

1 MRA 1901 - SEPTEMBER 24, 2011 - B&B Reporters

2 IRAQ BANKING SYSTEM REPORT LAUNCH

3 MR. KARASAPAN: Ladies and gentlemen--now
4 you can hear me. Welcome to the launch of the Iraq
5 Financial Sector Review. We have the Governor in
6 the building and he's making his way over here, led
7 by our Task Team Leader.

8 But because of time constraints, we will
9 have Inger Andersen, our brand new Vice President
10 for the Middle East and North Africa Region start
11 with her remarks, and then we will move on to His
12 Excellency, Dr. Rafi al-Issawi, and by then we
13 should have His Excellency Sinan Al Shabibi, the
14 Governor of the Central Bank here.

15 Inger?

16 MS. ANDERSEN: [Off microphone.]

17 MR. KARASAPAN: Whichever way, but it's
18 better over here for the TVs, I think.

19 MS. ANDERSEN: Oh, I see. Well, first of
20 all, my first comment is, of course, to welcome
21 everyone who's here. It's a real, real pleasure to
22 have so many people who are interested in this very

1 important topic.

2 But most importantly, I'm particularly
3 pleased to welcome Dr. Rafi al-Issawi. It's a real
4 pleasure to have you here, Mr. Issawi. I know that
5 you have led this work, you have provided guidance
6 to this work, and it's under your personal
7 leadership that we have reached where we are. So
8 we are very privileged to have this launch in your
9 presence. And we will look forward, also, to
10 Governor Shabibi speaking to us today.

11 Your personal leadership and your personal
12 endorsement of this financial sector review is
13 after many consultations and much work. It's
14 actually what will make the difference. This is
15 not just a dry report that will sit on a shelf.
16 This is something that is live, and that is
17 something that I'm particularly very pleased about.

18 I'm also pleased that many of our partners
19 who have worked with us on this, such as the IMF,
20 such as the U.S. Treasury, IFC, and many other
21 partners are here today and will accompany this
22 process looking forward.

1 We in the World Bank Group, we are here to
2 provide support to the Iraqi Government, the Iraqi
3 people in enhancing economic growth and in
4 developing the financial sector to serve the nation
5 and to serve the people at large. And we've
6 learned from experience that attaining an inclusive
7 system is essential for sustainable development.

8 And so, Mr. Minister, I'd like to
9 recognize the Governor who has now arrived.
10 Governor Shabibi, it's a pleasure to have you here.

11 We all agree that a very strong and
12 vibrant financial sector is absolutely critical in
13 promoting development in Iraq. And the launch of
14 this report, therefore, comes at a very, very
15 opportune time.

16 I'm also very glad that we've had a
17 project that is supporting the restructuring of key
18 state-owned banks, Raffidain Bank and Rasheed Bank,
19 that account for 86 percent of the total system,
20 and that that overall helps strengthen the
21 supervisory framework for these banks.

22 Now, some progress has been made, but the

1 speed is going a little slow, so we know that with
2 your leadership, we will, together, accompany that
3 reform that is in hand. And so, we very much
4 appreciate that leadership and that specific focus
5 that we see you giving to this sector.

6 Now, the report today--and you will hear
7 from our brilliant Task Team Leader, Sahar Nasr who
8 is sitting there, some issues on the report, but
9 let me just say that there are six items, six sort
10 of to-do items that I think actually that the team,
11 together with our Iraqi friends, have identified.

12 And frankly, when I look at these six
13 items, they are very relevant to many of the reform
14 programs and projects that we deal with, with
15 banks. So they are not unique to Iraq. But
16 obviously, we can learn from each time and in
17 country to see the uniqueness in each place. But
18 there's much that is of general nature.

19 And these six areas, let me just mention
20 them. First of all, the financial sector really
21 can play that role of financial intermediation, but
22 it's still a little weak, and the weak financial

1 infrastructure is sort of preventing that from
2 playing the full role, the full potential that it
3 has.

4 Secondly, the story around finding a level
5 playing field amongst all the banks is very
6 important and something that the report highlights,
7 and which I know is a desire of the Iraqi
8 authorities to find between the private banks, the
9 state-owned banks, et cetera. How can we get them
10 in that level playing field?

11 Thirdly, financial restructuring, as I
12 mentioned, on these two large state-owned banks.
13 That's important because they do govern control by
14 80-plus percent of the market. And so, once that
15 is brought in level and once we have that
16 restructuring, then we will be able to see the
17 leveling between public and private banks.

18 Fourthly, the whole issue around banking
19 supervision. We know that if we ignore that, then
20 the sector will be on a runaway track. So ensuring
21 that we have solid supervision is absolutely key.

22 Five, we have to also find ways to develop

1 non-bank financial institutions and markets because
2 they have a potential to provide access of sources
3 of finance, and that's a very key piece to the full
4 array, the full rainbow of financial products that
5 we want to be sure are available to the citizens of
6 Iraq and to businesses and growth.

7 And finally, of course, to ensure that we
8 have--and I think we do have in the spirit of the
9 Governor and the Minister here--a strong
10 politically supported effort to prevent any abuse
11 and any undermining of these very efforts on reform
12 that are underway through working on corruption
13 issues and anti-money laundering, and issues around
14 prudent fiscal and financial management of the
15 banking sector.

16 So when we look at Iraq's banking and
17 financial systems and the speed of these
18 adjustments that need to happen, it's very clear
19 that there are some--this is not an easy road to
20 travel because there are political and many other
21 issues that play, and that's where leadership comes
22 in, the leadership that we see today and the

1 leadership that we have seen in the preparation of
2 the report.

3 So we know that there's still much to be
4 done on the legacy of the prevailing state
5 intervention of the past. With that said, I want
6 to stress that we feel that in this partnership and
7 with that leadership that we see today, we can see
8 that the policies and the recommendations that are
9 contained in this report, we are very optimistic
10 that they will prevail and see the light of day as
11 we roll out the program.

12 So I'm, therefore, very glad, Mr.
13 Minister, that you've taken a personal interest. I
14 want to thank you on behalf of the Bank for that
15 leadership that you have shown. And I want to
16 thank, also, the Governor, as well as yourself, Mr.
17 Minister, for the excellent cooperation that we've
18 had.

19 So with these words, let me hand over to
20 you, Mr. Minister. Thank you.

21 [Applause.]

22 DR. AL-ISSAWI: Thank you very much.

1 First of all, I would like to express my deepest
2 congratulation for Mrs. Inger for being appointed
3 as Vice President for the MENA Region, and looking
4 forward to work directly with you and with your
5 team.

6 And here I don't need to forget Mrs.
7 Shamsehd [ph] who worked with Mr. Hedi Larbi and
8 all the excellent team, and Maria, and everyone who
9 worked and some of them are living in Iraq like
10 Maria, or visiting. All of them are working very
11 hard to support my ministry and my government.

