

Information Note on EC assistance activities foreseen for Iraq in 2008

I. Introduction

The Commission has been supporting Iraq reconstruction since 2003. Up to now the Commission has allocated €29m to both humanitarian and reconstruction assistance. In 2008, out of the €8.4 million available under the DCI (Middle East) budget line, DG RELEX proposes to allocate €72 million to development co-operation with Iraq. This will be supplemented with an indicative allocation of €20 million of non-DCI humanitarian aid for internally displaced persons and refugees.

The proposals outlined below have been reached following a process of close coordination with the Iraqi government, including through a high-level pre-programming mission to Baghdad. The programme also takes into account information gathered from EU partners with active assistance programmes in Iraq, and international organisations such as the United Nations (UN) and the World Bank (WB). An Annual Action Programme, to be submitted to the DCI Management Committee and to the European Parliament according to the existing comitology rules, is expected to be ready by October/November 2008.

As in 2007, the Commission intends to make use of the Special Measures provision (Article 23) in the DCI regulation, to plan and finance activities for the year ahead. During the programming process, the exceptional volatility of the situation in Iraq has persisted. The ongoing extreme insecurity across much of the country has substantial implications for the choices of assistance open to the Commission, and the costs associated with different methods of delivery. Equally important, the fragility of Iraq's political structures (almost half of government ministries lack a minister at the time of writing) impact directly on the scope for setting out a durable and workable programme. The annual approach therefore remains the only way for the Commission make a sound assessment of the appropriateness of our focal areas for aid, as well as the method of its delivery. If progress on the political front leads, as intended, to provincial elections in 2008, followed by national elections in 2009, the preparation of a multi-annual Country Strategy will become a realistic prospect. In this regard, the Commission committed €20 million to electoral support in 2007, which is already being spent on preparations for the provincial elections, and will also help cover the general elections for the Council of Representatives planned for next year.

The bulk of Commission assistance to date has been channelled through the International Reconstruction Fund Facility for Iraq (IRFFI). In the time until 2010, when the Facility is scheduled to be wound down, the EC's emphasis will be on ensuring that IRFFI operations are effective, accountable, and in line with International Compact with Iraq (ICI) priorities. Special focus will be on follow-up, monitoring and evaluation of IRFFI activities. Taking account of a full range of factors, the 2008 programme should therefore seek to exploit the available channels for bilateral assistance. The implementation of these bilateral activities should extend, where possible, throughout Iraq's regions, notably in the area of support for basic services.

II. Reconstruction / assistance context

The security situation continues to have a severe impact on the implementation of reconstruction assistance. Improvements in the latter part of 2007 have been shown to be extremely fragile since then. As noted above, the Iraqi government is now working hard to overcome weaknesses and divisions within the administration, but these factors can still represent a significant constraint to effective implementation.

Concerning Iraq's own 2008 budget, the Council of Representatives (CoR) passed the 2008 Budget Law on 13 February. The Budget Law predicts a total budget of Iraqi Dinars 60 trillion (€32 billion) - up by 16% from 2007 - of which 15 trillion Dinars (€8 billion) has been allocated for reconstruction. If this planned level of investment can be achieved, there will be no reasonable case for international funding of major infrastructure projects. Rather, support for proper budget execution is vital, since Iraq has in recent years consistently budgeted a deficit and ended up with a surplus because of its weak budget execution rate. To this end, a programme of public financial management financed by the Commission's 2007 contribution to the World Bank through the IRFFI will be implemented as of mid 2008.

The Commission places great emphasis on the value of co-ordination among donors and integration of their actions within an Iraqi owned strategy – and that ownership should involve integration of the relevant line ministries with the central structures of planning and finance. This approach is at the heart of the EU Consensus for Development. A key issue in Iraq is therefore how the 2008 budget will be aligned with the goals of the International Compact with Iraq (ICI) and the National Development Strategy (NDS). The ICI and the NDS outline the Government's multi-annual programme of reforms and provide the government with a 5 year framework for recurrent and investment budget planning. Reference to the ICI is also important to enable donors to see how the Iraqis are using their own money when programming donor funds, including – where appropriate - co-financing arrangements.

The United Nations has embarked on a strengthening and restructuring of their operations in and with Iraq based on UNSCR 1770, and is eager to (re)align activities with the ICI framework. The UN's approach in future will seek better to exploit the interlinkages between humanitarian, reconstruction and development efforts. An increased UN presence inside Iraq where possible is also a change from earlier years' Amman-centred setup. The World Bank's next 'Interim Strategy Note' (short-term assistance plan, used in crisis situations), will pursue efforts to build Iraqi authorities' ownership of capacity building actions built around public institutional and private sector development. Almost all international donors are looking to reduce the size of their allocations to Iraq in the years ahead, as they favour institutional strengthening over physical reconstruction.

III. Areas for intervention and indicative financial allocation

Based on extensive consultations with other key donors, the Iraqi government, and inputs from a wide range of actors including civil society, the proposed outline for the 2008 programme is as follows:

- 1. €10 million for technical assistance aimed at strengthening institutions and building government capacity (conducted directly with Iraqi Ministries/ Institutions);*
- 2. €20 million for a basic needs / services sector – preferably health (possibly agriculture and/or education), for countrywide delivery;*

3.€42 million in support of displaced persons, refugees and returnees.

