

# The Challenges of KRG's Economic Reform Plan

31-10-2019

**Authors**

Rudaw RC

After that the new Kurdistan Regional Government (KRG)'s Prime Minister Masrour Barzani took office he has announced that is going to make wide financial and economic reforms and will tackle corruption. In the KRG's new cabinet program out of 13 points 10 of them directly are on the financial and economic sector and other three are indirectly related to the economic reforms. The question here what are the challenges of this reform program? how much the new cabinet can make this program successful?

### **KRG's Program for Economic Reform**

Regulation of the public sector is the core of new PM's program which if succeed it will reduce government expenses. Especially in the first point of his program affirmed on " We will improve the condition and regulation of the public sector, including the training and regulation of civil servants, retirement provisions, and official working hours. We will take legal action against any breaches in the public sector. We will do through implementation of the law, establishing a service committee and re-organizing the reform legislation, which will then be resubmitted to parliament for approval".

The KRG's eighth cabinet had worked to reform the public sector and despite that the previous parliament approved the reform law but due to protesting the core of these reforms the project law was resubmitted to parliament, and therefore was not implemented. The new cabinet affirms on the improvement of that law and decided to resubmit to parliament by mid-September. In any case according to the former KRG officials from the eighth cabinet and MPs from the previous parliament who had defended the project law believes that implementing such reforms are not that easy which will reduce government expenses worth about \$100 million and this will be allocated for government employees. The new cabinet's plan to reduce expenses made another step which in the point 4 of the program said " we will organize and rationalize official delegations to foreign countries and international conferences according to need, preventing any waste or misuse of public money".

These are all positive steps to reduce government expenses, and in government plan to increase revenues mentioned the regulation of tax system in Kurdistan region that said "We will reform tax system ensuring impartial implementation we will take legal action to prevent tax embezzlement and create a new enforcement mechanism".

### **The Challenges of Government**

Reduce the expenses and increase internal revenues are needed for government to have more wealth and financial resources to fulfill its main slogans which they are to improve services for citizens, improve the economic infrastructure of Kurdistan region such infrastructure of water, electricity, roads , improve the market and creating job opportunities which require a lots of wealth. KRG cannot get such wealth if does not receive fair share from the Iraqi budget. With the hope of getting more share from the federal budget the KRG officials announced that are ready to handover the Kurdistan produced oil to Baghdad. Although according to the Iraqi and KRG officials there is good rapprochement on the oil and budget issues but such talks did not take place practically yet and both sides have announced that to resume talks have established special committees.

The KRG's success related to how much compromise and agrees on the financial issues and oil with Baghdad. If both KRG and federal government cannot reach an agreement until the approval of the Iraqi budget law project of 2020, then continue the current financial relations between KRG and Baghdad will be difficult. The Iraqi MPs and Iraqi parties are protesting that despite KRG did not pass its oil to Baghdad but some of the federal budget goes to Erbil to complete paying the government salaries.

---

Currently KRG is paying 880 billion Iraqi dinars monthly as salaries despite that need to allocate budget to manage the government departments and service projects. But the money comes from Baghdad is half of the budget to pay the salaries which is only 450 billion Iraqi dinars.

Providing employees' salaries is the biggest challenge for KRG which has to use the revenue from its oil sales and the budget comes from Baghdad combine both to pay the salaries, KRG's economic stability is related to the fair agreement with the central government. If this does not happen not just that government cannot implement none of its program points there is also risk of the political and economic instability in Kurdistan, and again KRG may not be able to pay full salaries for its employees. This could bring a big possible failure for Masrour Barzani's cabinet, as well as will lead for more internal political tensions in Kurdistan region.

Even in the best case scenario if Kurdistan region and federal government have reached fair agreement on the KRG's budget , for example if Baghdad agreed to increases the KRG's share to %17 then most of the budget still will go to salaries ,small amount will be left for investment and develop Kurdistan region's economic infrastructure.

## **Conclusion**

One of the solutions for KRG is that except increase its budget from federal budget for the next year, also can ask for fair share from those loans and financial aides that given to the Iraqi government by foreign countries such from US, Europe, UK and even Asian countries such China and Japan. As well as billions of dollars as loan from World Bank and IMF that has given to Iraqi government but KRG has been excluded from these financial resources.

Another solution is that along with the financial reforms in public sector, KRG should really work to develop its private sector and attract foreign investment. And to make this happen should encourage local and foreign investors, and make changes in the law and regulations related to the private sector.

First the KRG financially need to be stable that at least pay the salaries on time, then work to bring back confidence to the local market and seriously implement its financial and economic reforms.