With the added revenue, there will be a huge reconstruction program in the country. So I think within 10 years we are going to see a different Iraq than people are used to; an Iraq where people live much better lives, where services are available, where the standard of living is going to be much higher, and where the oil industry is going to lead the economic program.

—Iraqi Minister of Oil Hussein al-Shahristani, December 2009

As of December 31, 2009, the United States had allocated $1.57 billion, obligated $1.57 billion, and expended $1.37 billion to support Iraq’s economic governance and private-sector development. This quarter, economy programs accounted for just 2% of new obligations and 6% of new expenditures. For the status of U.S. funding to support economic development, see Figure 3.19 and Table 3.12.

There were $8.6 million in net obligations for economy programs this quarter, 88% fewer than last quarter. All new reported obligations—$9.0 million—were in the ESF-funded Izdihar program. A small amount was de-obligated from the Targeted Development Program. This quarter, cumulative expenditures rose by $53.0 million, 89% more than last quarter. Expenditures were spread among several programs, including the IRRF 2-funded Market-Based Reforms program, Izdihar, Provincial Economic Growth, and Inma agribusiness development. The ESF accounted for 76% of new expenditures, and IRRF 2 accounted for 22%.

**Key Economic Developments and Trends**

This quarter, Iraq received $12.67 billion in total revenue from the export of crude oil; $0.63 billion (5%) of that was reserved for war reparations to Kuwait, leaving $12.03 billion in oil export receipts. Iraqi oil receipts totaled $37.02 billion in 2009.

If the winning bidders from Iraq’s first and second petroleum licensing round meet their plateau production targets, Iraq’s crude oil production—and its annual oil export revenues—could increase significantly in the next 10 to 15 years. National legislation that addresses revenue distribution between the GOI and the provinces is considered key to reconciliation and to realizing the full benefits from Iraqi oil exports. The GOI has not yet achieved this milestone, but the Minister of Finance has expressed confidence that the parliament to be elected in March 2010 will pass the legislation.

Even with increased production, Iraq’s government revenue and economy will remain vulnerable to fluctuations in the price of oil. Iraq’s highly centralized economy is dominated by the oil sector, which accounted for 53% of gross domestic product (GDP) in 2009, behind only Angola and Libya among OPEC countries. In 2009, oil export receipts accounted for 87% of all estimated government revenue, and budgeted GOI expenditures accounted for 84% of GDP. Despite efforts to spur economic growth outside the oil sector, its role in the Iraqi economy is growing: real GDP growth in the oil sector has outpaced non-oil growth for the last three years.
Iraq's vulnerability was made clear in the recent global recession. Real GDP growth dropped from 9.5% in 2008 to 4.3% in 2009. The sharp drop in oil prices from mid-2008 to early 2009 caused growth in the oil sector to drop from 12.3% in 2008 to 4.6% in 2009, versus a less severe decline in the rest of the economy, from 5.4% to 4.0%. For details on the predominance of oil in the Iraqi economy and the impact of oil prices on export receipts and GDP, see Figure 3.20.

Iraq's recent monetary stability persisted through the end of 2009. Prices dropped in 8 of the last 12 months, and continued to drop this quarter, based on a broad index, as year-on-year inflation fell to negative 4.9% in November from negative 0.3% in August 2009. The year-on-year core inflation rate (which excludes fuel, electricity, transportation, and communications) fell to 4.8% in November, from 10.8% in August. The Central Bank of Iraq (CBI) has kept interest rates at 7% since June 2009 and held Iraq's exchange rate at 1,170 dinar per dollar since January 2009.

Estimates of unemployment in Iraq vary. The Iraqi Central Organization for Statistics and Information Technology (COSIT)—which is responsible for conducting economic surveys—has not provided official unemployment figures for 2009, citing political obstacles in the run-up to the election. COSIT’s unofficial estimates for 2009 were 15.5% unemployment and 29% underemployment. This is a considerable change from the official figures for 2004 of 26% unemployment. However, estimates from other sources put 2009 unemployment as high as 30%.

The most comprehensive data available, assembled by COSIT and the World Bank from November 2006 to November 2007, shows that Iraq's economy is unable to provide enough jobs for its growing population. By many standards, Iraq is characteristic of conservative, developing countries: the population is young and growing, young people in the workforce face the highest rates of unemployment, and women are less likely than men to be economically active. For details, see Figure 3.21.