12 Everyone around the table, maybe because
13 of their different multiple meetings, is fully
14 aware about the type of the problems of Iraq
15 economy and Iraq financial sector.

16 But to me, maybe one of the most important
17 reports or meetings or workshops that have been
18 conducted in Istanbul that I already referred to in
19 my meeting with Mrs. Inger this morning that are
20 represented by your team, is what's called Solution
21 Oriented or Problem Oriented Action Plan that
22 focused on specific problem and the solution and

1 the ministry or ministries in charge and time
2 table.

3 To me this was really a new trend and new
4 beginning, in fact. Just to focus on the different
5 problems that diagnosed in the financial sector.
6 And we in the Ministry of Finance, when we came
7 back to Baghdad, me and Mr. Governor had a very
8 extended meeting to put the time table for
9 implementing that action plan.

10 So again, I would like to thank again Mr.
11 Hedi Larbi and your team and especially because of
12 the time short, very hard to present that action
13 plan.

14 And again, I would like to stress the
15 necessity of the partnership with the World Bank
16 from the point of view of the government. And you
17 have a very long way to work together, focusing on
18 macro issues rather than the micro, despite the
19 macros are also important as daily activities, but
20 working on strategies and a comprehensive policies
21 or strategies are very important to the ministries,
22 not only to the Ministry of Finance.

1 Reform of the financial sector is
2 definitely needs a very long time, not only our
3 will or support of the government. We in the
4 Ministry of Finance and the Governor of the Central
5 Bank are definitely stand with you supporting all
6 the reforms that are needed to update or to upgrade
7 our financial sector.

8 Some other issues like capacity-building
9 that I already stressed with Mrs. Inger this
10 morning, and improvement of private sector
11 participation in the Iraqi economy, diversification
12 of Iraqi economy that already everyone knows very
13 well that you depend on what's on the oil that make
14 everything very volatile and very oscillating with
15 the project of oil.

16 All these sectors or field responses have
17 to be really--I cannot say very premature, but it
18 leads off efforts to upgrade or to strengthen it.

19 Finally, I would like to present an open
20 invitation for you, Mrs. Inger, to Baghdad and
21 Shallah [ph], and I already discussed with you in
22 the city of seeing your office completely in

1 Baghdad despite the fact that they are doing very
2 well from outside Baghdad. This is not for
3 criticism, but this is only just to say that their
4 presence in Baghdad will really open more
5 opportunities to the ministries to work very close
6 to them.

7 And thank you very much again for all the
8 things that have been done by you and your team,
9 Mrs. Inger. Thank you very much.

10 [Applause.]

11 MR. KARASAPAN: Now we will have opening
12 remarks by Dr. Sinan Al Shabibi, the Governor of
13 the Central Bank of Iraq.

14 HON. DR. AL SHABIBI: Thank you very much
15 for giving me this opportunity, and I'd like to
16 thank very much the team who is actually working on
17 the financial sector review. This is very
18 important.

19 And I thank the efforts of all the staff
20 of the World Bank on this, and especially Ms.
21 Andersen, and, of course, the team of Mr. Larbi and
22 Sahar Nasr, which is really very important, very

1 essential for the Iraqi economy.

2 The financial sector is a complement to
3 the real sector and, of course, in this case, it's
4 very difficult to talk about any kind of
5 development in the real sector without having all
6 the resources to be mobilized for that sector and
7 to be--actually serve it through intermediation,
8 because development of the financial sector will
9 make all these things actually easy for the
10 development and for the resources to go from
11 different saver to different investors and all
12 these things.

13 So I think it is very important and I
14 would like to appreciate very much the efforts of
15 all the people who are actually working on this
16 project and, of course, His Excellency, the
17 Minister, actually lent his utmost support to this
18 activity and we, in the Central Bank, we are
19 actually all ready to give all the support, because
20 we think that a lot of this work is a complement to
21 the work of the Central Bank in providing stability
22 and the fact that actually--despite the fact that

1 we had a lot of success in the Central Bank in the
2 provision of stability and provision and laying the
3 ground for intermediation and exchange its
4 stability.

5 But, I mean, that's not enough because we
6 have a banking sector which needs to be developed,
7 which needs actually to--especially the state-owned
8 banks and, of course, the whole private sector
9 banks.

10 So you can actually count on our support
11 on that, because, I mean, not only the support
12 actually--it is a support actually which we are
13 going to benefit from, eventually. So I'd like to
14 thank you again and look forward actually to the
15 discussion which is going to take place.

16 [Applause.]

17 MR. KARASAPAN: Well, then without further
18 ado, we'll turn to Sahar Nasr, the Task Team
19 Leader, who will introduce the team. We have 50
20 minutes until [inaudible]. We have good
21 representation from the [inaudible], so time is of
22 the essence. So, Sahar?

1 MS. NASR: I want to begin by thanking you
2 all for being here today at the launch for the Iraq
3 Financial Sector Report. I am especially honored
4 to have His Excellency Dr. Rafi Al-Issawi, Minister
5 of Finance, and, of course, His Excellent, the
6 Governor, Dr. Sinan Al Shabibi, and our new Vice
7 President, Ms. Inger Andersen. We are happy to
8 have you here.

9 I would like to acknowledge that this is
10 the first assessment of the Iraqi financial sector
11 that took place over the case, so we're happy to be
12 partners with you in this very key endeavor.

13 And as Ms. Inger indicated, it is a
14 package of integrated work of support that the Bank
15 has been providing the Iraqi authorities, and one
16 of the key projects that we have is the banking
17 sector reform project, and we are very happy to
18 see, also, the new Minister of Finance with his
19 leadership, because the Governor has been working
20 on that project along with limited support from the
21 government. So we are very proud to have you in
22 moving especially the state-owned banks where we

1 have issues.

2 And just quickly, the main objective of
3 the report was to assess the soundness and
4 stability of the financial sector, especially with
5 the global crisis and what is happening in the Arab
6 region, so we think it comes at an opportune time.

7 And we wanted also to assess the reform
8 program, the gaps, the challenges, and also we
9 wanted to make sure that the financial sector does
10 play a key role in economic development in
11 enhancing equal opportunities and poverty reduction
12 for the Iraqis serving all citizens, and that is
13 why we'll focus a little bit on the access issue.

14 One thing I want to highlight before the
15 team takes over is it's a joint product. It's not
16 the World Bank report. It's a product that was
17 done in collaboration with the Iraqi government,
18 and we did, as His Excellency, the Minister of
19 Finance, mentioned, we did sit for three days,
20 consecutive days, also with Hedi there, discussing.

