

Iraq

**Assistance Programme
2005**

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EXECUTIVE SUMMARY

Since the adoption of the Iraq Assistance Programme 2004 in March 2004, Iraq has made progress in its political process and in implementing its reconstruction programme while at the same time witnessing continuing upheaval in its security environment. The most significant event in the political process over the past 10 months has been the hand over of authority by the Coalition Provisional Authority to a sovereign Iraqi Interim Government on 28 June 2004.

The Assistance Programme 2005 focuses on identifying those developments in Iraq which have significance for the Community's policy response while drawing on the experience gained in implementing Community assistance provided since October 2003 when the Commission pledged €200 million at the Madrid donors conference. The Assistance Programme sets out a strategy for the 2005 Community contribution to reconstruction in Iraq covering the activities to be undertaken from allocations under Heading IV from budget line 19 08 07 (€190 million) and from budget line 19 04 03, European Initiative for Human Rights and Democracy, (€10 million).

With respect to the economic and social situation, the National Development Strategy (2005-2007) developed by the Interim Government provides a useful contribution to a response to the identified needs. Based on the National Development Strategy and other information sources, the Commission concludes that Iraq faces several challenges for the future. On the economic front it is moving from a war economy to a post conflict peace economy; from a centralised to a market-oriented economy and from an oil based economy to one that is diversified and based also on agriculture, services and industry. The Iraqi economy may also be affected by lower than predicted domestic output or world oil prices as well as continuous looting and sabotage on oil infrastructure and pipelines which could undermine both the reconstruction and reform processes and the government's ability to meet expenditure obligations with implications for social stability and vulnerable populations. With respect to social problems, the National Development Strategy confirms that unemployment, poverty and lack of opportunities for creating new livelihoods are sources of social tension within Iraq. Overshadowing this situation is the evolution of the security in the country. Without a successful restoration of Iraq's internal security, Iraq cannot achieve the rapid pace of implementation of assistance, the flows of private investment and the recovery of economic activity that it needs to make the significant improvements that will repair the legacy of its past. Last but not least, key challenges remain on the institutional front in particular those linked to the emergence and consolidation of the rule of law in the country.

Based on the assessment of current and projected needs, the Commission's proposed strategy includes four components of support, namely:

- Contribution to the International Reconstruction Fund Facility for Iraq (IRFFI) with the purpose of supporting activities to restore and strengthen delivery of education and health services; to increase employment opportunities and sustainable alternative sources of income and livelihoods for the Iraqi population, and to develop capacities in the Iraqi administration. (€130 million).
- Bilateral technical assistance in key priority areas (energy and trade & investment) to increase capacities in the national institutions involved in these areas. (€15 million).

- Support to the political and constitutional process, civil society development and human rights through the implementation of activities under the European Initiative for Democracy and Human Rights. (€10 million).
- Programme reserve to be able to maintain a flexible approach and respond to needs emanating from the developments in Iraq. In particular the reserve is foreseen to finance activities aimed at strengthening the Iraqi institutions. (€45 million).

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1. INTRODUCTION

Since the adoption of the Iraq Assistance Programme 2004 in March 2004, Iraq has made progress in its political process and in implementing its reconstruction programme while at the same time witnessing continuing upheaval in its security environment.

The most significant event in the political process over the past 10 months has been the hand over of authority by the Coalition Provisional Authority to the Iraqi Interim Government on 28 June 2004. The handover of power was followed by a National Conference convened on 15-18 August 2004 which appointed a 100-member Interim National Council, tasked to assist the Interim Government in its legislative programme and in preparing for the elections due to be held by 31 January 2005 at the latest as outlined in the Transitional Administrative Law (TAL). The date for these elections has been set to 30 January 2005. At the time of drafting this document, preparations are ongoing – with EC support – though the security situation remains a challenge.

The Assistance Programme 2005 does not aim to re-visit all points covered in its 2004 predecessor, many of which remain relevant, but instead focuses on identifying those developments in Iraq which have significance for the Community's policy response while drawing on the experience gained in implementing Community assistance for reconstruction pledged since October 2003 in order to promote greater efficiency and impact in the future.

On the basis of this analysis, the Assistance Programme sets out a strategy for the 2005 Community contribution to reconstruction in Iraq and an Indicative Programme covering the activities to be undertaken with the €190 million plus the €10 million from the special budget line European Initiative for Democracy and Human Rights that is expected to be available for Iraq in 2005.

When preparing this Assistance Programme the Commission has recognised the importance of ownership. The strategy outlined in the Assistant Programme has been discussed with the Iraqi Interim Government on several occasions during the last months of 2004. One meeting was held with the Iraqi delegation accompanying Prime Minister Allawi to Brussels on 5 November where the Interim government conveyed their agreement with the Commission's ideas. Further discussions at technical level were then held in Amman in December. Consultation with the Iraqi administration and other actors will follow in 2005. It is expected that the government that will be formed following the planned January elections will enhance the notion of ownership on the part of the Iraqi government and that eventually a broader policy dialogue can be initiated.

2. REVIEW OF EU/EC COOPERATION OBJECTIVES

On 9 June 2004, the Commission adopted a Communication: 'The European Union and Iraq: A Framework for Engagement'¹ This sets out the Union's fundamental interest in developing a strong EU/Iraq partnership over the medium-term and proposes a framework through which to take forward the development of the EU's relations with post-Saddam Iraq. The Communication argues that the new framework should be pursued in a sequenced and

¹ The European Union and Iraq – a framework for engagement, COM (2004) 417 final

carefully calibrated manner, linked to progress in the political process and security situation and should be elaborated over time in the light of Iraqi wishes – both those of successive Iraqi administrations and of broader Iraqi civil society.

Three objectives were set for the Union's relations with Iraq over the medium-term:

- The development of a secure, stable and democratic Iraq, with a parliament and a government, elected on the basis of a constitution that guarantees respect for human rights and fundamental freedoms of the Iraqi population as a whole.
- The establishment of an open, stable, sustainable and diversified market economy and society as a basis for human security, economic growth, employment generation and poverty reduction, with resources used to promote equitable economic and social development.
- Iraq's economic and political integration into its region and the open international system.

The European Council on 17-18 June 2004 endorsed the Communication, and a joint letter from Commissioner Patten and SG/HR Solana which elaborated on the short-term proposals set out in the Communication.

At the European Council on 5 November, the EU presented a package of support to the visiting Iraqi Prime Minister. This package was composed of among other things, continued support to the reconstruction process, but also the agreement to send an EU expert mission on integrated police, rule of law and civilian administration. The preparations for this mission commenced in November and the report is expected to be submitted before the January elections. This package was amongst other things composed of continued support to the reconstruction process and the agreement that the EU could usefully contribute to the reconstruction through an integrated police, rule of law and civilian administration mission. An expert team was sent out by the end of November to start initial planning for a possible mission which is expected to start after the January elections.

