

Republic of Iraq
Ministry of Finance
 Minister's Office



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Draft Letter of Development Policy

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World Bank
1818 H Street, N.W.
Washington D.C. 20433
U.S.A.

Ref: Letter of Development Policy

**Second Expenditure Rationalization, Energy Efficiency and State-Owned Enterprise Governance
 Programmatic Development Policy Financing**

Dear Mr. Kim,

1. Iraq's recent history has been painfully marred by security, economic and human development challenges. The country is engaged in a war against the so called Islamic State of Iraq and Syria (ISIS), and coping with a large economic and social crisis as a result of the sharp downturn in the price of oil affecting our main export and source of revenues. Yet, for the sake of our country and its unity, we are determined to overcome these formidable challenges through strategic vision, security-focus, and the implementation of necessary reforms with the support of bilateral and multilateral partners. We are committed to implement reforms that would help re-build the social contract and actively support the non-oil economy. To do so, first we intend to improve governance in the public sector and combat corruption.

Background

2. The incursion of ISIS into Iraq has been brutal including on the humanitarian and economic fronts. In 2015, we have launched a concerted and ongoing military campaign against ISIS and have regained most of the territories previously occupied. we are now fighting to liberate from ISIS the city of Mosul, which is the second most populated city in Iraq. The length of the operation is still unclear, as are the costs of assisting the people who will be displaced as a result of the military campaign. In the meantime, we are currently working on reinstating the presence of the State in the liberated areas (we are doing so in partnership with the World Bank through their US\$350 million Emergency Operation for Development). In addition to the lives lost as a result of terrorist activity, we are witnessing the unfolding of a humanitarian crisis: about 3.4 million Iraqi citizens are internally displaced and 225,000 Syrian refugees that have fled the conflict in their country are placing a large burden on our



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already stressed public services. The U.N. Estimates that 10 million people are in need of assistance. The conflict is also leading to large destruction in physical assets and disruption of economic activities

3. The oil economy, the main driver of our economy, has also been severely hit by the sharp reduction in oil prices since 2014. While we have been able to partly mitigate this shock by increasing the supply of exported oil (with oil production in 2015 forecast to increase to 3.4 million barrels per day (mbpd) from 3.1 mbpd in 2014), the economy, public finances, external balance and oil wealth have been negatively impacted by this second shock.
4. As a result, advances we had made in some development indicators have reversed and poverty has been increasing. As estimated by the World Bank, employment has been drastically cut, by 800,000 jobs. The shocks have also pushed an additional 2.8 million Iraqis into poverty. Beyond the human suffering and tragedy, IDPs are under particularly difficult economic circumstances: about 500,000 of them are poor and the poverty rate among IDPs is a staggering 40 percent, almost twice Iraq's national average. For the population as a whole, the twin shocks have, in a very short period of time, resulted in a sharp reduction in our GDP per capita, from about \$7,000 in 2013 to about \$5,000 in 2015.

Macroeconomic, external and fiscal sectors, current and outlook

5. The economy, public finances and the external sector have been severely affected by the ISIS crisis and the reduction in oil prices. Thanks to strong growth of oil production in 2016, the economy continues to grow, reaching an expected 10 percent growth in 2016. However, the non-oil economy has been declining for the past three years because the war has displaced and increased vulnerability of millions of people, destructed infrastructure, disrupted trade and sagged confidence. This dire non-oil economic situation has led to an estimated increase in poverty from 19 percent in 2012 to 22 percent after the onset of the conflict. Inflation remains restrained to 1.4 percent on average in 2015 and is expected to average 2.0 percent in 2016, although we are concerned about potentially higher inflation rates in areas within ISIS control.
6. On the external front, the current account deficit is forecast to widen to about 7.0 percent of GDP by end 2016 compared to a deficit of 6.1 percent in 2015, when it turned negative. This deterioration is led by the plunging of oil prices since 2014 which negatively affects revenues from oil exports. The latter fell by US\$36 billion (39 percent) in 2015 compared to 2014. With these balance of payment pressures, our gross reserves have been on a downward path since 2013, estimated to reach US\$43 billion by end-2016, a reduction of US\$10 billion compared to end-2015. This lower level of reserves is adequate to maintain our peg, as recently assessed in the first review of the IMF SBA program, which will be discussed by the IMF Board on December 5, 2016.