As of December 31, 2009, 16,507 civilian Iraqis have received job training through U.S.-funded programs, and 1,867 of that total received on-the-job training. This contrasts with more than 700,000 ISF personnel trained in U.S.-funded programs.
On December 21, 2009, the Security Council issued Resolution 1905, citing Prime Minister al-Maliki’s request that the IAMB continue its oversight role over the DFI and extending the Board’s mandate through December 31, 2010. Resolution 1905 also calls on the GOI to formulate an action plan for the eventual transfer of DFI oversight, in accordance with auditing arrangements and debt obligations.

**Economic Governance**

**Oversight of Iraqi Oil Revenues**

In August 2009, the UN Security Council endorsed a recommendation that Iraq assume greater oversight responsibility of the Development Fund for Iraq (DFI) from the International Advisory Monitoring Board (IAMB), whose mandate was to expire on December 31, 2009. On December 21, 2009, the Security Council issued Resolution 1905, citing Prime Minister al-Maliki’s request that the IAMB continue its oversight role over the DFI and extending the Board’s mandate through December 31, 2010. Resolution 1905 also calls on the GOI to formulate an action plan for the eventual transfer of DFI oversight, in accordance with auditing arrangements and debt obligations.
Private Sector Development

Agriculture
Agriculture constitutes approximately 8.4% of Iraq’s GDP and provides employment for 12.3% of the total workforce. This quarter, the ongoing shortage of water in much of the country continued to undermine Iraq’s ability to meet domestic demand for wheat, rice, and other food staples. Despite some improvements in the amount of rainfall in parts of Iraq this quarter, the U.S Department of Agriculture’s Foreign Agricultural Service expects Iraq’s 2009–2010 winter grain harvest to improve only slightly over last year’s depressed yield, from 1.3 million tons to 1.35 million tons, or roughly 45% below normal production.

Iraq’s 2010 agricultural output (particularly in Iraq’s northern provinces, which have few irrigation resources and rely heavily on rainfall) will depend largely on whether precipitation in the first

New Investment Law
This quarter, the CoR passed an amendment to the National Investment Law that would open up ownership of land by foreign entities, and the amendment has moved from the National Investment Commission (NIC) to the Presidency Council for approval. If ratified, the law could encourage greater foreign investment in real estate and construction by allowing investors to acquire land-use rights as well as ownership rights under very limited circumstances. In addition, NIC announced that the government was seeking large-scale investments to build 500,000 low-income housing units. Increasing the housing supply is a key GOI priority given Iraq’s increasing population and its chronic undersupply of residential housing units. However, ambiguities in land ownership persist, and the effectiveness of the new law in promoting investment will lie largely in how well it is enforced.

months of the year returns to normal levels. Even under normal conditions, Iraq is highly dependent on food imports. Now two years into the drought, Iraq will again be forced to import more wheat, rice, vegetables, and fruits than it would otherwise.\footnote{417}

**Public Distribution System**

The damaging effects of the drought, the shortfall in domestic foodstuffs production, and the subsequent loss of income among farmers will likely be offset by Iraq's Public Distribution System (PDS). With an estimated cost of $5.3 billion for 2009 (9\% of the GOI budget), the PDS is the largest food-ration program in the world,\footnote{418} providing a safety net for approximately 2.8 million Iraqis who rely on the system for their basic sustenance.\footnote{420} The heavy subsidization of food staples is often cited as a factor in distorting commodity prices and discouraging domestic production and development of the agricultural sector.\footnote{421}

Efforts to reform the PDS, first announced in August 2008, have been slow and have produced limited results. In a survey published in the most recent UN World Food Programme (WFP) report on food security in Iraq, the vast majority of respondents oppose a proposal to transition the subsidy to a cash stipend, preferring the current basket of goods.\footnote{422} Iraqis often trade unused items from the PDS basket for other goods,\footnote{423} and would lose those tradable goods should the PDS be replaced with stipends. Major reforms are unlikely before the March 2010 parliamentary elections.\footnote{424} But this quarter, WFP and the Ministry of Trade (which administers the PDS) signed a memorandum of understanding calling for both parties to work to improve the PDS supply chain through capacity training, technology transfer, and increased technical assistance.\footnote{425}

