refined products and local and international oil sales.

- Expected medium- and long-term impacts

Bank Group-supported work in economic diversification of the economy and job-creation over the medium term focuses on private sector development. The government is seeking to increase labor force flexibility, improve working conditions, enhance protections for private sector jobs, and enhance the matching of labor skills with market demand. This effort has been advanced by a region-wide representative survey of employers in terms of their labor market needs conducted by RAND. KRG has made strategic improvements in security to facilitate trade with the rest of Iraq. The Bank Group's investment climate work has included a new technical assistance program to reform the industrial licensing system and business registration procedures. The work has generated some openings in service markets and led to foreign services firms establishing local offices. Longer term, a new policy document is being prepared that addresses issues of workforce development, local enterprise development, and community development. The aim is to clarify and formalize existing initiatives and expectations of industry, and identify the additional policy requirements that will drive local development performance of industry.

In the area of trade policy, discussions are under way between KRG and Turkey to improve the functioning of border posts and the management of informal trade. The Bank Group has helped foster closer collaboration between KRG, the Turkish government, and business organizations involved cross-border trade. KRG has allowed informal trade facilitators and informal truckers to engage in transit trade. The Bank Group is working with KRG to reform the customs system, but some reforms have not yet been put in place because customs administration is under the control of the central Iraqi government under the country's constitution. KRG has drafted a new law, still awaiting consideration by the Council of Representatives, in the area of trade certification, verification, certification of conformity in countries of origin, and related issues.

There is potential for greater exports in a number of non-oil sub-sectors, including unprocessed and processed agricultural products, leather and leather products, petrochemicals, pharmaceuticals, and construction material. KRG has identified areas of potential growth but not yet instituted measures to take advantage of this economic potential.

Finally, the government has adopted a tourism strategic plan and begun its implementation through the development of marketing efforts, data collection, the establishment of a training center, and support to the private sector.

Q10: Lessons learnt

Among the lessons learned are:

- The importance, in the case of a government taking on expanded responsibilities, of developing an integrated strategy covering all essential elements of trade, including transport, ICT, energy, business regulations, and trade policy.
- The need for extensive participation of local entities in strategy development in order to increase a sense of ownership of the plan and strengthen its political backing.
- In oil surplus countries, governments have a greater need to make their overall plan clear to the private sector, because the central control of oil revenues has a strong impact on private decisions.
- Implementation requires local capacity to respond to international shocks, including world oil prices, regional security issues, and regional trade circumstances.

The somewhat fractured political context and lack of tradition and experience in managing the region as an integrated entity have generated some frictions in implementing the plan. However, its adoption is a major step in unifying KRI around a common plan. And the World Bank Group technical assistance project, as well as assistance from other donors, will help ensure progress in implementation and sustainability of results.