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7. On the fiscal front, the fall in oil prices has sharply reduced our revenue while the war with ISIS has increased spending needs, pushing our fiscal balance into a large deficit in 2015, despite a major fiscal consolidation effort. The overall fiscal deficit reached 12.3 percent of GDP in 2015. The fiscal consolidation has been frontloaded in 2016, when thanks to continued expenditure controls the fiscal deficit is expected to decline to 8.2 percent of GDP. The limited financing available forced some adjustments to contain the deficit in both 2015 and 2016. On the revenue side these focused on ensuring increased volumes of oil exports. On the expenditure side, the Government prioritized payments of wages, pension, debt service and oil-related investments and sharply under-executed non-oil capital investment. As a result the country's public debt-to-GDP ratio, which almost doubled since 2014, is expected to peak at 63 percent by end-2018 and gradually decrease over the medium term.
8. Because of our limited sources of domestic and external financing we have had to accumulate arrears, but we expect to fully clear external arrears by end-2016. Domestic and external arrears accumulated since 2014 are so far estimated at ID12.5 trillion (US\$10.6 billion), equivalent to 6.1 percent of 2016 GDP. Even though we made partial payments in the first half of 2016, external arrears accumulated towards international oil companies and for associated natural gas production at end-June 2016 amounted to US\$3.7 billion and US\$225 million respectively. We expect to clear these arrears by end-December 2016 and to remain current on future payments. We expect to finance the 2016 fiscal deficit through domestic bank financing, most of which is being refinanced at the discount window of the CBI because banks' liquidity is constrained. Since it has historically run budget surpluses, Iraq has not developed a Treasury bonds market; nor has it issued external bonds in the past decade. The attempted 2016 issuance of ID5 trillion 5-year bonds aimed at the general public mobilized only ID0.6 billion. In 2016, the external budget support financing is expected to be limited to the proposed US\$1,443.82 million budget support operation from the World Bank and the US\$1.2 billion financing under the IMF's SBA. Any further reduction in expected financing would require further reduction in expenditure in 2016.
9. Despite these challenges and a continued low oil price which we forecast at US\$42/barrel for 2017, we expect some improvement over the next year although the situation remains challenging. With oil production projected to remain at 4.5 mbpd in 2017, we expect economic growth to slow down to 1.1 percent in 2017 with a return to positive growth to between 3 and 4 percent in the non-oil economy, assuming an improvement in the security situation. Thanks to slightly higher oil prices, oil exports are projected to also increase. We envisage that the current account deficit would narrow to 6.8 percent in 2017. Given continued fiscal consolidation efforts, we expect the fiscal deficit to improve by 7.0 percent of GDP in 2017. We also expect that the fiscal deficit will be fully financed through multiple funding sources both domestically and externally from international financial institutions, donors and capital markets.



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The Government's reform focus