21 And in many things that the team did put,
22 we did reflect, we did make changes, we did discuss

1 some laws we were not aware of, we reflected. So
2 we had a lot of brainstorming and with the
3 representation with the private sector, civil
4 society, we had the banker's association, we had
5 Islamic banks, state-owned banks, non-banks, stock
6 market was there, and we were happy to see
7 ownership and commitment.

8 And, of course, that was also due to your
9 leadership, but also giving the opportunity for a
10 transparent and solid discussion with everybody.
11 So I want to thank you for that.

12 And Inger has already highlighted the key
13 messages, but just very quickly I want to stress
14 also that the level playing field, we think, is
15 important. Enhancing the supervision of the
16 Central Bank is one of the key issues. Reforming
17 the banking sector, since it's dominant, so it
18 plays an important role, but also developing non-
19 banks to have a more diversified financial system
20 and more competitive.

21 And very quickly, I will just take a look
22 of the snapshot of the action plan that their

1 Excellencies referred to where we clearly put time
2 bound actions specified entities, whether they're
3 mainstream or whether it's Central Bank, whether
4 it's a greater role of the stock market, and we're
5 all different players, market players. We're there
6 and endorse the action plan.

7 I think that's documented now in Annex 18
8 and this is one that we've done in partnership that
9 we are really, as a team, we're all very proud of.
10 We understand that there are challenges. We had
11 several missions in Baghdad and also the Istanbul
12 event and many other missions in different parts of
13 the region.

14 And we understand there is a security
15 issue. We understand the political situation. We
16 also understand there is a lot of challenges, but
17 we see there is some progress made and there's more
18 than can be done and we're happy to step in and
19 provide any support through the current operation,
20 but also moving forward.

21 Allow me now to introduce our new core
22 team members and Sibel. So maybe we start with

1 Sibel, who will give us a quick overview on the
2 macro framework in which the financial sector
3 operates and we think it's very important.

4 MS. ANDERSEN: I'm sorry. Before we do
5 that, I'm afraid that His Excellency, the Governor,
6 and I will need to leave because we have to be in
7 the Development Committee. So I want to apologize
8 for that, but you know, we are here for the annual
9 meetings, and so--

10 DR. AL-ISSAWI: [Off microphone.]

11 MS. ANDERSEN: I expect that we will all
12 have to go to the Development Committee so I hope
13 that you will all understand, but this is the
14 business of the Bank at this point. But thank you
15 very much.

16 [Pause.]

17 MR. KARASAPAN: Okay, we will continue.

18 Yes, could everybody sit down, please? We
19 have Sibel Kulaksiz was worried that everybody is
20 leaving because she's starting to speak. I'm
21 trying to reassure her.

22 Sibel, why don't you give us a picture?

1 MS. KULAKSIZ: Thank you, Omer.

2 I'll provide the macroeconomic background
3 before Arne Petersen's presentation on financial
4 sector.

5 As Mr. Minister mentioned, Iraq's economic
6 and financial performance depends, to a significant
7 extent, on the oil sector. We have the numbers
8 here. In 2010, revenues from oil sector accounted
9 for 62 percent of GDP, 87 percent of total
10 revenues, and 99 percent of overall export
11 revenues.

12 The lack of economic diversification makes
13 Iraq's economic growth vulnerable to oil price and
14 volume shocks. The financial sector's contribution
15 to economic growth has been very low. The share of
16 banking and insurance sector was only 1.9 percent
17 of GDP in 2010. It starts from an average of 5.6
18 percent in 1980s.

19 Although credit to the economy has been on
20 the rise in recent years, the level is still very
21 low compared to other countries. It was around 9
22 percent of GDP in December 2010. Given the very,

1 very low level of financial intermediation, the
2 nominal exchange rate continues to be the main tool
3 for conducting macroeconomic policy and maintaining
4 price stability.

5 Also, international resources have played
6 a critical role in helping ensure stabilizing Iraq.
7 Gross international resources went up from \$20
8 billion in 2006 to \$51 billion at the end of 2010.

9 There have been a number of government
10 post-interventions to encourage more lending to
11 private sector, the Central Bank of Iraq lowered
12 post-interest rate from 7 to 6 and the reserve
13 requirements from 25 to 15 percent. This
14 development is expected to encourage more lending
15 to the private sector companies in Iraq.

16 Another encouraging status is that the
17 Central Bank of Iraq remains committed to
18 independence of the institute. Iraq's economic
19 growth prospects are favorable. Real GDP growth
20 decelerated in 2009 and in 2010, but it's expected
21 to pick up this year and the coming year, mostly
22 because international oil companies increased

1 production while global oil prices have risen.

2 Although economic prospects are favorable,
3 risks remain high. In addition to Iraq's
4 vulnerability to oil price shocks, main risks
5 include political factors, security issues,
6 technical capability, and institutional capacity
7 issues to implement reforms.

8 A deterioration in the political
9 environment in the region might have a negative
10 impact on implementation of reforms. And now I
11 want to enlighten Arne Petersen to talk about the
12 financial sector.

13 [Applause.]

14 MR. PETERSEN: Thank you very much.

15 I see that we've already exceeded the time
16 limit allowed for intervention, so I shall be very
17 quick, or try to be very quick at least. And also,
18 all the good parts have already been spoken by the
19 Minister and Ms. Inger. So all I have for you is a
20 little bit of background to put in relief what are
21 the key findings that have been mentioned here
22 already. And it's also mentioned in the news

1 release that I'm sure you already have seen.

2 As mentioned, Iraq's financial sector is
3 very much dominated by the banking sector which
4 holds most of the assets. There is a sluggish
5 change, but conversion is very low and very few
6 instruments are traded. It needs to be
7 revitalized.

8 The insurance sector is even smaller and
9 is not at all effectively supervised. There's a
10 supervisor, but not staffed. As others have
11 alluded to, the SME and bank financing is not well
12 developed and access to finance is very low.

13 As an example, a USAID study has indicated
14 that less than 5 percent of SME, small and medium
15 enterprises, actually receive loans from banks.
16 Seen from the other side, household service shows
17 that only 3 percent of households in Baghdad
18 receive loans from banks. So there's a lot of work
19 to be done.

20 Now, the banking sector, to look at that,
21 as other people have noted, it is dominated by the
22 state banks. We have nine--sorry--we have seven

1 state-owned banks, two of which are the large banks
2 that take both deposits and make loans. They're
3 mostly focused on the state sector and on state
4 enterprises.

5 We do now have a number of new commercial
6 banks coming in. We have as many as 36 small,
7 private banks, nine of which follow Islamic
8 principles, and they are gaining importance, but as
9 you can see from the chart there, still they
10 account for a rather small share of assets.

11 The bank system is small. There are some
12 questions of the numbers and we had to make
13 adjustments to take into account the fact that a
14 lot of the assets accounts in the banks are
15 actually the recent losses linked to the sharp
16 depreciation of the dinar.