3. UPDATE ON DEVELOPMENTS IN THE POLITICAL, SOCIAL AND ECONOMIC SITUATION IN IRAQ

3.1. *Political and Social Situation*

Iraq has seen progress in the political process foreseen by the Transitional Administrative Law and confirmed by United Nations Security Council Resolution 1546. An Iraqi Interim Government was appointed on May 31 2004 composed of 33 ministers from various confessional and ethnic groups including six women. The members of the Interim Government were appointed by the Coalition Provisional Authority drawing on the membership of the Interim Government's predecessor - the Iraqi Governing Council – as well as bringing in new members. On 28 June 2004, the Coalition Provisional Authority ceased to exist and authority was handed over to the Interim Government. On 12-18 August 2004, 1,000 Iraqis, nominated in an UN-led process, participated in a National Conference. The National Conference concluded with the appointment of a 100-member National Council – tasked with assisting the Interim Government with its legislative tasks.

Since August 2004, the Interim Government has in its public statements suggested four main **priorities** for its term in office: improving the security situation, preparing the January 2005 elections, securing additional and more rapid disbursement of Madrid pledges for reconstruction and calling for rapid and generous forgiveness of Iraq's external debt. The Interim Government has sought international support in all of these areas.

In November 2004, at the moment of drafting this present Assistance Programme the Interim Government was continuing its efforts to contain the insurgency primarily centred in the so-called Sunni triangle. The situation is however increasingly unstable affecting both Iraqis and foreigners and has led to further departures of international staff of international organisations and NGOs fearing kidnappings and killings.

On the other hand; major efforts have been made for the preparations of the January **elections** for the Iraqi Transitional National Assembly which will form the Iraqi Transitional Government replacing the Iraqi Interim Government and be tasked with drawing up the new constitution. At the same time, the January elections will elect representatives to Governorate Councils and to the Kurdistan National Assembly. According to the TAL, a referendum on a new Constitution developed by the National Assembly will be held in October 2005 and will be followed, if approved, by elections to the governing institutions outlined in the Constitution by the end of 2005 or beginning of 2006. An Independent Electoral Commission for Iraq (IECI) was established on 30 May 2004 and is fully independent, non-partisan in nature and has financial autonomy.

The international community has responded to the appeal for support to the election preparations and donor funding has been forthcoming.

Following the Madrid conference, donors have met regularly to coordinate actions and to follow up pledges. Meetings were held in February in Abu Dhabi and in May in Doha. The donors meeting in Tokyo in October provided an important opportunity for the Interim Government to present their three-year **National Development Strategy** which would be the basis for soliciting additional funding for reconstruction as well as to enhance the matching of existing funds to an Iraqi national development agenda and Iraqi needs. The fact that most pledges in Madrid had been multi-annual, few new pledges were forthcoming at the Tokyo meeting. Discussions between donors focused on measures how to handle the security situation and to effectively deliver the reconstruction assistance to the Iraqi population.

While economic growth in 2004, from a very low level, should have contributed to some employment creation, unemployment and underemployment remain among Iraq's most dominant **social concerns**. The exact levels of unemployment are not established, but figures range from 25 to 50 % of the workforce. While the salaries of government employees have risen the previous fringe benefits (such as free housing) have disappeared. However, the situation is even more precarious for those outside the public sector. For example, employment can be found working for foreign contractors earning a decent salary but with the risk of becoming a target for insurgents attacks. Otherwise Iraqi companies offer salaries which are often not sufficient to support a family.

The security aspect also plays an important role in accessing education and health facilities and services. Examples include situations where parents keep children at home instead of sending them to school or when access to hospitals has been limited in areas where armed conflict is prevailing.

Concerning the situation of women, it is worth noting that in early 2004 a proposal to cancel Iraqi family laws and to move family issues from civil to religious jurisprudence, where they

would be governed by Sharia law and where the legal protections that Iraqi women enjoyed even under Saddam Hussein, including prohibitions on child marriage, arbitrary divorce and male favouritism in child custody and inheritance disputes would be scrapped or diminished, was never introduced. It should, however, be noted that women continue to be the victims of violence, harassment and backward religious traditions in Iraq. In several parts of the country women have reported to be forced to wear a veil or to restrict their movements in fear of harassment. With respect to the reinstated death penalty Iraqi women may be affected not only by being subject to capital punishment, but by the loss of a male bread-winner or head of household as a result of the policy.

In August 2004 the Interim Government decided to reinstate the **death penalty**. According to Amnesty International, the Iraqi policy contrasts the global movement to abolish the death penalty and would not result in greater security for Iraqis. The Iraqi government has stated that it would resume executions for specific crimes such as murder, drug trafficking, and endangering national security.

With regard to children, reports from Unicef indicate that the situation has worsened since the 2003 invasion. The continuing instability and insecurity for the Iraqi population in several parts of the country show that children are specifically affected by this. Lack of clean water and adequate sanitation aggravate the already acute situation and malnutrition among young children is reported to have doubled.

With respect to indicators of human development these are both scarce and in some cases they remain to be updated. However, the indicators outlined below help providing a sense of the general development situation. Below table indicates a few indicators based on the 2004 UNDP Human Development Report, Unicef's State Of The World's Children 2005 Report and information from the World Bank (November 2004). It is worth noting that Iraq is at the top in terms of set back over years with respect to under-5 child mortality rates (1990: 50/1000 live births to 2003: 125/1000 live births).

Population	27.1 million
Life expectancy at birth (years)	63
Male Literacy rate 2000(% of population)	55
Female Literacy rate 2000(% of population)	23
Combined gross enrolment ratio for primary, secondary and tertiary schools (%) (a)	57
Net primary enrolment ratio (a)	91
Total fertility rate (births/woman) 2003	4.7
Infant mortality (per 1000 live births) 2003	102
Under-five mortality rate (per 1000 live births) 2003	125
Under-nourished people (% of population) 1999/2001 (b)	27
Population using improved drinking water sources (%) 2002	81

a) data refer to school year 2001/2002

b) data refer to average for the years specified

3.2. *Economic Situation*

Economic developments: Notwithstanding persistent data shortcomings, it appears that after contracting in 2003, Iraq's economy witnessed growth in 2004 (IMF estimates are of 50% real GDP growth) which should continue also in 2005, supported by high oil prices and the recovery of oil production, inflow of reconstruction aid and a number of economic liberalisation measures. The authorities succeeded in promoting overall macroeconomic stability, notably a relatively modest inflation and stable exchange rate. The deferral of interest payments on debt through 2004 also allowed to contain the size of the budget deficit and boost Central Bank reserves. Nevertheless, the challenges for the Iraqi economy and society remain significant, including the need to evolve to a diversified market economy and to improve living conditions for the population.

Debt: Iraq's public debt is estimated at US\$ 120.2 billion at the end of 2004, of which US\$38.9 billion is owed to Paris Club creditors. Following several months of negotiations, in November 2004 the member countries of the Paris Club agreed on a comprehensive debt treatment of Iraq's external debt owed to them, for a total debt reduction of 80 % in three phases, the first starting immediately on January 1, 2005 and the latter two linked to the future approval and completion of an IMF standard programme (Evian approach). The agreement at the Paris Club paves the way for similar agreements by other (non-Paris Club) bilateral creditors as well as at the London Club of private commercial creditors. Together with the commitment by the Government of Iraq to implement sound policies under an IMF programme, the agreement at the Paris Club and those expected to follow should significantly contribute to bringing the fiscal situation on a more sustainable footing. The macroeconomic and structural conditions to be applied under the future IMF programme will have considerable implications for the nature of the reconstruction process (e.g. fiscal and financial sector reforms will affect availability of public and private resources available for reconstruction and economic development at large).