10. The Government of Iraq is steadfast in pursuing reforms despite the challenges outlined and is committed to implement its 2014-18 Action Plan (*Action Plan* thereafter). The priority of this program is security and stability for all of Iraq, liberating ISIS-controlled areas and reinstating rule and order, a necessary condition for an improved economy and for development. The second priority is to improve governance and combat corruption to maintain fiscal sustainability and step up the level of public services, including the provisioning of electricity, water, health, education and improving the social protection system. The August 2015 protests from citizens were a call to speed up our reform efforts. The Government listened to the people's demands and launched a series of reforms in governance in addition to other social and economic reforms towards inclusive growth, improved fiscal management, augmented electricity provision and enhanced investment environment and movement towards a market economy.
11. On the fiscal management front, we are eager to improve the efficiency of our current and investment expenditures. We recognize that this will require difficult and socially-sensitive measures. In line with our commitment to fiscal sustainability and sound macroeconomic policies, we commit to continue the program of fiscal consolidation initiated in 2015.
 - a. At an estimated 17.6 percent of GDP in 2016, our wage bill, the largest current expenditure item, is high compared to international standards and growing at an unsustainable rate. We are determined to reduce the wage bill through expenditure controls. First, we plan to ensure prompt implementation of the Council of Ministers' decree 313 instructing all Ministries, Departments and Agencies (MDAs) to transition to electronic payment of salaries and biometric verification of civil servants' attendance - technologies that have been effective in reducing costly payroll waste. The technologies have already been voluntarily piloted by several Iraqi ministries, and the new decree will help to broaden and coordinate their implementation across remaining MDAs under the guidance of an inter-ministerial Payment Systems Committee chaired by a senior representative from the Prime Minister's Office. The Committee will define common standards for the technologies, procurement, and selection of third-party implementers, in line with best practices. Second, after the completion in August 2017 of the comprehensive payroll audit by the Federal Board of Supreme Audit (FBSA), we are starting discussions to create a central electronic personnel and payment database that combines all MDA records and removes irregularities found by the FBSA audit. The master registry will prepare our transition to a transparent common all-government payroll system, which will strengthen our efforts to monitor and remove payroll fraud and improve our ability to make informed budget allocations. In 2017, we will ask all MDAs to adopt this master registry as a basis for payroll and for verifying daily employee attendance, and will also ask them to send monthly updates (to be spot-audited for



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accuracy by the FBSA) based on legitimate personnel changes, including one update in 2017. Third, we plan to request all MDAs to provide the high-level Payment Systems Committee with detailed mid-year and end-year reports on their (1) stocks and flows of employees by grade, age, level of education, and location; (2) number of employees found to be at least once in violation of absenteeism provisions under Civil Service Law No. 14 of 1960, and the number and types of remedial actions taken; and (3) total wage expenditure (comprehensive of all benefits and allowances) by grade, age, level of education, and location. The Ministry of Finance will publish these reports on its website, with one set of MDA reports to be published in 2017.

- b. The rationalization and prioritization of investment projects is urgently needed. Our investment projects currently suffer from a number of structural inefficiencies, low execution and low utilization rates. Improvement is needed not only to prioritize and effectively and efficiently implement the limited investment spending that is feasible for 2016, but also to be able, over the medium term to afford to undertake the large investment projects required for rebuilding the country. To address this we adopted Decree 445 of October 18, 2015 which defines a framework for public investment cycle, from project feasibility to post evaluation phases of a project, including preparation of a Cost-Benefit analysis for capital projects. To further support the implementation of the framework, the Ministry of Planning has set up through a Ministerial Order the PIM Unit to oversee project appraisal and monitoring. As a first step, the PIM Unit has submitted to the Council of Ministers the list of projects that are consistent with government priorities. These projects, which cost ID3.4 trillion will be then subject to a rigorous cost-benefit analysis before being included in the 2017 and 2018 budget, for their execution. Additionally, by the end of the following year, we aim to make a specialized monitoring and ex-post evaluation team fully operational within this unit. Through these reforms we expect to progressively improve the selection and assessment of public investment projects by increasing from 5 to above 20 the percentage of capital projects that exceed ID100,000 billion (about US\$85 million) for which a feasibility study with cost-benefit analysis is done.
- c. With a debt-to-GDP ratio that has doubled in the last two years and is forecast to reach 61.3 percent by end-2016, embarking on improvements in our debt management is key. In 2015, I have established a Debt Management Division within the Ministry of Finance to improve our capacity to record and report with sufficient analysis on the debt in line with international best practice, improve management of the debt, prepare medium-term debt management strategies, coordinate with the Central Bank of Iraq on issues of debt management and develop the legal framework to introduce new instruments in line with diversifying our funding sources. Building capacity in this unit will also be crucial to