17 So if you adjust for that, you will see
18 that only about 73 percent of GDP in terms of
19 assets, compared to 130 percent for the MENA Region
20 as a whole, so about half the size in other
21 countries in the Region, and 86 percent of banks.

22 You'll see that credit extension is very

1 low. If you compare it to the MENA Region, which
2 you'll see in this chart, only 10 percent GDP
3 compared to 55 percent for the MENA Region. Now,
4 it is growing fast, but for a low base. Also, for
5 all MENA GDP is low. And importantly, half of the
6 money supply is in cash, which indicates still a
7 largely cash-based economy.

8 As mentioned, the reform efforts, it's
9 safe to say, are the focus of Raffidain and Rasheed
10 Banks, which have suffered from the legacy of past
11 economic losses and also some poor fiscal
12 operations. They are not very efficient, according
13 to modern standards, and reform efforts are needed.

14 Some progress has been made as
15 acknowledged. It has taken longer, as has been
16 anticipated regionally. I take heart in the fact
17 that the Minister now is committed to accelerate
18 his efforts.

19 A new player has entered the market over
20 the last couple of years, namely the Trade Bank of
21 Iraq, or the TBI, an increasingly large
22 institution, and has been--the government has not

1 yet developed a very clear strategy for the future
2 of state banks versus that assigned to private
3 banks.

4 Looking at the private banks, the
5 expertise is improving. There are still very--I'm
6 not going to say many cases, and not all provide a
7 full range of services. Many banks provide only
8 limited services and a particular focus on
9 wholesale and retail trade rather than on
10 construction or industrial work in public places.

11 Now, if you look at the share of credit,
12 then the private banks actually have a larger share
13 in credit than they do in total assets. So as you
14 can see they do have an important role already and
15 is one that is likely to increase as we go along.

16 That, of course, presupposes that they are
17 able to function effectively and in a prudent
18 manner and that's why we speak of bank supervision
19 must go hand in hand and you have to strengthen the
20 banks in parallel with the increased role that will
21 be assigned to them.

22 No less, as mentioned, the premier

1 indicators are going to be good, and we do not
2 think there's a systemic risk. A few are in
3 difficulty.

4 We referred to the level playing field and
5 that is a clear issue that the government will need
6 to tackle. At the moment, government and state-
7 owned enterprises are not allowed to bank with
8 private banks. The private banks have a limited
9 mission for granting lines of credit, and this is
10 strictly controlled by CBI, which was created with
11 the express purpose of trade financing for the
12 public sector.

13 An interesting little tidbit is that you
14 cannot pay your taxes to the government with a
15 check drawn on a private bank. It has to be drawn
16 on a state bank. On top of that, of course, is the
17 perception of a de facto deposit guarantee for
18 state-owned bank which tends to let customers
19 prefer deposits there.

20 I apologize. I'm trying to be very fast
21 here. But let me go quickly through bank's
22 original regulation. You'll see what it does.

1 Banking regulations are broadly appropriate, but
2 they need to be fine-tuned, brought to
3 international standards.

4 On top of that, many regulations have just
5 recently been introduced, and therefore, the track
6 record has not yet been fully established. And the
7 Central Bank is fully aware of the need to
8 strengthen further supervision, and they have
9 indeed asked for assistance in this area.

10 One area that needs improvement is that
11 effectively Central Bank is not able to fulfill its
12 supervisor function over state banks, in part
13 basically because the state banks have had the
14 first position in the past and they have not really
15 adjusted to the new system yet. So that is an area
16 that needs to be addressed very urgently.

17 And as I mentioned, in tandem with giving
18 a larger role to the private sector, we must ensure
19 that their risk management skills are improved and
20 that bank supervision is strengthened. If not, you
21 risk getting into a shock situation in the asset
22 quality and we want to avoid that.

1 Briefly on the capital market, everybody
2 agrees that in a fair and efficient capital market,
3 it's crucial for supporting economic growth. The
4 Iraq stock exchange appears to provide a good
5 foundation to build on, and as I mentioned earlier
6 on, we do need to build on it.

7 For the moment, only about--market
8 capitalization only amounts to about 3.5 percent of
9 GDP compared to around 30 percent in Egypt, similar
10 in Oman, and over 100 percent in Jordan. So
11 there's a long way to go.

12 To do so, there are some legal and
13 regulatory framework issues that must be addressed.
14 And supervision of the market must also be
15 enhanced. For example, the Iraqi Securities
16 Commission still work under a temporary law. It is
17 a draft law, but that needs to be adopted quickly,
18 also to allow then the operation and more detailed
19 regulations.

20 So we're still waiting for that. It is
21 going to happen soon, we believe. But in general,
22 many of the prior conditions for effectiveness of

1 markets are weak.

2 I mentioned the insurance sector is small.
3 It is also dominated by the state companies. There
4 are 18 small private companies and, de facto,
5 they're not regulated. As I mentioned, there is a
6 supervisor, there is a law, there's no staff except
7 for two or three people, and effectively, the
8 activities of these companies are not being
9 regulated.

10 There are no mandatory insurance products.
11 As the Minister has pointed out, he would like to
12 see also developed some regulations for shar'ia
13 compliant insurance products which not yet they
14 have.

15 The pension sector is an undergoing a
16 transformation in part with the assistance from the
17 World Bank.

18 There are a number of issues that cut
19 across all the sectors, and I have listed some of
20 them there, but they're very clearly related to
21 transparency and to governance and to the rule of
22 law. That is not unique for Iraq. We find that in

1 all countries. But it is very clear, though, there
2 are things that must be focused on immediately, but
3 will take a long time, as the Minister mentioned.

4 We believe that the move to IFRS could be
5 very helpful, in particular to banks and privately-
6 owned companies. We need to raise the proficiency
7 of the audit profession. We need to secure
8 accountants and auditors, update bankruptcy law,
9 improve the competency of fiduciary, strengthen the
10 framework, set up a comprehensive credit registry,
11 and improve the general frame of doing business.

12 And I should mention here that in a
13 survey, unfortunately, Iraq ranked last in the
14 framework for doing business in the MENA Region.
15 So there's work still to be done. In a sense, we
16 already have talked about the key findings and what
17 needs to be done to move forward, so I don't know
18 if I need to go into this now or shall we stop
19 here?

20 MR. KARASAPAN: Maybe very quickly.

21 MR. PETERSEN: Yeah. As I mentioned, some
22 of the issues, if they're begun now will take a

1 long time, but there are some that can be done
2 very, very quickly up front, and I think which will
3 show a very good demonstration effect, and also
4 demonstrate the government's conviction of moving
5 towards a level playing field.

6 So that will include the clean-up of the
7 balance sheet of Raffidain and Rasheed Bank, and
8 the implementation of the restructuring. There
9 are progress in both areas. I mentioned one.
10 There was another company in Istanbul where the
11 focus was on the reconstructing of the two state
12 banks. So again, they are moving forward and
13 that's good to see.