Relations with the IFIs: Following clearance of US\$81 million owed by Iraq, in September 2004 the IMF agreed to provide Iraq with a US\$436m Emergency Post-Conflict Assistance (EPCA). The loan, with a duration until the end of 2005, will be followed by a standard IMF programme as of 2006 assuming positive performance under EPCA. The main objectives of the EPCA programme are to stabilise the economy and support reforms, notably difficult ones such as the elimination of price subsidies on oil derivate products. The IMF also provides technical assistance to the Iraqi authorities in a number of areas (fiscal policy, banking sector reform, statistics, and design of the safety net).

At the Madrid conference of October 2003 the World Bank indicated a possible range of lending of US\$3.0-5.0 billion over five years. Iraq has recently made a formal request for accessing World Bank loans. The World Bank will work on an Interim Support Strategy which will be presented to the Board of Executive Directors for approval in early 2005. Until this strategy will become operational, the World Bank operates through one of the two trust funds set up within the International Reconstruction Fund Facility for Iraq (IRFFI). Activities under the World Bank managed trust fund are driven by the interim strategy released in early 2004, with a focus on capacity building, emergency operations to generate employment and restore essential infrastructure and services, studies and policy advice. The International Finance Corporation (IFC) is also moving forward to implement projects (e.g. the Iraq Small Business Financing Facility and the Private Enterprise Partnership). The IFC has also finalised a Financial Sector Review of private Iraqi banks.

3.3. *The reconstruction process: key challenges and risks*

Looking ahead to 2005 the risks and constraints on the rapid implementation of the resources pledged by donors as well as the overall success of the reconstruction process remain similar to those identified by the Joint UN/World Bank Needs Assessments and reflected in the Assistance Programme 2004. The main risks identified for 2005 are:

- **The security climate:** The continuing volatility of the security situation, which has now extended over a significant period, poses the greatest challenge to Iraq's capacity to move away from dependency on external donor resources. In this regard, the direct threat to the personal security of international actors operating in-country is particularly worrying. Increasingly international or non essential staff from international aid organisations and diplomatic missions is withdrawn from Iraq. Iraqi nationals working with international companies or organisations have also become targets for threats and attacks. As the National Development Strategy states, without a successful restoration of Iraq's internal security, Iraq cannot achieve the rapid pace of implementation of assistance, the flows of private investment and the recovery of economic activity that it needs to make the significant improvements that will repair the legacy of its past.
- **The political process:** The handover of responsibilities to the Interim Government on 28 June 2004 has not led to major changes in policy direction to date. As set out above, the priorities of the Interim government remain security, reconstruction, elections and debt. The timetable set for the political process in 2005 is extremely challenging and will therefore continue to create uncertainties for the international community, in particular its ability to programme reconstruction assistance around a set of known medium-term development priorities. Linked to the challenges of the political process, the emergence of and eventually the consolidation of the rule of law constitute a daunting task.
- **The social situation:** The National Development Strategy confirms that unemployment, poverty and lack of opportunities for creating new livelihoods are sources of social tension within Iraq. On the positive side, the Iraqi Interim Government is paying attention – with technical assistance provided by the UN and International Financial Institutions - to analysing the issues surrounding the sequencing of economic reforms, social safety net provisions and the need to create employment. Once this analysis has been completed, great care will need to be taken to ensure that reforms do not contribute to increased social instability.
- **Oil dependency:** The National Development Strategy underscores Iraq's dependency on oil revenues as a significant risk to the capacity to implement the proposals it sets out. Weaker than predicted domestic output or world oil prices as well as a continuation of looting and sabotage on oil infrastructure and pipelines could undermine both the reconstruction and reform processes and the government's ability to meet expenditure obligations with implications for social stability and vulnerable populations. One of the main challenges for any future Iraqi government will be to ensure that Iraq's vast oil resources are managed transparently. The diversification of Iraq's economic base will to a large extent be linked to the successful development of the private sector.

- **Weak administrative and institutional capacity and corruption:** The reinforcement of Iraq's administrative, legal and regulatory environment needs to take hold if Iraq is to properly manage and implement donor assistance. Over the longer-term, these measures also need to be coupled with steps to ensure that transparency and sound financial management are applied throughout state institutions so that resources for reconstruction are efficiently allocated and can be sustained.
- **Sustainability of debt repayments:** Together with the commitment by the Government of Iraq to implement sound policies under an IMF programme, the agreement on debt reduction achieved in November 2004 at the Paris Club and similar ones that are expected to follow should significantly contribute to bringing the fiscal situation on a sustainable footing. A solution will have to be found to the issue of compensation for war damages.
- **Economic transitions:** The reconstruction will take a long time and will be risky. Over the medium to long term, to reach its full economic potential, Iraq has to undertake three major economic transitions simultaneously. It is moving from a war economy to a post conflict peace economy; from a centralised to a market-oriented economy and from an oil based economy to one that is diversified and based also on agriculture, services and industry. This last transition is key for employment creation: the oil sector is clearly dominant (figures range from 30-40% to 80 % of GDP!), however the contribution to total employment is very limited

These challenges are confirmed by the Iraqi National Development Strategy which identifies lack of security and stability, poverty, vulnerability, limited financial resources and corruption as the major risks to implementation. In addition, the National Development Strategy highlights the technological divide – which it argues has impacted on productivity and efficiency levels as well as the deterioration of scientific research centres in Iraq – as a further main risk.

4. IRAQ'S POLICY AGENDA IN 2005

The National Development Strategy (NDS) was developed through an inter-ministerial committee led by the Ministry of Planning and Development Cooperation. The NDS is the first declaration of the Interim Government's priorities for national development. It tackles a wide range of topics and tries to balance the economic reform policies with the pressing social advancement programmes. It also takes into account the need to expand the productivity capacity through investment and diversification of the economy. The implementation of the priorities of the NDS assumes an improvement in the security situation. Furthermore, the NDS presupposes an increase in the oil production and accompanying revenue collection as well as a significant level of international donor contributions.

Iraq's economic reform strategy is based on the public sector encouraging privatisation and free market to stimulate and achieve growth at the same time as managing the social impact to ensure equity. The reform strategy focuses on enhancing the role of the private sector while investing in developing the human resources. Another important challenge is the objective to reduce the state subsidies that constitute on average 31 % of the GDP.

Further objectives entail commencing an overhaul of the State Owned Enterprises (SOE) and enhancing the conditions foreign trade and investment.

On the social reform agenda, job creation is clearly the major challenge. The strategy indicates a number of short term-measures until reconstruction process accelerates and the economy can be stimulated to generate jobs. In the areas of health and education, the most urgent priorities relate to the physical reconstruction, provision of material and equipment as well as upgrading of human capacities including management within these sectors.