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explore new financing instruments, develop our nascent domestic debt market and improve our access to international capital markets having learned from our recent unfruitful Eurobond issue attempt. We have already secured the assistance of JICA for the purpose of building capacity in this unit. With their support we started the regular publication of a Quarterly Public Debt Bulletin, which is available on the Ministry of Finance website in Arabic and English. The first issue includes aggregate statistics for external and domestic debt and reports the debt outstanding and disbursed of all external central government loans. As we have submitted our external debt to an external international auditor, in 2017 we plan to make our debt numbers fully consistent with the result of the audit, once finalized. By end-2018 we expect to have 9 issues of the bulletin. By end-2017, we aim to adopt a medium-term debt management strategy, which will be updated annually. The mid-term debt management strategy will support increasing the average debt maturity of domestic public debt from the current short average duration of 0.6 years—which exposes public finances to large debt rollover risks—to an average duration of 1 year by end-2017 and maintaining market-based domestic debt financing to above 35 percent in 2018. In 2017 we also commit to adopt an annual borrowing plan for 2018 consistent with the debt management strategy. We shall also undertake and publish the results of a DEMPA, which would be conducted with the cooperation with JICA, by this time. This will provide us with a comprehensive and candid assessment of our public debt management, assessed against international best practices.

- d. At about 4 percent of GDP, our public pension spending is high compared to international standards. It is fragmented, suffers from coverage gaps and is unsustainable. After removing at least 30,000 non-eligible retirees from the data registry in 2015 we aim to continue medium-term reforms on this front with planned integration of the public and private pension systems, leading to reductions in overall pensions expenditures and contributing to growth in the private sector through enhanced labor market mobility and increasing pension coverage. The new system will respect good pension principles of fiscal sustainability, adequacy, fairness, good governance, and administrative efficiency. The reform are expected to improve social insurance efficiency, coverage, and sustainability as measured by the actuarial deficit period (years left till going into deficit from 2015) which is expected to increase from the current 13 to at least 28 years. We expect to pass the new Social Insurance Law in 2017 and as a result reduce the overall spending on pensions (from the National Board of Pension and the Treasury, combined) from 4.8 percent of GDP in 2015 to 4.3 percent in 2018.
- e. For our social safety net program, we have reformed targeting in line with Law 11/2014, allowing for resources to go to those who need it the most. We want to reduce existing inefficiencies which waste about 40 percent of resources allocated to the social safety



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nets. By 2017, all our programs that target resources to the poor will use the welfare database developed by the Ministry of Labor and Social Affairs and Ministry of Planning to rationalize and better target cash and in-kind social assistance. Through these reforms the coverage ratio of the poor is expected to increase from 11 percent in 2015 to at least 50 percent by end-2018. The inclusion error would decrease from 43 percent in 2015 to 20 percent or less by end-2018. Thanks to the expected improved efficiency on our Social Safety Net system, we commit to use this system to compensate the poor and the near poor for negative impacts that may derive on their income or consumption from the reforms that we plan to implement, in particular those to the pension system (described above) and that related to the reduction of electricity subsidies (defined further below).

