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Newsletter

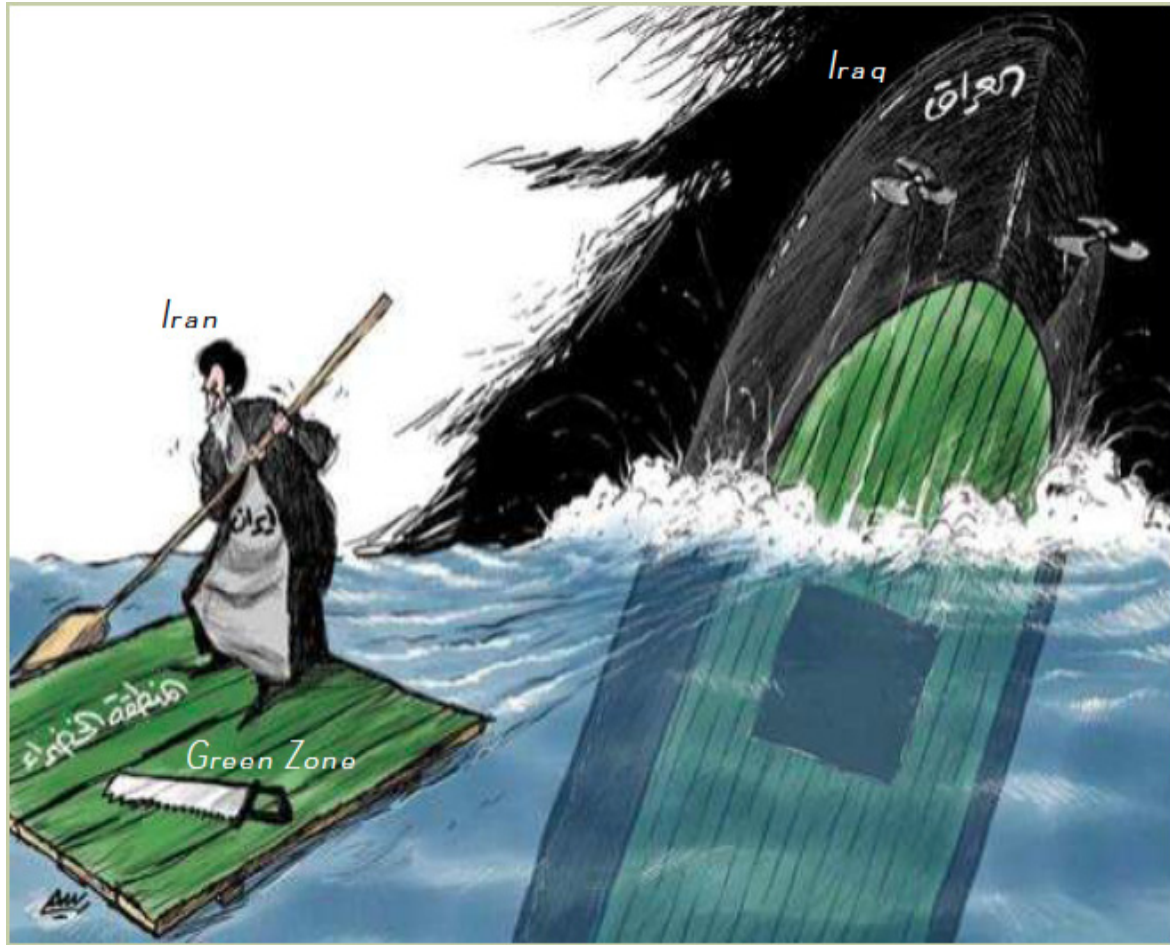
6 July 2010

Iraq Information & Other Topics

Iraq Dates

- 24 Oct 2010 Iraq National Census
- 31 Dec 2010 DFI expiration date (possibly extended again)
- 11 Aug - 9 Sept Ramadan Muslim Holiday Celebration





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The Iraq national elections was four months ago and unfortunately, we are not even close to selecting a Prime Minister (PM), who will lead Iraq for the next 3.5 years. I am saying 3.5 years because half a year will have passed by the time a PM has been agreed upon.

The Shiite alliance want the future Prime Minister to have a more restrictive role in governing Iraq. There are signs that the next new government will be shaped and formed by sectarianism which a majority of the Iraqi's do not want.

“This is the bitter reality we are talking about,” says Ali Al Adeeb, a senior advisor to Iraqi PM Nuri Al Maliki, when asked whether the next government would retain the quota system in which government posts are divided among Shiites, Sunnis, and Kurds. “We also don't want to speak of it like that, but whether we want it or not, that is what it has become.”