4.1 *The 2005 Iraqi budget*

The National Development Strategy outlines a preliminary budget accompanying the strategy based on a number of considerations:

- Oil export proceeds are based on prudent assumptions both for production expectations and export possibilities and oil price developments, taking into account the current security situation including continuing sabotage and looting of infrastructure. The low refinery capacity and the low administered price set by the government on the sale of refined products impact negatively on the budget.
- Tax and customs revenues are expected to rise gradually with the expansion of the tax base (notably the elimination of current exemptions on income profits and the introduction of indirect taxes).
- Low performance of State Owned Enterprises in banking, financial, construction and oil refining sectors is expected. The government will assess options for reform and privatisation of State Owned companies, also with a view to the social consequences
- Salaries and pensions account for about 12% of expenditures in 2005.
- A large portion of the government expenditure is related to subsidies. The budget foresees a very substantial reduction of subsidies between 2005 and 2007, by better targeting the food ration system and gradually increasing domestic energy and utility prices. The actual ability to implement such measures is strongly conditional on actual and noticeable improvement in living standards.
- The budget makes provisions for a constant rate of debt service payments and substantial war damages compensations.
- Sanctions and war left a large gap in investment over the last 10-20 years. The Government aims at reducing this gap through the financing of investment in reconstruction projects. Capital expenditures are foreseen to be large (about 30% of total expenditures) and foreign grants will be used to top up national allocations for investment projects

Summary of preliminary Budget 2005 (as per NDS)

Expected revenues and expenditures (in million USD)

REVENUES	2005	EXPENDITURES	2005
Oil revenue	18113	Salaries and retirements	3733
Taxes and customs	262	Goods and services	5085
Income from SOEs	860	Costs of oil extraction and refining	2160
Other revenues	257	Subsidies*	9450
		Internal and external debt service	100
		War damages compensation	856
Total revenue	19492	Total current expenditures	21384
Grants and assistance	4253	Investment projects	9087
		Of which from foreign assistance	4007
Total revenues	23745	Total expenditures	30471
Deficit (w/o grants)	-(10979)		
Deficits (w grants)	-(6726)		

*comprising the following categories: 1) provision of coupons, social safety net (USD m4000), 2) subsidies of state owned enterprises (USD m1020), 3) others (USD m4430)

5. PROGRESS IN IMPLEMENTING THE IRAQ ASSISTANCE PROGRAMME 2004

5.1. EC reconstruction assistance in 2003-2004

The EC pledged €200 million at the Madrid conference. As of today, EC assistance to reconstruction and rehabilitation in Iraq in 2003 and 2004 amounts to €218.5 million, excluding the €100 million of ECHO's financing for humanitarian assistance. The majority of this sum has been channelled via the multilateral mechanisms, UNDP Thematic Trust Fund for crisis prevention and recovery (in 2003) and the International Reconstruction Fund Facility for Iraq (IRFFI) when it had been set up in 2004. €40 million was allocated from the 2003 budget and €160 million from 2004. New additional funding has been topping up this original allocation of EC monies to meet requests for the preparations for elections.

In 2003 and 2004, the EC funding aimed at supporting the following needs:

- activities in the education, health, water and sanitation sectors,
- activities generating income and improving livelihoods through support in agriculture and to community based small infrastructures in rural and urban areas,
- assistance to good governance and civil society, including human rights, and support to the electoral process.
- capacity building needs in the Iraqi administration

Details on Community commitment and disbursement figures for the various sectors and clusters are available in annex 1. Regarding figures from the IRFFI fund managers, it should be noted that at the donor meeting in Tokyo in October, both the World Bank and the UN indicated that all available resources would be allocated to the different sectors by the end of 2004. This information has now been confirmed and both the World Bank and the UN have made new appeals for contributions to the IRFFI for 2005.

Reporting mechanisms by IRFFI managers were agreed by donors at the time of establishing the trust funds through the approval of the Terms of Reference of the IRFFI. According to these, taking into account that contributions were to be joined within each selected cluster, a general reporting mechanism by cluster was to be carried out without separate identifiable expenditure reports by donor. Both the World Bank and the UN submitted interim progress report on activities implemented under the IRFFI at the October Tokyo Conference. The first official six-month report on activities will be prepared for the period ending 31 December 2004 (updates can be found on the IRFFI website: www.irffi.org). Beyond these, the Community benefits from the specific reporting mechanisms established through the standard framework contract for contributions to World Bank and UN Trust Funds entered into by the Community and these organisations. Furthermore, the Commission operational services ensure a regular follow-up of the sectors that benefit from a contribution by the Community budget. The Commission's office on Iraq issues based in Amman will be reinforced as from 1 January 2005 which will strengthen the follow-up of the Community reconstruction assistance.

5.2. *Lessons learnt*

There are a number of lessons learned from the reconstruction assistance in 2003 and 2004.

- The set up of multi donor trust funds has facilitated for the Commission (and other donors) to quickly transfer the funds pledged at the Madrid conference. This could be done smoothly as a flexible approach was adopted focusing on the needs indicated in the UN and World Bank Needs assessment and with the specific matching of funds undertaken by the UN and World Bank in close coordination with the Iraqi administration. This flexibility approach has furthermore proven constructive in mobilising funding quickly for additional needs, such as providing financing for the preparations and running of the elections.
- The equal distribution of the Commission funding under the 2004 Assistance programme to the UN and World Bank trust funds under the IRFFI led to an implementation using different approaches and different channels. This has provided the Commission and the Iraqi administration with information on the various separate modalities of the implementation which is valuable for the future. The UN has utilised primarily a number of UN specialised agencies with a solid experience in the field and with a focus on quick impact projects. The World Bank on the other hand, has focused its implementation working through the Iraqi administration. As a result, it appears that the actual disbursement of funds under the UN trust fund has been more rapid, while it should be acknowledged that contracting and disbursing is a dynamic process including the allocation of funds to sectors and projects as well as deposits of donor pledges being fulfilled.

- Coordination with the Iraqi administration proved to be challenging due to several factors. The lack of an established EC presence in Iraq has been a limitation for a systematic follow up. Additionally, the difficulties emanating from the insecurity situation and from developing a new administration (also with a rather frequent staff turn-over) working under very difficult conditions have affected efficiency. However, the Commission opened an Iraq office in the EC Delegation in Jordan in the summer of 2004 from where coordination with the Interim Government, the World Bank and the UN as well as other donors takes place. In addition to the systematic reporting from the UN and the World Bank, the EC has maintained regular and close contacts and follow up with the fund managers which has helped the follow up of implementation of EC funded sectors.
- It is clear that in order to be effective in delivering reconstruction assistance the mechanism of donor coordination and the tracking of both multilateral and bilateral funding is central. The IRFFI has to some extent managed to enhance the donor coordination, though limited to the donors contributing to the IRFFI. The overall donor coordination would benefit from being strengthened. The Commission's experience in other parts of the world shows that donor coordination is most effective when it is in the hands of the national administration. Support to the Ministry of Planning and Development Cooperation has been provided under a specific UN funded project under the IRFFI. But further assistance is deemed necessary.
- In parallel to the donor coordination involving international donors, the Commission's head quarters has attempted to obtain an overview of the EU assistance combining Member States and Commission reconstruction funding. This exercise also demonstrated that donor coordination is easiest undertaken closer to where the implementation takes place.

6. RESPONSE STRATEGY AND PRIORITIES FOR 2005

The Commission's overall strategy towards Iraq has not altered since last year's assistance programme. However, the strategy is now firmly anchored within the overall medium term framework for engagement with Iraq outlined in the Commission's 9 June 2004 communication². At the same time, as previously stated, the Commission has paid special attention to the principle of ownership and has hence drafted its reconstruction response within the framework of action and policy orientations developed by the Iraqi Interim Government through its National Development Strategy (NDS).