12. On the energy supply front, we are working to improve the efficiency and sustainability of supply particularly given that this is a priority concern for our citizens and in line with the fourth strategic priority of our *Action Plan*. Iraq currently suffers from a shortage of electricity supply. To improve our chronic 6-7 GW of electricity shortage which generates a significant cost to our economy, we need to move to natural gas, our cheapest option compared to more expensive crude and heavy fuel oil and imported diesel. Despite being one of the world's most gas-rich countries in terms of proven reserves, Iraq faces a shortage of natural gas with almost 60 percent of our gas production flared in-field, rendering Iraq the second gas flaring country in the world. This shortage, which could be addressed by capturing the volumes currently flared, generates large economic and fiscal costs and is not available for power generation needs (such as introducing combined-cycle power plants (CCGT)) nor to support industries that depend on gas feedstock and gas fuel.
 - a. In line with our 2013 Integrated National Energy Strategy, the Council of Ministers has committed to reducing gas flaring to zero by 2030 and the government has recently endorsed the World Bank's 2030 Zero Routine Flaring Initiative. The projected reduction is expected to result in the capture of US\$2.2 billion worth of currently flared gas by end-2018. Absent this measure, our otherwise planned increase in oil and associated gas production would result in even larger energy losses. With this commitment, the expected increase in supply from capturing, processing and delivering natural gas for power generation, would result in economic and social benefits and in the reduction of air pollution and CO₂ emissions. As reported in the 2017 budget approved by the Council of Representatives, we commit to spend ID1.4 trillion to cover payments from the Ministry of Oil to associated natural gas processors for (i) processed / dry gas, LPG and condensate deliveries and (ii) projected investment requirements for processing capacity expansions toward the reduction of gas flaring. As a next step, and by end-2017, we will also adopt and begin implementation of a contractual and regulatory framework for private investment in gas capture and infrastructure, including a Supplementary Gas Production Contract, a Gas Pricing, Gas Transport and Gas Marketing regulations; these



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will be initiatives without precedent in Iraq's natural gas sector meant to attract and facilitate private investment in those activities. The following year we also aim to implement a fuel pricing plan for the reduction in fuel subsidies to domestic, industrial, commercial and retail consumers.

- b. In order to boost Iraq's power generation needs, the gas obtained from reduced flaring needs to be effectively allocated for use in the operation of gas turbines. Today, more than half of the feedstock used in these turbines consists of diesel and heavy fuel oil that are comparatively more polluting, costlier than natural gas, and that cause the faster degradation of generation equipment. To support adequate coordination among the Ministries involved (Oil, Electricity and Finance) and the effective conversion of gas-based plant capacity back to gas use, the Council of Ministers set up , in 2015 an Inter-Ministerial Committee to develop and implement a five-year "Gas to Power Action Plan". We expect to launch the plan's implementation by end-2017 and continuously evaluate and update it once it is in place to ensure that flaring reduction and gas-to-power targets are met. The Committee will become operational by the end of 2016 through the introduction of an executive Gas-to-Power Aggregator in charge of planning and coordination of dry gas deliveries and allocations for power generation. In addition we intend to include the necessary FY2018 budget provisions consistent with implementation of the Gas to Power Action Plan in the draft 2018 budget law to increase natural gas allocations for power generation. These measures, coupled with our plan to reduce the share of gas flared, are intended to enhance the share of natural gas in the power sector ultimately resulting in large fiscal and balance of payment savings.
- c. Despite being an energy rich country, Iraq suffers from a chronic and pervasive shortage of electricity not only affecting daily life of the Iraqi citizens but also a burden on the budget due to the high subsidies. Whilst electricity supply is still constrained by system capacity, tariffs are not sufficient to cover the cost of service provision and the sector incurs high system losses with almost 70 percent of the electricity generated lost, as the equivalent revenue is not collected. To reduce the sector fiscal burden and inefficiencies: (i) tariffs were increased by about fourfold effective January 2016 thus reducing the overall electricity subsidy by about fifty percent; and (ii) the Council of Ministers has endorsed the Ministry of Electricity Loss Reduction Policy Directive that aim at increasing electricity revenue collections to at least fifty percent of the total energy generated by end FY18; and as a first step in the implementation of the policy, billing and revenue collections are being outsourced starting with the Baghdad area. These actions, although significant, are not sufficient to put the sector on a sustainable path. In this context, we commit to adopt a road map for the electricity sector which aims at full cost recovery and improved service delivery. The road map would also include a framework for procurement, in order to transparently outsource services for electricity distribution of revenue collection. As part of this road map, by end 2017, we aim to approve tariff and