Total: € 72 million

This focus on three main areas – capacity building, basic services (notably health) and IDP/refugee support – is in line both with the needs objectively identified, and the interest shown by the Iraqi government, whose commitment is a necessary condition for successful actions. Other areas also merit consideration (such as agriculture) not least to be ready with a range of options in case the project identification process reveals potential impediments to the sound commitment of funds in areas initially selected.

The uniquely challenging environment in Iraq necessitates a constant readiness to adapt to changes in circumstances, which can impact on the feasibility as well as the appropriateness of certain programme components, and specific projects in particular.

To enhance aid effectiveness, sustainability and to ensure Iraqi ownership, EC Assistance will be framed within the International Compact with Iraq and the Iraqi National Development Strategy. *Financial allocations are indicative. Precise amounts will depend on the outcome of detailed discussions and identification of projects with implementing partners. It must also be remembered that approximately 30% of the cost of delivering direct bilateral technical assistance in Iraq relate to security.*

1. Technical assistance (€10 million)

The implementation mechanisms used to deploy such a large technical assistance programme need to be carefully considered and maximum flexibility needs to be maintained during the execution. Although the areas below constitute separate programme areas, synergy effects and experience-exchanges within the programme parameters should be encouraged.

- Council of Representatives (CoR)

The intervention would target the human resources and organisational infrastructure of the Iraqi parliament (CoR) in order to enhance its capacity to support the legislative process and the work of the parliamentarians and their committees. Specific assistance could focus on the following areas: Procedural Rule (Implementation); General Secretariat Services; Research (considered a priority); Information Distribution (Media department - outreach, product, website, etc.) and the drafting of legislation. This support would build upon and complement previous Commission assistance to the democratic process and support relations between the Council of Representatives and European Parliament (who have recently established an ad-hoc delegation for relations with Iraq). Support could also be provided to the functioning of the thematic Parliamentary groups, such as the informal group of female parliamentarians or the human rights committee.

- Institutional Capacity Building to support implementation of objectives of EU-Iraq Trade and Cooperation Agreement (TCA) and/or related Agreements

Perspectives for concluding the EU-Iraq Trade and Cooperation Agreement (TCA) negotiations around the end of the year are good. However, implementation of its undertakings will remain a challenge. Following decades of isolation, the Iraqi capacities are low when it comes to negotiating and implementing international commitments such as those which fall under the TCA, or relate to WTO membership, and adherence to international conventions. For Iraq, the TCA process entails significant changes in the economic and legal structures across a wide spectrum of issues. Assistance could be provided to support generic areas across several key ministries and institutions as well as subject-specific ones in the context of the TCA and/or for WTO accession. For example, assistance to the Foreign

Ministry could build its overall capacity to participate in international negotiations; assistance to the Customs Administration could seek to revive the trade related technical assistance proposal which previously had to be abandoned due to disengagement on the Iraqi side; work with the Planning Ministry could help to maximise synergies between it and the line ministries, and to assist with alignment between National Development Strategy and International Compact priorities. Finally, work with the energy ministries (Oil, Electricity) would seek to help Iraq better to provide for the energy needs of its own people - looking together at a long-term energy strategy, improving demand management, and working on reforms and regulatory framework in the Iraqi electricity, oil and gas sectors, which still suffer from various structural/institutional problems.

Much of this technical assistance would entail governance and regional co-operation components, in keeping with the provisions of the DCI. Once the EU-Iraq TCA negotiations have been concluded, continued technical assistance could be provided to support implementation of the Agreement, within the areas of its coverage which merit or require the most assistance.

- Ministry of Interior Higher Institute

The Ministry of Interior (MoI) Higher Institute is the only higher education facility in Iraq for training of state officials. The MoI Higher Institute is currently receiving assistance and capacity building in the fields of policing, security and public order. However, gaps in assistance and needs have been identified, that could be addressed through EC technical assistance. The overall objective for an EC support programme would be assistance to the MoI Higher Institute to develop a sustainable capability to provide in-service training and education. This could include capacity building, curriculum development, as well as a library and language laboratory. This initiative would complement the work of EUJUST LEX and build upon the Commission's 2007 (€14m) programme of assistance to the rule of law sector.

2. Basic services – health (possibly agriculture, education) (€20 million)

Aside from refugee-related support (see below), Commission assistance to basic services in Iraq should henceforth focus not on building core infrastructure, but on support to systems and institutional capacity. This is in keeping with the principle of nurturing improvements in Iraq's own capital expenditure management for the most cost-intensive reconstruction and rehabilitation work, which should also generate much-needed employment opportunities. The health sector offers the most promising and appropriate options for the year ahead. Aside from a continuing and acute need for assistance, there is high level commitment from the new Minister in charge, a strong basis of experience from the UN/WHO and WB, clear scope for co-financing, and for work to impact on service delivery throughout the Iraqi regions. There exist other possibilities in the agricultural and education sectors (the latter may however potentially be the focus of assistance in future years). As a general rule, work on basic services should not be restricted to support for the central ministry / institutions, but should extend across the country in an equitable manner.