In particular, the Commission's suggested response focuses on a critical – though limited – number of sectors highlighted in the Iraqi strategic document (employment generation, access to basic services, and enhancement of the legislative framework in areas such as trade and energy, and development of the civil society). In addition, it maintains the policy balance identified at the NDS: first an equilibrium between the pressing social advancement programmes (e.g. employment or water and sanitation) and the economic reform policies (legal framework for trade and energy) and second, a balance between emergency management and long-term needs for reform. With such an approach the Commission will also attempt at supporting the Iraqis in enhancing the content of the policy issues suggested in general terms at the National Development Strategy.

² The European Union and Iraq – a framework for engagement, COM (2004) 417 final

6.1 Principles, Cross Cutting Issues and Linking Humanitarian and Reconstruction Support

Principles

Guiding principles for the 2005 reconstruction measures in Iraq have been identified taking into account the Iraqi side, the Commission and other actors.

With focus on the Iraqi administration the EC assistance will:

- be developed on the basis of Iraqi needs and priorities outlined in the National Development Strategy,
- acknowledge and strengthen the principles of Iraqi ownership and EC-Iraq partnership,
- consider the absorption and management capacity of the Iraqi administration in implementing the proposed activities.

Taking into account the Commission's framework of operation, the EC assistance will:

- take into account the lessons learned from previous years' EC assistance (including humanitarian aid) in Iraq,
- consider the medium-term objective to open negotiations for EU-Iraq contractual relations
- focus on sectors where EC has a proven experience and a track record from other countries and regions.

With respect to other actors the EC assistance will:

- take into account other donors' experiences and ongoing and future assistance programmes as well as take advantage of experiences of other countries in the region
- consider the advantages and disadvantages of the delivery of bilateral EC assistance as opposed to channelling EC financing through the IRFFI.

Cross-cutting issues

Many of the challenges facing Iraq have an impact across several sectors. Various cross-cutting issues have been identified both by the Interim Government in their National Development Strategy and by the implementing partners.

The Commission will in the design and implementation of the activities pay special attention to these crosscutting issues. The EC will encourage the UN and the World Bank to ensure that employment creation and income generating activities, human rights, sustainable development and gender considerations are fully addressed in the reconstruction activities.

In addition, the promotion of human rights requires specific attention and the EC will be drawing upon resources from the European Initiative for Human Rights and Democratisation for this purpose (see chapter 7.3).

Linking Humanitarian and Reconstruction Support

Effective linking of EC humanitarian and reconstruction support is crucial in ensuring a comprehensive response to Iraq's needs in 2005. A top priority is the need to continue actions to protect the most vulnerable sectors of Iraq's population. In view of the already strong investment of the EC reconstruction programme in the rehabilitation of essential services (water and sanitation, education and health), sectors that have been the focus of the EC humanitarian assistance in Iraq during the last 10 years, ECHO is not planning any new initiative and therefore proposing a zero budget for Iraq in 2005, but will continue to monitor the situation in order to be able to respond if new humanitarian needs are identified.

6.2. *Complementarity with Other Donors and Coordination mechanisms*

The donors meeting in Tokyo in October 2004 hinted at a certain frustration in terms of implementation and delivery on the ground although it should be borne in mind that the many donor payments to the IRFFI had only been made 5-6 months earlier. With respect to the current security situation the Interim government and the donors exchanged views on how to speed up the implementation and facilitate delivery of assistance on the ground. Several donors who had made pledges at the Madrid meeting were still awaiting signs of improvement before pledging (further) funds. Other donors had shifted priorities, such as the United States.

As the largest donor to Iraq, the US undertook a review of priorities in September 2004 deciding that Iraq's immediate needs warranted a shift of US\$3.4 billion of its US\$18.4 billion package from water, sanitation and electricity to the security and oil sectors, private sector development, democracy, human rights and debt relief.

Japan is the second biggest donor to the Iraqi reconstruction with a funding volume of almost US\$5 billion divided over grants (US\$1.5 billion) and yen loans (US\$3.5 billion). The yen loans are to be provided to meet medium term reconstruction needs (2005-2007) and will primarily focus on infrastructure development. Japan is also and the biggest contributor to the IRFFI.

The World Bank Group's Interim Strategy for Iraq focuses on building Iraqi capacity - particularly by training Iraqi civil servants in key ministries; emergency operations to generate employment and restore essential infrastructure and services; and laying the foundation for the medium-term through studies and policy advice. At the Madrid donors meeting in October 2003, the World Bank stated its readiness to provide loans to Iraq, ranging from US\$3-5 billion over five years. A request for borrowing under the International Development Association (IDA) has been forwarded by the Interim government in December 2004 and the World Bank is preparing the Interim Support Strategy. Assistance is likely to be channelled to the sectors supported by World Bank funded under the IRFFI.

Several EU Member States are supporting the reconstruction of Iraq and many of them are channelling funding via the IRFFI mechanism. As indicated earlier the Commission has made an effort to obtain an overview of the EU assistance combining Member States' and Commission reconstruction funding through requests to Member States to provide the information. Further coordination is needed in this respect and the Commission will as in 2004 take great care to coordinate the assistance with the EU Member States.

Donor coordination will follow the already established system as described in the 2004 Assistance Programme whereby the Ministry of Planning is in the driving seat for the Interim government. The Minister of Planning is chairing the Iraqi Strategic Review Board (ISRB) whose main functions include approval of projects financed by donors and studying and prioritising the Iraqi reconstruction needs. Additionally the Council for International Coordination (CIC) exists to facilitate communication between donors present in Iraq and the Interim government. Focusing on the donors with presence in Iraq, it automatically limits the participation to those present on the ground also affecting the Commission.

The Commission is an active member within the donor coordination structures set up for the multilateral reconstruction assistance which includes a joint Donor Committee that meets on a frequent basis. The two parts of the IRFFI are coordinated through a joint UN/World Bank Facility Coordination Committee and a joint secretariat. Information about the IRFFI and progress of implementation can be found on IRFFI's website (www.irffi.org). As explained above, donors receive on frequent basis information on the implementation of work carried out under the different sectors/clusters. In order to make donor coordination more effective in the long run, the Commission will advocate for a stronger involvement and ownership by the Iraqi administration. Measures to strengthen the Ministry of Planning and Development Cooperation have been provided through technical assistance from the UNDP via the IRFFI. Identified additional needs could be addressed through donor assistance.

6.3. Conclusions

The Commission will continue to support and promote the multilateral approach. The previous experience of the UN and World Bank trust funds justifies a continuation of EC funds being channelled via the IRFFI mechanism. The current conditions in the country call for support to provision and upgrading of basic services and measures increasing employment opportunities.

The support to the political process, democratisation, human rights and civil society development will facilitate the ongoing Iraqi political and constitutional transition in 2005.

In line with the overall medium term framework for engagement with Iraq and upon the request from the Interim government, the Commission foresees to commence support to bilateral activities in areas which are of key strategic mutual interest for the EU and Iraq. These activities are essential to pave the way for a deeper and more structured collaboration at a later stage.

Finally, due to the current security situation and the uncertainties with respect to the evolution on the ground, a programme reserve is essential to maintain the established flexibility approach which has proven to be successful for Iraq.