When I mention the restrictive role of the next PM I am referring to when PM Maliki decided to launch military offensives without consulting the Iraqi Parliament. For example, when PM Maliki sent the Iraqi Army to Basrah to crush the uprisings by going after the Mehdi Army. In the future these type of military operations will have to be consulted by the government and no PM will be able to act of his own accord.

PM Nuri Maliki political bloc has formed a coalition with Ammar al-Hakim's, Iraqi National Alliance (INA). Both groups combined have a total of 159 seats and have the largest political bloc in hopes of forming the next government. There are indications that members are thinking about breaking away from the PM Maliki bloc and forming their own bloc due to the continued obstacles of the current situation. Upon hearing this PM Maliki broke off the coalition with the INA. This means that they will not give up hope on having PM Maliki as the next Prime Minister.

On July 4th U.S. Vice President Biden, visited the Iraq government officials. Dr. Allawi met with the VP Biden privately for two hours. VP Biden has an interest in Iraq's stability and the need to avoid prolonging the formation of the government so that certain groups do not take advantage of Iraq's current affairs.

VP Biden talked about the SOFA agreement and the draw down of U.S. Troops.

There is a constitutional deadline fast approaching and if the political blocs do not come to an agreement on the government positions ie. Prime Minister, President, Parliament Speaker then the U.N. Charter Chapter VII could be implemented to resolve the issue. Actually, the International community will no doubt resolve the issue under the Chapter VII mandate.

I have mentioned several times that Chapter VII will not be lifted this year and do not think that the DFI fund mechanism will be changed before the deadline as stated in the U.N. Report (Dec 2010).

I have included excerpts of the speech of PM Maliki at the ceremony for the announcement of the 5-year plan. The cost will be 188 billion or something real close to that amount. The plan should be a 20 year plan as Iraq will have difficulties in acquiring the necessary funds. There are no 100 stateside businesses just waiting to get involved with Iraq.

In his 15-minute speech, Al-Maliki describes the new five-year plan as "a basic introduction to the economic reform and services." He notes various problems that in the past hindered the implementation of various projects in all sectors. With the new plan, he says, "I feel we have now put the reconstruction, economic, and services process on the right track." He stresses the importance of adopting scientific methods and standards in drafting and evaluating development and construction plans.

The minister sums up the "pillars" on which the five-year plan is based in the following:

“1. Reliance on annual investment budgets that are not based on a comprehensive strategy and a detailed vision does not help realize the intended objective behind the building and promotion of the economy. The experience of the past years have proved the sterility of the exclusive reliance on those budgets, the estimates of which were often subject to randomness, temporary conditions, and various influences.

“2. Partial solutions and sedative and localized treatments will not be useful in the case of an economy with numerous and complicated problems and swelled diseases. Radical and decisive measures must be taken, and a comprehensive restructuring must be done. This might require the adoption of some measures that might cause temporary suffering or that might not enjoy sufficient popular conviction. But the extent of this suffering will not be more than the bitterness of a curing medicine that helps its taker recover. Secondary plans to address problems like poverty, unemployment, inflation, and promotion of services will not be useful unless they are part of the comprehensive framework of development and its total concept. Citizens are right when they talk about services as the part that they feel and experience in the economic performance. But services are only one of the expressions of the situation of the overall economy. This is why services cannot be developed unless the entire economy is developed.

“3. Solving the problems of energy in Iraq, both oil and electricity, is the practical beginning of the effort to improve the economic performance in the country. This issue cannot be transcended, and the priority of the energy sector cannot be overlooked. The reason is clear: Oil is the sector that brings revenues, and without electricity, the productive agricultural, industrial, and services sectors cannot recover. The recent licenses in the oil and gas sector provide a good opportunity to maximize government revenues. We are careful to see this accompanied by full clarity in the state’s methodology in building the economy and by accurate commit-

ment to this methodology because spending money in the absence of these conditions will deprive Iraq of a valuable opportunity that might not be repeated.

“4. The wheels of production in the Iraqi society must be set in motion, and the value of productivity must be enhanced among citizens. The problems of the agricultural and industrial sectors in Iraq are huge. The two sectors are in a bad shape, and our country cannot but rehabilitate the two sectors because this is the way to rehabilitate the national economy, create added value, provide job opportunities, and reduce reliance on imported products. Developing and promoting these sectors would allow transferring surplus labour from the government to them. This, in turn, would help realize the objectives of reducing the state’s operational spending and restructuring labour in government departments. These two objectives are now extremely important for the Iraqi economy at this stage.

