



2024

Policy Report

**Establishment of the  
"Entrepreneurial  
Investment Fund" from the  
Iraq Development Fund  
and the management by  
the private sector**

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# Introduction:

Amidst the evolving economic landscape and the urgent need to address unemployment, Iraq stands at a critical juncture. The main focus of our policy report revolves around a pivotal proposal: redirecting a portion of the currently underutilized public investment budget across various government sectors towards bolstering the private sector. This strategic reallocation, aligned with the government's outlined strategy to support the private sector as detailed in the consultative documents, In line with the government's initiatives to launch the Iraq Development Fund, which is expected to serve as an incentive to alleviate the unemployment crisis currently faced by Iraq.

The logical foundation behind this proposal rests on a critical analysis of Iraq's current economic model, as specified in the ministerial program and the General Budget Law for the year 2023, in harmony with the Private Sector Development Strategy (2014-2030) and Iraq's Sustainable Development Strategy (2019-2030).

Historically, the Iraqi economy has been predominantly driven by the public sector, leading to inefficiency and resource underutilization. This approach not only stifled economic growth but also perpetuated high unemployment rates, particularly among the educated youth demographic. Despite its potential, the private sector remains underdeveloped and incapable of absorbing the growing workforce.

Our strategy is a shift in focus. By reallocating investment allocations from the relatively ineffective public sector to the private sector, we aim to stimulate economic growth through diversification and innovation. This reallocation is not merely a financial correction but rather a qualitative leap towards a more sustainable and resilient economic model. With its inherent efficiency and productivity, the private sector can serve as a powerful engine for job creation and economic revitalization.

The documents presented by the advisors (Private Sector Development Strategy 2014-2030) to the Cabinet and the Budget Law (2023) provide valuable insights into the current situation and the potential of the private sector in Iraq. They emphasize the necessity of a stronger, more dynamic, and diverse private sector capable of taking the initiative in driving economic growth and reducing reliance on the oil sector. The Private Sector Development Strategy underscores the need for a supportive business environment, including policy reforms, infrastructure improvements, and financial incentives, to encourage the organization of private project.

In conclusion, this report proposes a transformative approach to addressing unemployment in Iraq. By redirecting portions of the investment budget towards empowering the private sector, we envision a future where economic growth is comprehensive, sustainable, and robust. This transformation is not limited to reallocating funds but also entails a reimagining of Iraq's economic future.

# Background:

The data analysis from the official reports below provides important insights into the current economic situation in Iraq, particularly concerning unemployment, investment allocations, and government priorities. The detailed analysis is as following:

## 1-General Federal Budget for the year 2023:

- Investment expenditure: Allocating a significant amount (38,227,841,258,000 Iraqi dinars) for investment expenditure reflects a substantial commitment to capital projects. However, the relatively small allocation (3,669,000,000,000 Iraqi dinars) for government program projects suggests the potential for reallocation to stimulate private sector growth.
- Article 42: Establishment of the Iraq Development Fund. The creation of this fund is allocated (1,000,000,000,000) trillion Iraqi dinars, aimed at improving the investment environment and fostering sustainable development, presents a significant opportunity. This fund could be a pivotal tool in redirecting investment towards private sector initiatives that can generate employment opportunities.

## 2-Iraq's Vision for Sustainable Development (2030):

- Unemployment statistics: High unemployment rates statistics (2018), especially among educated females (27%) and youth (35%) among young graduates, underscore the urgent need to address job creation. The dominance of the public sector in employment (40%) - of job opportunities - highlights the need for diversification in private sector employment.
- Goal (1-2): Providing decent and protected employment opportunities for all unemployed individuals: The ambitious goals to reduce the overall unemployment rate to (4%), youth unemployment to (4-6%), and increase the female employment rate to (60%) indicate a clear policy intervention direction.

## 3-Ministerial Approach:

- Government priorities: Focusing on combating unemployment and creating job opportunities aligns with the need for investment sector reform. Emphasizing the review of laws, providing banking facilities, and reducing bureaucratic obstacles for Iraqi investors signal a shift towards supporting the private sector.
- Reviewing Investment Policy: Recognizing the previous obstacles in investment, especially in land allocation and lending operations, suggests that addressing these issues can significantly enhance private sector participation and job creation.

### 3-Iraq Development Fund System No. 3 for the year 2023:

1. Article 3, regarding the tasks of the fund, paragraph two: "Investing alone or with others in establishing companies or funds, ... etc."
2. Article 7, paragraph ten: Included in the system "Establishment of specialized funds with legal personality, financial and administrative independence, working to solve problems in the specific sector, ... etc."
3. Article 11: The specialized funds undertake the tasks of studies, design, and supervision of projects assigned to them by the Fund's Board of Directors, and rely on the offices within the Iraq Development Fund to meet their administrative, financial, and legal needs.
4. Article 13: Granting the Fund the right to engage in projects with varying returns (non-profit, socially profitable "balanced", commercially profitable),

## **Actions of Previous Governments:**

Previous governments within their ministerial approaches extensively tackled private sector development and floated ideas of private sector involvement in managing some state-owned productive institutions. A draft law on public-private partnership was submitted to the parliament years ago but was not passed. Additionally, the government endorsed the Private Sector Development Strategy (2014-2030). This strategy aims to provide opportunities for the government to address societal needs, focusing on economic reforms, establishing partnerships between small and medium enterprises and public companies, and enhancing the competitiveness of these entities. The government, leading the initial implementation of this strategy, intends to gradually transfer leadership to the private sector and ensure a decentralized approach wherever possible.