7. IRAQ ASSISTANCE PROGRAMME 2005

In the Commission communication to the Council and the European Parliament "The Madrid Conference on Reconstruction in Iraq 24 October 2003³", the Commission indicated that the approach for 2003 and 2004 funding would be an overall support to establishing a multilateral

³ COM(2003) 575 final of 1.10.2003

framework for reconstruction. Therefore, in 2003 and 2004 the EC resources were channelled through the multi donor trust funds. The Commission considers that due to the current situation and its limited presence on the ground, the channelling of the bulk of the current EC assistance through the IRFFI continues to be fully justified.

In line with the 9 June 2004 Communication the Commission has the intention to establish and sustain normal bilateral relations with Iraq. An important aspect of such normalisation would be the implementation of a bilateral EC technical assistance programme forming part of a wider EU objective to build capacities and strengthen the Iraqi administration and know-how base. Therefore, the 2005 EC assistance programme will include a bilateral assistance part. It should be underlined, though, that if security and other conditions on the ground do not allow for the implementation of this programme, it could be reconsidered for a further transfer to the International Reconstruction Fund Facility for Iraq.

According to the principles outlined in chapter 6.1, reflecting in particular the need to seek coherence with the 2005 Iraqi National Development Strategy budget and to complement the activities of other major donors, the Commission has identified three areas where EC resources may be focused. Within the overall objective of promoting Iraq's stability, recovery and sustainable prosperity, the assistance programme for 2005 aims to:

- Restore and strengthen delivery of key basic services
- Increase employment opportunities and sustainable alternative sources of income and livelihoods
- Strengthen the Iraqi administration with respect to legal, institutional and regulatory aspects, with specific emphasis on policies and structures focusing on trade policy and energy
- Enhance democratisation processes, values and instruments promoting and defending human rights and fundamental freedoms.

The EC will also ensure that special care is taken to matters relating to proper financial management and control to prevent misuse, fraud and corruption of Community funds.

7.1. *Support to key basic services and income generating activities: additional Contribution to the International Reconstruction Fund Facility for Iraq*

Background and justification:

The Community was one of the promoters for the setting up of the International Reconstruction Fund Facility for Iraq (IRFFI) under which the two trust funds (managed by the UN and the World Bank) are delivering in agreement with the Iraqi Strategic Review Board (ISRB) reconstruction funding to projects identified in the joint UN/World Bank needs assessment through consultation with the Iraqi Interim Government.

It is the Commission's opinion that the International Reconstruction Fund Facility for Iraq has made progress over the past year, despite the obstacles faced by the UN and the World Bank in the implementation. Although disbursements on the ground have not been as rapid as donors, and Iraq, might have wished the impact the IRFFI structure has had on donor

coordination and overall transparency in the reconstruction process has been generally positive. The selection of priority areas by the Commission was preceded by an assessment which concluded that absorption would be enhanced if EC monies were spread over a large number of sectors. On the other hand, this has affected EU visibility.

Given that the EC has, currently, no official presence in Iraq, the management of the EC contribution through the IRFFI has been useful as it has allowed for quicker disbursement within a concerted multilateral effort where the principle of flexibility has prevailed to support actions for which there is a real and imminent need.

At the donors meeting in Tokyo, the UN and World Bank provided reports showing that 100% of the EC funds transferred to the IRFFI are expected to be allocated by the end of 2004.

Following the adoption of the National Development Strategy by the Iraqi Interim Government, the World Bank and the UN are currently reviewing the needs identified and related pipeline projects for which funding has not yet been provided. This will constitute an element for determining the sectoral allocations in 2005 for the IRFFI. The description in chapter 3.1 and 3.2 of the development in economic and social terms in Iraq indicates that there are still apparent needs for provision of key basic services, such as education and health as well as measures to overcome the critical unemployment situation.

Specific objectives:

On the basis of the level of absorption of the previous EC contribution and after a preliminary evaluation of needs under the IRFFI, in 2005 the Commission aims to :

- Restore and strengthen delivery of education and health services
- Increase employment opportunities and sustainable alternative sources of income and livelihoods for the Iraqi population, in particular the most vulnerable groups, and with particular focus on rural areas.
- Assist in the development of an Iraqi administration with the capacity to direct, manage and monitor public and donor resources in a manner which respects the principles of good governance and combats corruption.

As for the Assistance Programme 2004, the activities should be considered in the context of the UN and World Bank's respective work plans for 2005 and other updates that will be provided in the course of the year. In particular, the description of programmes, expected results and indicators should be read with full understanding that they will be interpreted and implemented by these two organisations in line with their own obligations and procedures.

Description of programme:

Support to the UN and/or World Bank programmes could be considered in one or more of the following areas:

- Health
- Education
- Rural development
- Employment generation

Expected results:

Improvement in delivery in healthcare, education, economic opportunities with specific attention to improving the situation for the most vulnerable groups including rural populations.

Indicators:

Progress against the Millennium Development Goals in the areas of education, healthcare and towards other poverty related human development indicators.

7.2. EC capacity building/technical assistance programme

The size and focus of an EC bilateral programme would depend on the general developments in the country (most notably the security situation) and the capacity of the Iraqi administration to manage effectively international donor funds.

The key global objective of bilateral technical assistance is to enhance capacity through institution building and transfer of know-how.

The modalities of implementation of the activities proposed will be depending on the evolution of the security situation in the country and the possibilities to increase the EC presence on the ground. Therefore, several activities proposed should be foreseen to be implemented out-of-country.

Priority area 1: Trade and investment

Background and justification:

The EU has a substantial record of working with the transition economies as well as expertise from its own experience of combining social cohesion with building strong market institutions, liberalisation and integration. The EU would also be in view of its size, historical and geographical links a natural market for Iraqi goods and services.

Therefore, the establishment of a trade and investment regime which offers a minimum of predictability, transparency and legal certainty is a pre-condition for private operators to invest and be active in Iraq (including participation in bidding for contracts). This regime should, for a number of reasons, be in line with the main principles of the multilateral trading system. Likewise the existence of an operating Customs administration is necessary for Iraq to fully benefit from the preferences granted under the GSP system. Finally, the implementation of a properly functioning customs administration will contribute to the development of the private sector and increase exports, while at the same time is a condition for the development of a fiscal policy and the fight against illicit trade. The priority actions described below support Iraq's progress in the area of trade and investment and constitute building blocks towards the free and full operation of a market economy in the country.

- I. In this context, the setting up of a modern and efficient **customs administration** appears to be a first priority in the case of Iraq. It will facilitate export development, help private sector development while it is a *conditio sine qua non* for developing an efficient tax administration and fighting illicit trade.
- II. Iraq has suffered a complete breakdown of its institutional and legal foundations with implications for its trade regime which needs to be reformulated. The International Community has, through the work of the Integrated Framework, carried out diagnoses of the state of play of the trade regime in a number of countries with a view to assess the needs in terms of technical assistance and to define the trade regime, within the parameters of the multilateral trading system, which is best suited for the country in question. In the case of Iraq carrying out such a diagnosis would also appear to be a priority. This diagnosis would be a first step towards defining what sort of technical assistance the country requires and would help Iraq to draft a legislative action plan to develop a fully fledged trade regime.

Iraq has now requested the opening of negotiations for its accession to the WTO and such a **trade policy diagnosis** will also be an important contribution to the work to be undertaken in connection with the preparation of the Foreign Trade Memorandum to be presented to the WTO membership and its subsequent discussion with WTO members.