14 Combined with that, we'd like to see very
15 early developing a vision for the role of state
16 banks because as I mentioned, there's also ICB and
17 we have four sectoral banks. We need to have a
18 clear message from the government how they see that
19 going forward. Will there be a further
20 liberalization? Will there be a further increase,
21 a further move towards private banking?

22 I mentioned the bank supervision. Again,

1 some things were done immediately, but that's also
2 a longer term project. We need the adoption of the
3 permanent securities law to permit the public
4 relations and securities markets. And, of course,
5 we need to have a proper supervisor established for
6 the insurance sector.

7 Underlying all this, we need to accelerate
8 the transit to a market economy, a full functioning
9 market economy so that we can actually have some
10 more customers for the banks, good strong customers
11 for the banks, and also if you start accelerating
12 some of these state banks, you will, in a sense,
13 bring life into the stock market as well.

14 So a lot of things to do, some things in
15 front, but we are convinced it will work.

16 MR. KARASAPAN: Nicely done.

17 [Applause.]

18 MR. KARASAPAN: So we will now move to the
19 open discussion. I will move to the mic and then
20 we will move to the open discussion. But before
21 the open discussion, let me also acknowledge some
22 of our other partners who have joined us. Mr. Ron

1 van Rooden, the Chief of Mission for the IMF in
2 Iraq. He's there. Paul Leonovich, Associate
3 Director, U.S. Treasury, is also here.

4 MR. THOMAS: I'm Bill Thomas sitting in
5 for Paul. He was--

6 MR. KARASAPAN: That's what I meant
7 actually. And Ziad Badr who used to be the Country
8 Manager for Iraq and has now jumped ship to the
9 IFC, but will continue to work closely with us.
10 So I open it up. Questions, comments?

11 Please.

12 MR. VAN ROODEN: If I may start, and I
13 must say I very much support Arne Petersen's
14 presentation. We have been working closely
15 together on this. I think one of the issues that I
16 see is that--I mean, we essentially all agree on
17 what needs to be done and what the situation is.

18 What I see as a key constraint is capacity
19 on the Iraqi side to implement these
20 recommendations. And so, a question that I have
21 is, how can we help the Iraqi authorities to
22 implement some of these measures that they agree to

1 that needs to be done? And also, to the extent
2 that there is still a discussion ongoing in Iraq,
3 for example, on what to do with the state-owned
4 banks, how can we help as an international
5 community in building support for these type of
6 measures?

7 MR. KARASAPAN: Any other comments,
8 questions?

9 Yes, please.

10 MR. THOMAS: I just want to reiterate,
11 from the presentation, my observations--I've only
12 been there once, but been looking at it pretty
13 closely. They almost have no capacity to supervise
14 banks.

15 They are struggling desperately, I think,
16 and if this little 11 percent or 15 percent of the
17 sector, they have two in serious difficulty and
18 they, understanding how difficult it is in certain
19 countries to live up and meet what their own law
20 says, they've been unable to do that with these two
21 banks.

22 They have no liquidity and they turn

1 depositors away, and that's an unacceptable
2 situation almost anywhere if you try to do it
3 right. You have to have a level playing field
4 toward depositors if they get their money or not.

5 So they're struggling with even
6 implementing things the law allows them to do, and
7 we're encouraging, as much as we can. I think
8 those of us that have discussed this, this week,
9 and are aware of the situation, they're trying--
10 we're all trying to take the same basic position of
11 what we think they need to do.

12 They have a short-term problem with these
13 two banks, and then they have this much more
14 difficult, ultimately long-term capacity-building
15 problem. It's very difficult to help them when you
16 can't travel freely and go to a bank with bank
17 examiners and be there every day.

18 And I think there's a certain
19 understanding how critical this is. They are going
20 to get some help from Turkey, which was a big
21 development. They had a meeting in Ankara with the
22 Turkish bank supervision agency who's going to--I

1 still think it's not ideal, but they will get some
2 training from them. I think they'll be able to
3 send people to Ankara to go through this Turkish
4 examiner's training program.

5 There's still a possibility that they
6 would contract help on their own that we could help
7 facilitate and help them pick a good contractor and
8 help oversee them, someone who could actually come
9 in and go to the CBI every day and go out to banks.
10 That's ultimately what they need. And until they
11 get that, they're only going to get so far, I'm
12 afraid.

13 So the real emphasis is they need that
14 kind of assistance and it will take several years
15 to build any real capacity. Maybe it's good that
16 the private side is small, because I think it's one
17 the sides--as the slide says, their capacity needs
18 to grow with the sector as it develops. They can't
19 get behind it.

20 Meanwhile, this new responsibility to
21 oversee the state-owned banks, which we can wait
22 and see how well they do that. Keep in mind, the

1 state-owned banks are investing in the private
2 banks, either through loans or equity positions and
3 things like that. So it's getting pretty muddled
4 to see how everything is working there.

5 MR. KARASAPAN: Thank you. Let's take one
6 more comment.

7 [Off microphone.]

8 MR. KARASAPAN: Yes?

9 MR. BADR: Thank you.

10 Well, I just started my job in the field
11 in Baghdad as the first representative for IFC, to
12 find myself already under extreme pressure from the
13 donors. They already have a trust fund with like
14 \$38 million.

15 And as you know, IFC has two arms. It has
16 advisory services and investment services. So we
17 will be happy to support the actual plan coming out
18 of this review. As you know, we have the funding,
19 so in all areas that IFC has comparative advantage,
20 we will be happy to provide the support.

21 Also, we have a self-interest in the
22 restructuring of commercial banks, to have a fair

1 ground for commercial banks to operate. As Arne
2 represented, 11 percent of the market is controlled
3 by private banks. Half of that 11 percent is
4 controlled by the Trade Bank of Iraq, which is not
5 really a private bank. Okay?

6 So all commercial banks are competing in
7 that whatever 5 percent that is left, and--

8 PARTICIPANT: TBI is a [off microphone].

9 MR. BADR: Okay. So it's not that 11
10 percent. Okay. So anyway, most banks, most
11 commercial banks do not really operate as banks.
12 We found out that some of them are selling cars,
13 furniture, and so on. So, I mean, we have self-
14 interest really to restructure the sector, because
15 IFC is already an investor in two commercial banks.

16 One of the first foreign investment in
17 Iraq was an IFC investment in the Credit Bank. It
18 was the Kuwait National Bank where we have 10
19 percent equity. And IFC Board already approved
20 recently another investment in the Commercial Bank
21 of Iraq [Iraqi name] in partnership with the Ahli
22 Bank of Bahrain with 7 percent equity.