This strategy is based on three developmental pillars: understanding the private sector, improving the business environment, and developing a program for small and medium-sized enterprises. Additionally, a fourth pillar focuses on ensuring efficient and effective implementation of the private sector development strategy. This includes forming a Private Sector Development Council, coordinating the implementation of planned activities, and establishing a planning, research, and execution unit. Through these concerted efforts, the strategy envisages a transformative impact on Iraq's private sector, ultimately contributing to significant reductions in unemployment and paving the way for a more diverse and robust economy.





## Actions of the Current Government:

The current government took a significant step by including a provision in the General Budget (2023-2025) to establish the Iraq Development Fund, with a capital of 1 trillion dinars. This fund aims to improve the Aims to enhance the attractive investment environment and unleash sustainable economic and social development, presenting a significant opportunity. This fund could be a pivotal tool in redirecting investment towards private sector initiatives that can generate employment opportunities. The results of establishing this fund should be invested in the following areas:

- **Reallocating Investment Funds:** Current allocations in the federal budget, especially in the Iraq Development Fund, can be strategically redirected to stimulate private sector growth. This reallocation process should target sectors with high potential for employment, such as agriculture, construction, and technology.
- **Addressing Unemployment through Empowering the Private Sector:** Given the high unemployment rates, especially among youth and educated women, policies should be designed to encourage private sector entities to create more job opportunities. This includes facilitating investment procedures, providing financial incentives, and ensuring worker protection in the private sector.
- **Enhancing Private Sector Attractiveness:** To shift workforce preferences from the public sector to the private sector, the government must ensure that private sector jobs offer competitive benefits and security similar to roles in the public sector.
- **Linking Education to Market Needs:** Bridging the gap between educational outcomes and labor market requirements is crucial. This can be achieved through targeted educational programs and vocational training aligned with specific investment and growth sectors.

The data indicates a clear path: reallocating portions of the investment budget to empower the private sector, focusing on high-employment potential sectors, and implementing supportive policies and reforms. This approach aligns with the government's priorities and ambitious goals outlined within Iraq's Vision (2030), promising a more diverse, resilient, and employment-generating economy.

## Policy Analysis:

To develop a policy framework in line with the national strategy for private sector development, with a particular focus on managing the fund allocated to support the business environment, This policy adopts a cooperative approach in which the private sector plays a central role in managing and directing the investment fund, in partnership with the government. This could be organized as follows:

## **Cooperative Management of the Investment Fund to Empower the Private Sector:**

This policy aligns with the strategic development stages of the private sector, targeting significant milestones by 2030: increasing full-time employment in the private sector to 50% or more of total employment opportunities, boosting the private sector's contribution to GDP to 60%, raising the private sector's share in fixed capital formation to 50%, restructuring public companies for integration into the market economy driven by the private sector, and reducing unemployment to 4% or less. The expected outcomes reflect a transformative approach towards a more vibrant and inclusive economy driven by the private sector. Economic Growth, Job Creation, and Strengthening the Role of the Private Sector in the National Economy - the profound impact and potential of this policy. This proposal is not just a roadmap for economic reform; it is a plan for a future where the private sector thrives as the cornerstone of Iraq's resilience and economic prosperity.

### **Concept:**

The policy of strategic partnership between the government and the private sector in managing the fund allocated to support the business environment. This initiative aims to combine government support with the efficiency and innovation of the private sector.

### **Implementation Mechanism:**

- **Private Sector Participation:** The private sector will be empowered to manage the investment fund. This participation involves not only fund management but also attracting additional investments from private sector investors.
- The fund is financed with an amount of (250) billion Iraqi dinars from the Iraq Development Fund and is ready for investment in the targeted category.
- The joint management model ensures government involvement to align with national economic objectives through overall monitoring and evaluation of goal achievement levels.
- The fund aims to create an economic business ecosystem starting from first-year university students, leading to early engagement of students, identifying the group capable of initiating projects (constituting 20%) for their qualification, support, and investment until the launch of their startups. It also focuses on preparing the other part of the students (80% interested in obtaining employment) and making them ready to work with the first group.

## Fund Allocation and Project Financing:

- **Targeted Projects:** The fund will focus on financing projects aligned with the strategic plan for private sector development. This includes sectors identified as having high growth potential and job creation opportunities.
- **Data-Driven Financing:** Decisions regarding funded projects will be based on rigorous data analysis and evaluations, ensuring that only projects with high applicability, impact, and growth potential receive financing. Furthermore, the investment fund does not allow investors to finance more than 50% of the investment amount in each project from the fund's balance. The remaining 50% is financed from the investor's account in the fund investment.