- III. A third priority activity would involve the promotion of trade facilitation measures. The creation of a transparent and predictable business environment is key to **private sector development and to increase investment** and in particular foreign investment. For such an environment to be established a reliable legal and policy framework is needed including conditions which allow the private sector to play its role in the economy. Past policies and several years of sanctions have prevented competition and entrepreneurship to flourish and some of the main current problems are:

- Complicated regulatory framework
- Insufficiently developed banking sector/ financial institutions
- Lack of transparency and predictability of trade laws and regulations.
- Insufficient or non existing judicial bodies, and therefore
- A lack of legal and institutional recourses for economic operators.
- Existence of a large number of State Owned Enterprises (SOE) which are not always financially sound or economically efficient but which have a considerable impact on employment.

Specific objectives

- 1) Strengthening the capacity of the Iraqi institutions comprising the customs administration, including certification and control agencies.
- 2) Comprehensive overview of the relevant existing legal, judicial, institutional, and regulatory trade and investment framework and establishment of an action plan, for the development of Iraq's future trade and investment policy.
- 3) Supporting the process of Iraq's accession to join the World Trade Organization (WTO).
- 4) Stimulation of favourable conditions for private sector and investment aiming at enhancing and advancing private sector investment and activities.

Description of programme:

The EC technical assistance will focus on institution building and strengthening capacities. Due to the nature of the activities proposed the length of implementation differs from activity to activity. The following activities provide a combination of short term and long term activities. The short term activities include those that could be finalised within 12 month, whereas the longer term activities are more focused on paving the way for future reform initiatives.

- Establish a technical assistance matrix of identified needs
- Training and workshops for officials and private sector actors on Customs operation matters
- Technical assistance to ensure coherence sustainability and effectiveness of Customs.
- Carrying out of a trade policy diagnosis with Iraqi officials and international and local experts.
- Technical assistance to support the national institutions on the trade policy diagnosis exercise.
- Technical assistance in strengthening of national institutions involved in processing and handling trade.

Expected results:

Increased capacities in the national institutions involved in processing and handling trade

Indicators:

- Number of people trained
- Number of operational customs border points
- Enforcement of customs laws and regulations
- Implementation of internationally agreed customs standards
- Report and matrix of technical assistance needs

Priority area 2: Energy

Background and justification:

The Iraqi economy continues to be dominated by the oil sector. According to the National Development Strategy, the sector accounts for 74 % of the country's GDP and over 95 % of its exports and budget receipts. Iraq has some of the largest estimated oil and gas reserves in the world and the cost of production is also among the lowest in the world. However, Iraq's role as an energy supplier has been limited so far by economic and political isolation. Iraq produced 2.33 million barrels/day in September 2004, which is a return to the level seen in 2000-2002, before the last war. However, with relatively minor investments of the order of \$4-6 billion in existing reservoirs, it could easily be expanded to 3.8 million barrels/day. For increasing production further, new concessions will be needed. Ultimately a figure of 5.5 million barrels/day is possible in the short run and up to 7 million barrels/day in the longer run. This would make Iraq one of the world's major suppliers of oil. However, Iraq's full potential is not being realised primarily due to:

- The security situation, including the continued attacks on the energy infrastructure and oil facilities;
- The loss of expertise due to the war and security situation;
- Non-transparent and complicated investment procedures which, inter alia, discourage foreign investment.

Efforts are ongoing to restructure the oil sector by the Ministry of Oil and through a medium to long-term plan developed by the Ministry for increasing the country's oil production capacity. The government is also consolidating its strategic control over the sector through the Supreme Oil Council (established in July 2004) while at the same time allowing important private sector investment. Regardless of these measures, Iraq is far away from having a comprehensive energy policy based on a sound management of energy demand and on market principles such as those in the EU (i.e. liberalisation, possible privatisation, independent regulatory authorities, etc.)

Iraq is also estimated to have huge reserves of natural gas, which are largely untouched. Efforts to tap these resources would constitute a low cost fuel for electricity generation with a strong positive environmental impact and also eventually, by linking into the EU market via Syria and Turkey, provide Iraq with additional export revenues. Indeed the potential of Iraqi natural gas is already being considered in the work to develop an integrated gas market in the Mashreq region in the framework of the Euro-Mediterranean Partnership. In addition, it should be noted that Iraq is currently flaring about 800,000 m³ per day of natural gas.

A major challenge for internal economic and social development is the shortage of electricity. Currently Iraq has no more than 4,000-4,500 MW of power generating capacity and yet peak demand over the summer months reaches 6,000 MW. In addition, several power plants are only partially operating, repairs are needed to power lines and frequent power interruptions remain common. The optimum use of the existing electricity infrastructure is extremely important and priority will be given to training and exchange of know-how on operations and maintenance.

Specific objectives:

- 1) Strengthening the energy sector investment and operational environment.
- 2) Development of judicial capabilities and energy sector regulatory and legal frameworks to encourage economic activity and international investment as well as to deter corruption, organised crime and criminality.
- 3) Support to the exploitation of the natural gas reserves, particularly the export of gas to the Mashreq and EU markets.
- 4) Enhance the reliability of the electricity supply.

Description of programme:

The EC technical assistance will focus on institution building and strengthening capacities. Due to the nature of the activities proposed the length of implementation differs from activity to activity. The following activities provide a mix of short term and long term activities. The short term activities include those that could be finalised within 12 month, whereas the longer term activities are more focused on paving the way for future reform initiatives.

- Technical assistance for developing an adequate and transparent legislative framework aiming at promoting independent power projects.
- Training and transfer of know-how covering all relevant energy sectors, particularly oil, gas and electricity, related to technology, infrastructure maintenance and operation, regulatory frameworks, standards (including environmental protection), etc...
- Support to Iraqi participation in regional energy fora such as the EU-Mashreq gas co-operation and the EU energy market observation system with the view of sharing experiences and attracting investment.
- Technical assistance to strengthen governmental transparency and accountability in monitoring and managing the oil revenues.
- Feasibility study on the necessary infrastructures for linking the Iraqi gas resources to the developing Mashreq regional gas market and eventually to the EU market.

Expected results:

- Building blocks for an adequate and transparent legislative framework aiming to promote independent power projects
- Increased capacities in the national institutions involved in all relevant energy sectors related to technology, infrastructure maintenance and operation, regulatory frameworks, standards etc.
- Increased transparency and accountability in monitoring and managing the oil revenues.
- Participation of Iraq in regional energy fora and knowledge of the necessary infrastructures for linking Iraqi gas resources to the developing Mashreq regional gas market.

Indicators:

- Number of Iraqis participating in training courses and seminars with EU energy sector experts;
- Draft proposals for a legal framework aimed at promoting independent power projects prepared;
- Number of Iraqis participating in regional energy fora;
- Improved and more transparent reporting structure on the management of oil revenues;
- Study on the necessary infrastructures for linking Iraqi gas resources to the developing Mashreq regional gas market completed.

Accompanying measures

The Commission's medium-term strategy for EU engagement with Iraq supports the possibility to establish bilateral sectoral working groups relevant for the priority areas and where mutual EU/Iraq interests prevail. Based on the experience of other similar dialogues in the region, such working groups could be established in the future paving the way for additional EU support for Iraq's participation in other regional forums.