1 So, you know, we would like to work in
2 partnership with you and see whatever we could do
3 to help in this sector. We already have some
4 activities going on to support the Central Bank of
5 Iraq in setting up a credit bureau.

6 And I would like to thank you for this
7 opportunity to speak here today. Thanks.

8 MR. KARASAPAN: Thank you, Ziad.

9 Could you--the next speakers, we have one
10 question and then one more. Could you identify
11 yourself, please, and then we'll come to you.

12 QUESTION: Hi. I'm a reporter with
13 Reuters. I just want--this question is for Mr.
14 Leonovich. Do you think the banking, like this
15 opaque banking sector, is Iraq's biggest roadblock
16 to growing their economy?

17 MR. THOMAS: I can't say.

18 QUESTION: Can anyone answer that
19 question?

20 MR. KARASAPAN: Why don't you--okay, one
21 more, let's take one more question. Identify
22 yourself, please.

1 QUESTION: Thank you.

2 This is Mohammad Wafir [ph] from Middle
3 East Broadcast Network. Actually, I was very--I
4 came to give the questions for the--to give the
5 answers for the questions Mr. van Rooden had
6 raised. And we all know that the Iraq, as other
7 countries in the region, they need the capacity-
8 building and the technical assistance now the IMF
9 is really to introduce and help.

10 But at the same time, when we ask the IMF
11 officials, they say, We are waiting for the
12 request. And by experience, countries in the
13 region, they don't ask for capacity-building. They
14 don't ask for the technical assistance. Somewhat,
15 they're pretty much interested in the financial
16 thing.

17 So the questions you ask, we really need
18 the answers. So if you can help with those
19 answers, we will be very grateful.

20 Thank you.

21 MR. KARASAPAN: Let's take the questions
22 in order. Sahar, the first question on the

1 opaqueness of the system, and then we will let the
2 IMF answer that one.

3 MS. NASR: Okay. I will comment on
4 several things, also, that--

5 MR. KARASAPAN: Okay, sure.

6 MS. NASR: Because Ron raised the question
7 of how can we help, and I think that's an important
8 question. I think there are many ways that we can
9 help, but it's the different issues. Some issues
10 would require capacity-building. It's true that
11 many of the implementing entities lack the capacity
12 and skills, so that is one area.

13 But there are many issues that we have
14 highlighted that requires political commitment and
15 the decision to be taken. If we're talking about
16 the cleaning of the financial statements, that
17 requires more than capacity-building, a decision
18 taken at the highest level.

19 We had many discussions with the banks.
20 Chairmen of the banks don't feel they have the
21 authority to take the decision. They need a higher
22 level decision to do the write-offs, for example.

1 So I think let's differentiate not only between the
2 short-term and the long-term.

3 I think the political will and the
4 commitment from the highest political level, and
5 not necessarily the governors, but even beyond
6 that, would be required because there is external
7 debt. There are many issues. It's not only the
8 regular non-performing loans.

9 We have a project, the World Bank has a
10 project. It's not large, but it's reasonable, and
11 I think we are slowly, but we are doing some
12 progress there. Like I can give one example.

13 Two weeks ago we had a mission where we
14 agreed on the new organization structure for the
15 state-owned banks. It took us four days of
16 discussion. We had to bring in like different
17 organizational structure of different banks to
18 convince them, because you need buy-in, because at
19 the end of the day, they need to approve
20 organization structure.

21 Even if we provide the best, they need to
22 believe in it and really be committed to do it, and

1 you have to make a good case by showing them what
2 are other countries, especially in the region, are
3 doing where they would reflect. So I think that's
4 an area that I'd like to highlight.

5 Also, on supervision, things take time. I
6 think banking reform takes time, and I think our
7 expectations should be also very realistic on how
8 much we can do.

9 And I want to, because we have this on-
10 the-ground operation, and I have to highlight that
11 it's sometimes very difficult to find the right
12 competent consultants to go and work in Baghdad.
13 That's a challenge we face. We have biddings with
14 procurement like every week and we get sometimes
15 consultants. Sometimes we turn them off and we
16 have to find more. So that's a key challenge that
17 we face and we have to acknowledge that.

18 Okay. And on the question regarding
19 opaqueness, I think there are different challenges.
20 I think Ron had raised one. The team has also
21 brought it up. It's not only opaqueness, but I
22 think lack of skills. They need skills. They need

1 political commitment, a willingness--like we have
2 seen a significant, and I'm sure IMF colleagues
3 would agree--the appointment of the new Minister of
4 Finance who was more committed, because the
5 Governor of the Central Bank has the responsibility
6 of capacity-building of the Central Bank itself, as
7 a supervisor, regulator.

8 For example, you see the payment system is
9 one of the good, main outcomes of the reforms that
10 took place which has been supported by U.S.
11 Treasury and it's there operating, all banks are
12 connected. So when there is the right support,
13 there is some positive outcome.

14 But like when you're talking about state-
15 owned banks, the owner is not the Minister of
16 Finance, because these state-owned banks are owned
17 by Treasury. So that's where a lot of the
18 decisions have to be taken. So it's important to
19 identify and that different entities have the
20 commitment to really do that.

21 And maybe I'll ask Ron or Sibel if they
22 want to comment on anything.

1 MR. PETERSEN: I'm Arne. That's Ron over
2 there.

3 MS. NASR: No, no, sorry. Maybe Arne
4 would want to comment.

5 MR. PETERSEN: Yes. I have to be careful
6 not to get into areas that really belongs to the
7 IMF. So maybe I should let Ron speak first.

8 The banking system is not the only
9 roadblock to have the growth in the non-oil sector
10 we would like to see in Iraq. And I'm speaking
11 from, for example, personal observation. It seems
12 to me there is still a legacy from previous regime,
13 whatever.

14 We have not resolved all the issues
15 relating to state intervention in the economy.
16 There's been a lot of discussion going on and
17 there's been decision taken, but yet, it has not
18 come to fruition and there's some things to be done
19 to fully implement that.

20 You see it clearly in the size of the
21 state's role in the banking sector, which is indeed
22 large by any standards around the world. It's

1 commonly accepted by most observers that a state-
2 owned bank in general is not quite as efficient as
3 a private bank.

4 So the Iraq authorities do need to decide
5 how they would like to see the banks develop, along
6 private lines or along state-controlled lines.

7 We believe that they wish to move to the
8 private sector, but to do so we have to have a
9 clean-up of the state banks, we have to have proper
10 governance in those state banks, and at the same
11 time, the government has to realize if you have a
12 strong state bank, we cannot--government should not
13 tell them what to do. Then they have to accept it,
14 behave along commercial principles. So that must
15 also change.

16 Now another thing. The culture is still
17 influenced by the previous situation. It seems to
18 me that bureaucrats or all technical level staff
19 are very careful in doing their job or in over-
20 doing their job or taking the initiative, because
21 in the old days, if they did something and it
22 turned out to be wrong, well, you might pay with

1 your life.