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subsidy policy guidelines aimed at reducing the discretion that is allowed under the existing process for tariff determination. To further strengthen the sector's operational performance, accountability and transparency, the Minister of Electricity (MoE), through a ministerial decree, shall during FY 17 establish a "Regulatory Office" with responsibilities, among others, for monitoring and reporting the sector performance. Effective FY18 and on a quarterly basis, the Regulatory Office shall publish on the MoE website sector monthly performance data including but not limited to: (i) total energy generated per power station per fuel type; (ii) energy supplied to each Distribution Directorate; and (iii) billing and revenue collection data aggregated per directorate and consumer category. The published data shall include an assessment of the MoE performance against the sector key performance indicators and targets as shall have been approved by the Council of Ministers (CoM). The MoE, by end FY17, shall prepare and obtain the CoM approval of the sector key performance indicator targets for the period 2018-2022, including, but not limited to: (i) average cost of generation; (ii) electricity supply reliability; (iii) collection to generation efficiency.

13. In line with efforts to improve governance, we are committed to improving the transparency of State-Owned Enterprises (SOEs). At the moment, SOEs are largely weakly accountable, overstaffed, generating fiscal costs and posing a liability for the government. Given poor reporting from the non-financial SOEs, it is challenging to quantify these potential liabilities. Addressing enhanced transparency of these SOEs would also contribute towards transitioning our economy to a market-based economy that supports private sector development and is able to generate the jobs needed for our population, both in quantity and in quality. This is consistent with the third and fifth strategic priorities of our *Action Plan* calling for encouraging a shift towards the private sector and implementing administrative and financial reform of government institutions.

- a. In order to better inform decisions in monitoring and managing the large number of SOEs, support enhanced accountability, and mitigate the fiscal risks they pose, we are undertaking measures to improve the information collected on SOEs in a central database. To this end, the Prime Minister has committed to publish consolidated annual reports on financial and employment metrics of non-financial SOEs to improve the monitoring and managing of fiscal risks. By end-December 2016 the first report will cover at least 75 percent of the SOEs. By the end of 2017, we expect that SOE coverage will be complete for all non-financial SOEs (outside of ISIS-controlled areas and the KRG). We also decided to publish on the website of the Council of Minister's Secretariat the detailed financial relationships of the largest 9 nonfinancial SOEs (including taxes, dividends, subsidies/transfers, loans (principal and interest) and loans guarantees. We also plan to develop a Charter for Good Corporate Governance to provide guidance on internationally-recognized good practices. The Charter would provide the guidance that is needed and sought in legislation while encouraging, through internal competition, compliance beyond the voluntary. This will send a strong signal to the business community (public and private) that the government is committed to create an underlying



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trust between all stakeholders playing a role in creating more wealth and economic growth for the country and its people.

- b. In the financial sector, we will build on the momentum from last year, when we made the playing field more level between state-owned banks and private banks by allowing for a wider range of financial services that private banks may provide to government ministries and SOEs as stipulated by a Council of Ministers decision. This year, we have signed engagement letters with an internationally reputable audit firm, Ernst & Young, to conduct the first audits for compliance with International Financial Reporting Standards (IFRS) of Rasheed Bank and Rafidain Bank since 2005-06. The audit work has been initiated and is expected to be completed early in 2017. Following the completion of the audits, the true extent of the Banks liquidity and capital shortfall would be known. As a first and immediate measure, the Central Bank of Iraq would ask the banks to stop issuing loans to non-financial SOEs and to start reducing their total lending exposures to these non-financial SOE's in a time bound action plan. We are also continuing to strengthen our Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) regime following the passage last year of a new AML/CFT Law, which kept Iraq off the black list of the Financial Action Task Force (FATF) on Money Laundering, which would be detrimental to the Iraqi economy. Still, much more needs to be done, as Iraq remains on FATF's grey list, with a risk of still being black listed in the absence of further progress. This year we are issuing (i) five guidelines conforming to FATF recommendations on risk indicators related to suspicious transactions of banks, exchange and transfer companies, insurance companies, non-profit organizations, and designated non-financial business professions; and (ii) regulations conforming to FATF recommendations on freezing of terrorist assets and customer due diligence. These guidelines and regulations address FATF recommendations on: (i) transmission of suspicious transaction reports from banks, remittance companies, foreign currency brokers, financial investment companies, electronic payment businesses; (ii) organization and powers of council of AML/CFT policies; (iii) AML due diligence for remittances and transfers to charities and nonprofit organizations; (iv) importation and exportation of cash and foreign currencies; and (v) mechanisms of AML/CFT auditing by supervisory authorities at CBI. We expect a Financial Intelligence Unit at the CBI to be fully operational by end-2017.