## Incentives for Private Sector Investors:

- **Joint Investment Opportunities:** Private sector investors will be encouraged to invest in the fund, providing them with opportunities to participate in government-supported projects with potential high returns.
- **Risk Mitigation:** Government participation in the fund provides a layer of security and risk mitigation for private sector investors, making it an attractive investment option.

## Government's Role:

- **Regulatory Framework:** The government will establish a general regulatory framework to ensure the operation of the fund, guarantee transparency, accountability, and alignment with national policies.
- **Facilitation and Oversight:** While the private sector leads the management, the government will facilitate procedures, provide oversight, and ensure the achievement of the fund's strategic objectives.

## Alignment with the Strategic Plan:

This approach aligns perfectly with the strategic plan for private sector development, integrating government support with the dynamism of the private sector, creating a robust mechanism for economic growth and development. It falls between the second and third stages of the sector development strategy, aiming by its conclusion in 2030 to:

- Increase full-time employment in the private sector to 50% or more of total employment opportunities.
- Increase the private sector's contribution to GDP to 60%.
- Raise the private sector's share of fixed capital formation to 50% of the national total.
- Restructure all public companies and integrate them into a market-driven economy led by the private sector.
- Reduce unemployment to 4% or less.

## Expected Results:

- **Economic Growth:** By empowering the private sector to lead investment decisions, this policy is expected to stimulate economic growth in key sectors.
- **Job Creation:** Targeted investments in growth sectors will lead to job creation, addressing one of the critical challenges in the Iraqi economy.
- **Private Sector Development:** This initiative will bolster the private sector, making it a more significant contributor to the national economy.

To further develop the proposal outlined in this paper, several strategies could be considered to enhance the joint management experience between the private and public sectors in later stages of the 2023 budget:



1. Innovation and Productivity in Small and Medium Enterprises: Focus on restructuring large government companies, especially the unprofitable ones, and enhancing the competitive and productive capacity of small and medium-sized enterprises in the private sector. This is crucial through creating projects that focus on innovation opportunities and providing consultancy services to facilitate financing.
2. Establishing Partnerships and Focusing on Economic Reforms: There is a need to ensure the gradual transfer of leadership to the private sector through establishing partnerships between public and private small and medium-sized enterprises. This will include focusing on economic reforms to loosen the public sector and enhance the profitability of the private sector, which is foundational in leading the initial implementation of this strategy.
3. Enhancing the Attractiveness of the Private Sector: It's important to ensure that the private sector offers competitive advantages and job security. There should be a focus on shifting workforce preferences from the public to the private sector, ensuring that private sector jobs provide similar benefits and stability (as initiated by the Social Security Law as a good starting point for ensuring equality between public and private sector employees).
4. Bridging the Gap between Educational Outcomes and Market Needs: Aligning educational and training programs with specific investment and growth sectors is crucial. This includes addressing the mismatch between skills taught in educational institutions and the requirements of the labor market, which falls under the responsibility of the private sector in building institutions and programs funded by this fund.
5. Provision of Information by Non-Governmental and Unorganized Sectors: The first pillar of the strategy aims to provide accurate information about the private sector for planning purposes under the auspices of the Private Sector Development Council. This includes both organized and unorganized entities in the private sector.
6. Reallocation of Investment Budgets for Untapped Opportunities: There is a focus on reallocating a portion of the general investment budget to support the private sector. This strategy aligns with proposed policy documents and aims to enhance the role of the private sector by investing in areas currently underutilized.

Implementing these strategies will require coordinated efforts across various sectors and government levels to effectively enhance the role of the private sector and align it with broader economic objectives.

# Conclusion:

The economic climate in Iraq at this stage is characterized by challenges and dynamic economic opportunities, highlighting the importance of the proposed policy as a transformative strategy. This policy embodies the essence of strategic partnership and the interplay of strengths and capabilities between the public and private sectors in managing a fund dedicated to enhancing the business environment. This transformation represents a pivotal shift towards cooperative governance, harnessing the efficiency and innovation of the private sector alongside supportive frameworks and government oversight.

This proposal is not merely about redistributing roles and responsibilities; it aims to revolutionize the way investments are directed, managed, and improved. By empowering the private sector to take a leading role in managing the investment fund and facilitating its involvement in decision-making and additional investments, a new model for economic growth and development is launched. The government's role, centered around regulatory oversight and strategic facilitation, ensures that this joint endeavor smoothly aligns with national economic objectives.

A central aspect of this policy is the precise allocation of funds and project financing. The program focuses on projects that align with the strategic plan for private sector development, particularly in sectors primed for growth and job creation. Decisions regarding project financing will be based on robust data analysis and evaluation, ensuring that only the most feasible and impactful initiatives receive support.

Moreover, this initiative offers attractive incentives for private sector investors, providing opportunities for high-potential joint projects and a government support framework to mitigate risks. This is a crucial step towards enhancing a vibrant investment climate, attracting capital inflows, and stimulating economic growth.

# References:

- Law No. 13 of 2023 / Federal General Budget for the Republic of Iraq for the Fiscal Years 2023-2024-2025.
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