2 We have again heard when we asked, How
3 come you didn't have much profit, they say, Well,
4 the minister didn't tell us what to do.

5 MS. NASR: In writing.

6 MR. PETERSEN: In writing, yes. And then
7 a letter in writing.

8 MS. NASR: And then they stopped it or
9 they didn't.

10 MR. PETERSEN: And as I keep telling them,
11 Well, it is your job to tell the minister what it
12 tells you to do. You have to bring up proposals
13 and give the answers and then the minister will be
14 able to act in a good manner. But that's not yet
15 the way they quite see this.

16 There's a lot of work to be done to change
17 the culture.

18 MR. KARASAPAN: Then, Sibel, very quickly
19 to you.

20 MS. KULAKSIZ: Sure.

21 MR. KARASAPAN: And then over to the IMF
22 and then we'll pass it on to Hedi for the closing

1 remarks.

2 MS. KULAKSIZ: On capacity-building,
3 Turkey is very much interested in providing support
4 to Iraq's financial sector. In addition to
5 banking, its Parisian agency, the Capital Board of
6 Turkey is keen on providing capacity-building
7 training. The Chairman was here wishing to gather
8 with his team and he said he could team up with
9 OECD and the U.S. SEC and could provide support to
10 all Iraqis in their facilities in Ankara and
11 Istanbul and they said they will be happy to
12 provide that support.

13 MR. KARASAPAN: Sibel is also talking in
14 her capacity as the former head of the Turkish
15 Staff Association.

16 Yes, please go ahead, Ron.

17 MR. VAN ROODEN: If I may, indeed there is
18 a need for capacity-building and authorities
19 actually do request that and then the IMF is
20 providing technical assistance in many areas,
21 particularly also to the Central Bank.

22 But it's, to some extent, constrained,

1 both by the security situation, and typically what
2 the IMF does is provide missions. Short-term
3 people are there for one week, two weeks, to help
4 them develop and build capacity.

5 But what's the Central Bank and the
6 banking system in general in Iraq needs is people
7 there for a longer term, for a longer period. As
8 Bill was saying, the capacity is weak at the
9 Central Bank's supervision department, but also at
10 Raffidain and Rasheed and the other banks.

11 So in that sense, I mean, it's very
12 welcome, but the Bank of Turkey, Central Bank of
13 Turkey, and the Turkish supervisory agency would be
14 willing to provide that type of assistance, which
15 we cannot do, unfortunately.

16 Sometimes we are able to put long-term
17 advisors there, but for Iraq, it's very difficult
18 as Sibel or Sahar is saying, to put people there
19 for a long period, particularly into such difficult
20 situations. And there, I think we need to do
21 better to find that type of assistance, and also by
22 approaching other central banks also in the region.

1 With regard to what is needed for private
2 sector development, the financial sector is one
3 aspect and it's a key aspect because the key role,
4 essential role of the financial sector is financial
5 intermediation, to mobilize savings and allocate
6 that to investment in the private sector.

7 But it's only clearly one aspect. Another
8 aspect is obviously security, which has improved an
9 enormous, an enormous amount over the last few
10 years, but it's still a risky environment.

11 You also need macroeconomic stability.
12 And again, there are two--a lot has been achieved.
13 Iraq has low inflation, has a stable exchange rate,
14 government finances are doing reasonably well,
15 largely supported by higher oil prices.

16 And then for private sector development,
17 you also need the appropriate regulatory framework,
18 what Arne was mentioning earlier. If you look at
19 the rankings for--Iraq ranks, in terms of ease of
20 doing business, they come in quite low. So last
21 even.

22 So there is a huge effort that needs to be

1 done there for the private sector to truly develop,
2 and there's a lot of work still to be done. And,
3 of course, I mean, the Iraqi government has a lot
4 on its plate. It's still in a building capacity
5 even inside the government having to invest in
6 basic infrastructure, electricity, roads, health,
7 education. So the agenda is enormous. So it's not
8 easy.

9 MR. KARASAPAN: Thank you. Thank you very
10 much.

11 I'll turn it over now to our Finance and
12 Private Sector Development Director, Loic Chiquier,
13 for a few minutes and then we will conclude with
14 our Country Director, Mr. Hedi Larbi.

15 MR. CHIQUIER: Don't worry. I will not
16 take a few minutes. One is enough, I think, not to
17 repeat what have been already said or comments made
18 by the team and the panelists.

19 Just two remarks briefly.

20 Number one now is we have to take into
21 account the time of these projects, on these
22 projects. It's really remarkable to have built a

1 consensus with the different authorities and the
2 different donors about this kind of not quite fair
3 reflection of the situation. Some of these
4 messages are strong messages.

5 It was remarkable to have built rather
6 recently. The Istanbul meeting where this was
7 presented and discussed in depth took place only a
8 few days or few weeks ago. So this is for us a
9 starting point and in completion phase and we're
10 moving now to the phase of implementation. So
11 let's keep in mind this consensus happened only
12 very, very recently.

13 On the Minister this morning in the more
14 global meeting, with the assistance of Sahar to
15 pursue the same way of proceeding with other
16 sectors. So he considers this as a pilot
17 interesting to move forward to other sectors.

18 And the second thing is we have to look at
19 the last slides. I agree with all the panelists'
20 comments, we have eight major recommendations.
21 Some of them we all agree will take time, because
22 we're starting on building capacity. We spoke

1 about Central Bank, but the insurance is even worse
2 probably.

3 We'll take yours in the best case
4 scenario. But I join the comment of Sahar, the
5 TTL, that some other measures, it's not so much a
6 matter of time, it's a matter of political will.
7 It's a blank field starting with the private banks.

8 Adoption of the permanent securities law,
9 it's not really so much a technical problem than a
10 matter of a decision at the highest level and
11 political will. So we hope in this scope of
12 recommendation that some decision really be taken
13 now and decision taken relatively fast. And we're
14 giving a very important demonstration effect to the
15 rest of the reforms.

16 MR. KARASAPAN: Thank you, Loic. Thank
17 you.

18 Monsieur Larbi?

19 MR. LARBI: Thank you very much, Omer, and
20 I would like for us, in abstentia, to thank their
21 Excellencies, both the Governor of the Central
22 Bank, Mr. Shabibi, and His Excellency, Mr. al-

1 Issawi, the Minister of Finance who actually led
2 this work from the very beginning, of course, and
3 in cooperation with the World Bank team which was
4 very heavy-handedly led by our colleague, Sahar.

5 But I would like also to thank you all
6 because I think you probably have so many other
7 things to do at the annual meeting, but the simple
8 fact that you came here shows how much interest,
9 not only to this work, but for me it's the interest
10 in Iraq, which is even more important.