In the 2009 GOI budget, the Ministry of Trade was requested to develop a plan to target the PDS to needy Iraqis and remove from the program families that earn the equivalent of approximately $1,300 or more per month.\footnote{426} The GOI has taken steps of its own recently, reportedly removing 73,000 government employees from the PDS roles as part of a “downpayment” on reform.\footnote{427} DoS continues to encourage the GOI to make the system more effective through reform.\footnote{428}

**U.S.-funded Initiatives**

This quarter, the U.S. government continued its efforts to increase the output and efficiency of Iraq’s agricultural sector. In November 2009, the year-old Green Mada’in Association for Agricultural Development (GMAAD) celebrated the opening of its new office and warehouse facilities in Mada’in Qada, east of Baghdad.\footnote{429} The not-for-profit cooperative, an initiative sponsored and overseen by the U.S. Department of Agriculture (USDA) and the local PRT, provides free technical assistance and fee-based mechanical field services (including plowing, tilling, and planting) and extends credit for seed and fertilizer to area farmers.\footnote{430} The project was initially funded with $5.77 million from DoS,\footnote{431} and follow-on work was funded by $4.5 million of the CERP, which has been used to install more than 600 drip irrigation systems and over 400 greenhouses in the community. This is the largest U.S.-funded agricultural project in Iraq,\footnote{432} with total membership of more than 800, growing at an average rate of 10\% each month.\footnote{433} USAID continued its work this quarter, spending $18 million in Iraq’s agricultural sector through the Inma agribusiness development program.\footnote{434} Some examples of these recent investments include:\footnote{435}
Foreign Direct Investment and Trade

The recent passage of amendments to the National Investment Law, a series of Iraq investment conferences in Baghdad and abroad, and the outcome of the second auction for oil-service contracts continue to stir foreign interest in Iraq.443

This quarter, businesses filed for 170 investment licenses—double the number filed last quarter—although many of those applications have yet to result in licenses being issued.444 Some examples of large-scale investments in Iraq include:

- Najaf Airport, a $40 million project funded largely by a Kuwaiti/UAE-based investment group
- a $120 million hotel in Baghdad’s International Zone, funded by U.S. and Iraqi investors, currently under construction and scheduled for completion by summer 2011

Currently, 43 banks operate in Iraq (7 of which are state-owned), with a total of approximately 760 branches.439 The state-owned Rasheed and Rafidain Banks continue to dominate the Iraqi banking sector, with approximately 88% of deposits between them.440 Most foreign banks have a presence in Iraq via partial ownership of standalone banks.441

The Trade Bank of Iraq (TBI) announced at the end of November that it had contracted with Thomson Reuters for services to access international foreign exchanges.442

Banking

Lending by private banks to Iraqi firms, as well as use of banking services by private citizens, has continued to increase.436

This quarter, the DoD Task Force for Business and Stability Operations (TFBSO) obligated $8.9 million from its Industrial Revitalization initiative for improving Iraq’s banking and financial networks.437 Ongoing activities include:

- supporting the AMWAL financial services consortium and its distribution of Visa- and Mastercard-compatible point-of-sale devices in Iraq’s major cities
- facilitating the establishment of an International Financial Services Association to help Iraqi banks with operations and governance standards, training, and best practices
- expanding the use of electronic funds transfer in Iraq

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This quarter, the International Monetary Fund (IMF) estimated that Iraq’s current account balance would be negative for 2009.446 If accurate, it would be the first year Iraq has run a trade deficit since 2005.447 Iraq imports the majority of the foodstuffs and manufactured products it needs.438

### Iraq’s Trade Balance

<table>
<thead>
<tr>
<th>Year</th>
<th>Trade Balance</th>
<th>Current Account Balance</th>
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<tbody>
<tr>
<td>2005</td>
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</tr>
<tr>
<td>2006</td>
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</tr>
<tr>
<td>2013</td>
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</tr>
</tbody>
</table>

USAID’s Tijara program had provided $34 million in micro-loans to 18,039 women as of mid-2009. Further examples of ongoing U.S.-supported women’s entrepreneurship include microfinance loan programs for women-owned businesses, training to promote literacy and computer skills, small-scale agricultural and animal husbandry projects, as well as textile and seamstress training workshops.