2.1 Support to primary health care

The health sector continues to suffer from structural basic deficiencies. Such deficiencies are reflected by issues related to access to services; increased strains on health services at all levels (and in particular on the emergency system) due to the continued violence; quality of service provision following large scale brain-drain; and lack of exposure to modern health care. The Commission's intervention in this sector would aim at targeting specific crucial areas of the health system, while recognising that a more thoroughgoing overhaul of the health sector would be desirable once conditions permit. A larger sector wide reform programme would have to cover issues of transparency and accountability in procurement

and supply of medical equipment and pharmaceuticals, for example. In the shorter term, support could be given to one or more of the following specific project ideas.

1. Re-organising and strengthening Emergency Medical Services in Iraq.
2. Blood Safety Programme in Iraq
3. Upgrading the Medico-Legal Institute and Support to Forensic Medicine Services in Iraq
4. Strengthening the national drug supply management system in Iraq

The Commission will attempt to work not only with the central health ministry, but also in a limited number of governorates in the north and south of Iraq.

2.2 Further possibilities (or options in reserve for 2009)

Commission intervention in other basic service / employment generation sectors – agriculture, possibly education - could build upon previous assistance channelled through IRFFI, where positive experiences have been reported. At the present stage of planning, the following proposals may be held ‘in reserve’ in case of early identification of obstacles to implementation of projects in the health sector:

- Support to the Agricultural / Rural development Sector. Iraq continues to be overly dependent on imported food (85% of net consumption), despite having access to water resources. Lack of modern seed and fertilizer, under-developed irrigation systems, and lack of pesticides have all contributed to underachievement of potential. Enhancing growth, improving productivity and increasing diversification in the agriculture sector will contribute significantly to economic growth and job creation; poverty reduction; and economic diversification. Support in 2008 could be provided to reform food and agricultural policy; land use; and rural community development.

- Support to the education sector is an option which could be considered if action in the above sectors is not feasible or does not offer sufficiently substantial possibilities.

3. Support to Iraqi refugees, IDPs and returnees; €42m.

In 2007, structural support was provided to Iraqi refugees in Jordan and Syria from DCI-Iraq funds in parallel to humanitarian aid provided by ECHO. The total amount of refugee aid was € 50 million, of which € 18 million were allocated to alleviate the increased burden resulting from refugees on public services in Syria, with €32 million going to Jordan. The international assessment is that the need will remain and the Commission has therefore contracted experts (financed by the Stability Instrument) to undertake assessments of the needs of the refugees in the two most affected neighbouring states. This work has concluded that further structural support will be needed to assist the countries in handling the additional strain caused by the refugees on the economy and infrastructure. In parallel, there are some reports of Iraqis returning to Iraq, primarily due to financial reasons. It is still too early to draw any clear conclusions regarding facts and numbers of these returnees. Whatever the numbers, (re)integration into local communities will need to be handled carefully by local authorities and international aid organisations, taking into account the sectarian tensions that still plague large geographical areas of Iraq. Immediate humanitarian-type support as well as post-conflict psycho-social therapeutic support could be foreseen.

Support to IDPs inside Iraq will also remain a priority. Indicatively €6 million is foreseen to be channelled in support of internally displaced Iraqis and/or returnees focusing on their basic needs (e.g. access to education, health services, food and essential non-food items).

The allocation to Jordan and Syria will be based on the estimated size of the refugee population and their socio-economic situation, the resulting burden on the host country's resources and services and the allocation from 2007 budget.

Indicatively €24 million is foreseen to assist Syria helping the Iraqi refugees in the following sectors: development of local infrastructure and services (drinking water, solid waste collection and treatment), education and support to address social consequences.

For Jordan, approximately € 12 million is foreseen to be allocated for the water sector through addressing the government's economic shortfall due to the Iraqis residing in the country.

IV. Implementation / Delivery Mechanisms

The development environment in Iraq remains uniquely challenging. Through the Commission services mission to Iraq in March 2008 it was confirmed that in addition to support to the central government, support should be foreseen to reach out to the provincial levels, but that security and other relevant development conditions could prove to be significant, potentially prohibitive, factors. Coordination with partners locally will be particularly important not only for effectiveness and sustainability of projects, but also to identify the most feasible practical options for delivery of aid, and the implementation options.

The provision of technical assistance to the central Government and its institutions would essentially have to be delivered in the 'Green Zone' in Baghdad. It could be provided through the services of international firms combining long-term and short-term consultancies. At the same time, the Commission will seek to agree co-financing modalities with the Iraqi government as much as possible. Overall, while preference should be given to working bilaterally, all options must remain open, including working through/with EU member states and/or working with international organisations bilaterally - in particular the UN agencies. This responsive and flexible approach should of course be backed up by the necessary measures to ensure accountability and visibility, whichever channel of delivery is used.

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