Partnership with international partners including the World Bank

14. The Government of Iraq is working hand in hand with international partners to garner financial support and technical assistance to implement the reforms we are committed to. Building on the



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successful implementation of the Staff Monitored Program (SMP) with the IMF, we received financing from the IMF under a Stand-By Arrangement (SBA) program, approved by the IMF board in July 2016. We expect that the first review under the program will be approved by the IMF Board on December 5, 2016. In spite of the challenging times the country is facing, the government has maintained macroeconomic stability thanks to its commitment to and successful implementation of a large fiscal consolidation effort, and the emergency external financing received also from the World Bank in 2015 and JICA in 2016. We are now looking at program of reforms supported by the Fund SBA, and the World Bank's DPF, to send a strong signal to other development partners and international financial markets that Iraq is undertaking strong short-term and structural reforms with international partners and that it is also receiving significant budgetary support from such partners. We expect this signal to enable us to access such markets on financial terms and conditions that are acceptable for the Republic of Iraq. We have also engaged into a comprehensive medium-term technical assistance program with partner countries and institutions. In particular, we have a program with JICA on public debt management (as mentioned), another one with the Energy Sector Management Assistance Program (ESMAP) on the reduction of electricity subsidies, a third one on improving the transparency of financial State-Owned Enterprise (SOE) and banking sector reforms is supported by the World Bank and financed by Japan. We also have other envisaged technical assistance support by other international partners such as DFID and USAID that are in the process of being finalized in the areas of public financial management, pension reform, reduction of gas flaring, expanding gas use to power generation and improving the transparency of non-financial SOEs.

15. The World Bank is a trusted partner in this quest. We value the partnership and timely support that the World Bank has provided in 2015 after Iraq was hit by both an oil price crash and a security crisis due to the ISIS insurgency, which has caused massive displacement and increase the need of the government to respond when the financial resources were not available. Thanks to the support provided the government could continue operate and provide vital services to the people of Iraq. The Bank's Board has also approved the US\$350 million Emergency Operation for Development in July 2015 for rapid assistance to resume basic services in areas reclaimed from ISIS, including in improving damaged electricity transmission and distribution networks. Additional support is expected through a US\$41.5 million public financial management reform projects. In addition to these lending operations, we continue to appreciate advisory support from the Bank on a range of development areas including PIM, pension reform, tariff reforms, pricing of natural gas, and short term actions to reduce power cuts.
16. The Government of Iraq expresses its full commitment to the implementation of the reform plan outlined above. To this end, we seize the opportunity to request continuing support from the World Bank for its implementation through a Programmatic Development Policy Financing (DPF) series. The proposed DPF series is aligned with the Government's priorities and is a welcome and important



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element of our strategy towards the successful achievement of structural fiscal reform actions and financing support. Particularly, the DPF series will support us to improve our budgetary spending through reforms in the wage bill, PIM, public debt management, pensions and social safety nets. It will also support another objective to develop the sustainability of energy supply through reduced gas flaring, the expanded gas use to power generation and reduced electricity subsidies. And finally, the operation will sustain enhanced transparency of state-owned enterprises in line with our goal to improve governance, through reforms in SOEs, both financial and non-financial, and banking sector reforms.

17. In closing, we appreciate the World Bank's support of Iraq's reform agenda over the past critical years across lending and advisory roles. The Government of Iraq requests the approval of the World Bank support of our most recent program as outlined above during these utmost challenging times.

Yours sincerely,

Dr. Fadhil N. Othman

Deputy Minister of Finance

Republic of Iraq