“5. The increase in the operational budget at the expense of the investment budget must stop. The operational budget must be reduced. If the state has clear commitments that cannot be touched, rationalization, correction, guidance, and avoidance of waste are a must. For example, the social care programme can be turned into a productive programme through loans to small projects. Flaccidity in government agencies can be addressed by transferring surplus labour to new productive projects. The ration card can be turned into programmes of support for farmers. This way we ensure that we benefit from operational costs to support and strengthen the production process. It is also possible to build a comprehensive social insurance system based on clear investment principles where no Iraqi is excluded from protection under its wide scope.

“6. We cannot talk about building a sound economic structure without addressing the situation of the financial and banking sector in Iraq. This sector is suffering from backwardness in performance and inability to participate in the development process. This applies to the banking system and the financial market conditions as well as to the tax system. All these are important tools essential for every

effort to build a real economy. We need comprehensive modernization of our financial institutions so that they can play their role and so that we can ensure that the national savings participate and circulate in the investment and productive process in the country.

“7. One look at Iraq’s need of funds to rehabilitate its economy and put it on the right track is enough to strengthen the conviction that government investments - even with the increase in oil revenues - cannot meet those needs. Without exaggeration, Iraq needs no less than \$350 billion if we want to build a broad productive base, overcome the chronic environmental problems that threaten Iraq’s economy, and achieve an advanced level of various services befitting the Iraqi citizens. Foreign investments and the Iraqi private sector are the two parties that are expected to provide such investments. But this cannot be done without the state making efforts to create an appropriate investment environment. This requires further measures and steps. Regrettably, such an attractive investment environment is not available in Iraq today. We have to work tirelessly to create it.

“8. It is not possible to talk about a comprehensive development plan without talking about the public administration in Iraq. For, despite the inclination to liberalize the economy and maximize the role of foreign investment and the public sector, the public administration will continue to play an important role in implementing this plan and directing its courses. Bloated government, bureaucracy, the phenomena of corruption, in addition to the complication, intertwinement, and contradictions of laws and instructions are playing frustrating and obstructive roles in the construction process. This, of course, is added to the diseases and problems of politics, part of which his excellency the prime minister mentioned in his valuable speech. These ailments undermine the official system. Unless the government apparatus is put in shape, the restrictive laws are abolished, the many state sectors and activities are privatized, and the government service is distanced from the harmful political influences, we will not be able to seriously

move towards real economic prosperity.”

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I will give you a small glimpse of the Iraqi infrastructure that is in dire need of development. Oil contracts were signed last year and additional contracts have been signed this year. Why haven't any oil companies been moving into Iraq to start those projects? Because it will be awhile before anything develops. There are multiple reasons but I'll just give you a few.

Most products that are being shipped by boat come into the Basrah port. When your only port can only accommodate 4 ships of 25,000 metric tons size, it creates problems if your a big oil company trying to off load your machinery and products from the ship. The oil company has to compete with the government who is on life support system and wanting there oil uploaded in the oil tanker. This is one problem. Another example is after the oil company off loads their materials and machinery off the boat it is unable to transport the machinery due to lack of sufficient roads to the project site.

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A few weeks ago an article was published saying the Central Bank of Iraq (CBI) was removing the Iraqi currency off the street. The article was a very bad translation and it is not what the CBI is doing and not even close. Let me explain. What is happening is the Ministry of Finance has asked their departments to clear their books of funds and give those funds back to the CBI. What I mean is every year for the last five years funds have been allocated to each ministry in the Iraqi government. When funds are not spent the remainder is carried over as newer funds that are allocated again for that year. The MoF wants the CBI to sweep all accounts of all monies not spent and come up with the actual total of funds. For example, if you have a ministry and your funding has been one million dollars for the last five years. However, you had only spent one million dollars in the course of five years. In your ministry account you have 4

million dollars in unspent funds. What the CBI is actually doing is recovering those funds that have been left unspent.

There are banks in Iraq that are being investigated for fraud as I write this and if you decide to deposit your money in a bank in Iraq be sure its the right one for you. Do your research but then again how good can your research be when you have never set foot in Iraq and are being led by info gurus who do not have your best interests in mind.

RV UPDATE!!

There will be no RV, in the month of July. I know you hate that but its true. There is no evidence of anything happening in the month of July. My contacts are superb developed over the course of several years plus have I ever been wrong?!

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