7.3. *Support to Political Process, Constitutional process, Civil Society Development and Human Rights*

Background and justification:

Considering the special circumstances of the situation in Iraq and in line with the overall objectives of the EU in its relations with Iraq, an amount of € 10 million of the 2005 European Initiative for Democracy and Human Rights (EIDHR) operational budget has been earmarked for support to human rights and democratisation projects in that country.

EIDHR is the financial instrument which underpins and complements the European Union's human rights and democratisation policy. It provides financial support predominantly to civil society and non-governmental organisations, and to some degree to relevant international organisations, for activities in third countries aimed at promoting and defending human rights and fundamental freedoms, supporting the processes of democratisation and preventing conflicts and dealing with their consequences.

Specific objectives:

Support for Iraq will be made available within the framework of all four areas to be funded world-wide under EIDHR in 2005. These four areas are:

1. Promoting Justice and Dignity, aims at advancing the "global public good" of the international criminal justice system and work for the universal abolition of the death penalty. It also intends to reinforce the work of international mechanisms which monitor and report on respect for human rights and related treaty obligations.
2. Fostering a culture of human rights will focus on human rights education, training, monitoring and awareness-raising, and seeks to empower individuals and civil society to enhance respect for human rights and prevent human rights violations, especially as they relate to the rights of marginalised or vulnerable groups, as well as torture. In support for the rehabilitation of torture victims, the offering assistance to those who have suffered human rights violations is a critical element in the process of acquiring and disseminating knowledge on human rights. As a guiding principle, human rights education and awareness-raising will aim in particular at reaching remote areas and being readily understood by the most disadvantaged members of society
3. Promoting the democratic process will focus on the development of participatory democracy as well as foster an informed pluralistic discourse within civil society on democratisation and fundamental rights, including through the development of the freedom of association and the freedom of expression. The overall objectives aim at:

underpinning and developing democratic electoral processes and strengthening the basis for civil society dialogue and democratic discourse.

4. Advancing equality, tolerance and peace have two objectives i) securing equal rights and treatment of persons and minorities irrespective of racial, ethnic or caste origin; and ii) intercultural and interethnic understanding.

In addition to these four campaigns, and in view of the political and constitutional transition laid down in the UNSCR 1546, funds will be earmarked to provide support in the constitutional process, if such a request is presented by the Iraqi government. The Commission's support would be provided in close coordination with other donors, in particular the EU Member States and the United Nations.

Description of programme:

Implementation will be determined based on the activities included in proposals received and awarded to international and local civil society organisations following calls for proposals. In addition, a number of projects (approximately 20 % of the amount available for Iraq under EIDHR 2005) may be implemented with international organisations present on the ground. Should the prevailing security situation prevent generating adequate civil society projects through calls for proposals, a bigger proportion of the €10 m may need to be redirected towards the relevant activity, sector or cluster of the International Reconstruction Fund Facility for Iraq.

The details of the support to the constitutional process will be determined following consultation with the Iraqi government and other donors. It is envisaged that the Commission's contribution will if possible cover both provision of experts to assist in the legal drafting of the permanent constitution as well as accompanying measures such as awareness campaigns.

Expected results and indicators:

The expected results and indicators should be read with full understanding that they will be determined and interpreted in the course of selection of the proposals and the implementation of activities.

7.4. Programme Reserve

A reserve has been allocated to allow EC assistance to retain a level of flexibility to adapt to several possible future scenarios listed below. In particular the reserve is foreseen to finance activities aimed at strengthening the Iraqi institutions.

- Resources within the IRFFI are not sufficient to cover planned operations;
- Change in priorities on the part of the new government.
- Additional contribution to elections/referendum/rule of law/civilian administration in 2005, if required and feasible from an implementation point of view.
- Other bilateral projects in the priority areas, if security conditions on the ground improve.

The Commission will after reviewing implementation during the first half of 2005 decide on its intentions for the utilisation of the reserve component during the second half of 2005. The Member states will be informed about the Commission's decision.

7.5. *Community Budget 2005*

The total budget for Iraq in 2005 is expected to be €190 million allocated from Heading IV budget line 19 08 07. A further €10 million will be earmarked for Iraq on budget line 19 04 03 (European Initiative for Human Rights and Democracy). The indicative allocations set out below have factored in support provided to the objectives set in 2004, experience in disbursements of funds to date from the International Reconstruction Fund Facility for Iraq and the UN and World Bank's plans for 2005.

Table 4: Indicative allocation per objective, 2005

Component	€ millions
Further contribution to the International Reconstruction Fund Facility for Iraq (objectives: restoring and strengthening the delivery of key public services, improving livelihoods and reducing poverty, strengthening governance).	130
Support to Ministries of Electricity and Oil.	7.5
Trade-related technical assistance, investment environment and customs administration.	7.5
Political and constitutional process, civil society development and human rights (EIDHR).	10
Programme Reserve	45
TOTAL	200

Annex 1: Summary of total EC reconstruction assistance to Iraq 2003 and 2004

1. Restoring and strengthening delivery of key public services

<i>Sector</i>	<i>Amount Committed/Year (€)</i>	<i>Implementing partner</i>
Water and sanitation	19,300,000 (2003: 6,300,000 2004: 13,000,000)	UNDP Thematic Trust Fund (UNICEF) International Reconstruction Fund Facility – (IRFFI) (United Nations Cluster 3)
Health	19,000,000 (2003: 9,000,000 2004: 10,000,000)	UNDP Thematic Trust Fund (WHO) IRFFI (United Nations Cluster 2)
Education	18,700,000 (2003: 3,700,000 2004: 15,000,000)	UNDP Thematic Trust Fund (UNICEF) IRFFI (United Nations Cluster 1)
Rehabilitation/reconstruction of Iraqi schools	40,000,000 (2004)	IRFFI (World Bank)
Total	97,000,000	

2. Improving livelihoods and reducing poverty

<i>Programme</i>	<i>Amount Committed/Year (€)</i>	<i>Implementing partner</i>
Emergency employment schemes (IREP)	10,000,000 (2003)	UNDP Thematic Trust Fund (UNDP)
Mine Action	2,000,000 (2003)	UNDP Thematic Trust Fund (UNDP)
Agriculture, water and environment	15,000,000 (2004)	IRFFI (United Nations Cluster 5)
Community based rural infrastructure programme	37,000,000 (2004)	IRFFI (World Bank)
Poverty reduction and human development	5,000,000 (2004)	IRFFI (United Nations Cluster 10)
Total	69,000,000	

3. Strengthening governance, civil society and human rights

<i>Programme</i>	<i>Amount Committed/Year (€ millions)</i>	<i>Implementing partner</i>
Support to establish and train Independent Electoral Committee of Iraq and media campaign for the National Conference.	34,500,000 (2003: 3,000,000 2004: 31,500,000)	UNDP Thematic Trust Fund (UNDP), IRFFI (United Nations cluster 11 as well as provision of EC experts)
Governance, political transition, democracy, civil society, human rights	12, 000,000 (2003: 5,000,000 2004: 7,000,000)	IRFFI (United Nations Cluster 9)
Training and capacity building programmes for Iraqi officials and civil society	6,000,000 (2003: 3, 000,000 2004: 3,000,000)	IRFFI (World Bank)
Total	51,000,000	
GRAND TOTAL	218,500,000	