11 And finally, I would like to thank the
12 team who organized this because, frankly, finding
13 your spot at the annual meetings and finding the
14 room, finding the logistics probably was certainly
15 very, very challenging and I would like to thank
16 the team, Sahar and Omer and Dale and the whole--
17 maybe probably at least 10 or 15 people. Sorry?

18 PARTICIPANT: [Off microphone.]

19 MR. LARBI: And whoever participated,
20 thank you very much.

21 Now, I hope that you are not expecting me
22 to make a summary of whatever is in that report or

1 of the debate, but I would like to leave you with a
2 couple of thoughts on Iraq and this work and how we
3 look at this work actually in terms of perspective.

4 One, we hear noise that Iraq is a fragile
5 country. In my view, it is not a fragile country,
6 it is a country in a transition, politically and
7 economically. Politically, from that kind of
8 dictatorship that we all know, to a democratic
9 system that is being actually formed or shaped, and
10 most recently, I see it even more shaped by the
11 Arab Spring, and that is fundamental.

12 So the democratic process in Iraq is
13 ongoing, but probably will take a little bit of
14 different turns, and that's where the whole
15 political will, whether we will build or the right
16 governance where accountability, responsibility,
17 and actually in a way accountability toward the
18 people. Are we going to deliver services and are
19 we going to deliver--and live up to the expectation
20 of the people.

21 In transition economically, because this
22 is a country which has been, for the last at least,

1 let's say, 50 years, under a state-owner ran
2 economy, how can you transit actually this economy
3 to some sort of market-led type of economy. I hope
4 it will not be a market--because in Iraq there are
5 a number--I see the room for the government and if
6 the government plays, there's a huge development
7 and it has to play its role.

8 So that the transition is not easy at all
9 when you have actually 15 years, when you spent 15
10 years of war, sanctions, and so on and so forth.
11 We have to bear in mind what is Iraq and the
12 challenges that Iraq is actually facing. So it is
13 easy to say this is missing, the government denied
14 this, they institution, et cetera, but this is Iraq
15 and this is the exceptional innovation.

16 Now, how we see it in the perspective
17 actually of the future, Iraq is a blessed country.
18 I will tell you why it is blessed and it will
19 succeed. One, this is the second, after Egypt,
20 largest demographic country in the region. And
21 therefore, its economy has no, in no way, in the
22 future to look like any Gulf country.

1 It has to look like a well-developed and
2 diversified economy because we have to provide the
3 jobs for million and million of people because they
4 have to provide services which the small Gulf
5 countries can actually in a way subsidize that and
6 they bring labor from other places.

7 Iraq cannot afford it if Iraq has to
8 maintain some political stability and, hence, the
9 need for diversification and so on and so forth,
10 and I will come to this. So this is a big country
11 in the region. It is not a small country and it
12 has to be taken as it is.

13 The second why it's blessed, this is the
14 second or maybe the third oil reserves and gas
15 reserves which we have not yet put our hands on in
16 the region--in the world, sorry. So this is a
17 wealthy country. It is very, very important and
18 hopefully those resources will be deployed in a
19 very optimum way so that actually they develop
20 their country and they use these resources
21 appropriately.

22 Third, this is the only country in the

1 world that has oil and gas. Big deal. And second,
2 water. This is the only place in the Middle East
3 after Lebanon where you have oil--sorry--water.
4 And water, unfortunately, the day that Iraq will
5 receive its fair share of water, everybody knows
6 what I'm saying, then you will see that this
7 country, its agriculture will thrive and will
8 actually resume its export history in terms of
9 foods, et cetera, et cetera. Today it's a net
10 importer, and I'm sure that it will soon become a
11 net exporter.

12 Now, it is also the first and unique
13 country in the region that has some great actual
14 potential for economic development. It is the next
15 lion or tiger in the region, definitely before
16 Saudi Arabia or any other country because why?
17 They have all these endowments, but Iraq has the
18 history for human capital.

19 Most of the writers, most of the
20 philosophers, most of the scientists of the Arab
21 world came from Iraq. So do you think that Iraq
22 will not have it soon? Probably once they

1 stabilize, probably once they redeploy these
2 resources properly, this civilization is there.
3 It's rooted there.

4 So this is the country where the potential
5 is absolutely fantastic, it's huge, so up to us how
6 to help Iraq today to mobilize their resources
7 properly, to have the right strategies, the right
8 vision so that they use these resources to build a
9 thriving and a prosper country in the region, which
10 will have a major, major impact on the rest of the
11 region.

12 It can be the locomotive. We thought that
13 at one time that Algeria could be the locomotive.
14 Now we are looking for another locomotive and
15 probably Iraq can be that locomotive. Just look
16 back to its civilization. Let's look back to its
17 history. And just the last few years, I started
18 doing that. There is a wealth for human capital
19 out there.

20 Now, what now Iraq has to do are three
21 things, at least in my view. One is really to
22 rebuild its social and economic infrastructure. It

1 has been destroyed. It has been lagging behind for
2 so many years, no help in this rehabilitation, and
3 no actually additional investment for years. So
4 rebuilding the social and economic infrastructure
5 is fundamental.

6 And the second is really to rebuild, to
7 re-establish, to restore the institutional, the
8 institutions, the government institutions. This is
9 what you are talking about, the capacity, the
10 capacity is not there. But this is just the
11 beginning. Institutions are fundamental for Iraq.

12 And third is really to work hard to
13 stabilize its nascent political and democratic
14 system. This is fundamental. Political stability
15 and consolidation of its democracy are absolutely
16 fundamental for Iraq to move forward on its
17 economic development.

18 So it is under that actually pillar of
19 institution and development of Iraq that this work
20 has been designed, has been carried out, and has
21 been achieved. So it is fundamental to see where
22 we are when we have done this work.

1 Now, while I see that this work is unique
2 based on what we have been doing in the country and
3 in a number of sectors, this is particularly unique
4 and this is what I wanted to leave you with a last
5 thought.

6 One, it has been led in cooperation with
7 Iraq from the very beginning. I don't recall one
8 single sector, maybe the education started learning
9 from the financial, where actually the Iraqis are
10 in the driving seat. That's fundamental and I
11 think we have to move forward to the future.

12 The second thing is the strong leadership
13 and political engagement of both the Central Bank
14 and the Minister of Finance, and here I want to
15 highlight one thing.

16 I'm working in five countries. It is very
17 hard to bring to the same table the Central Bank
18 and the Minister of Finance and to get them agree
19 to something.

20 Not only they agreed on how to lead the
21 work, how to supervise it, but they sit with us, as
22 you rightly mentioned, three days to come up with

1 an action plan on which they agreed, both, and I
2 signed it off. So, fundamental cooperation
3 bringing probably the governing power playing a
4 role in it.

5 Third is we don't have a strategy and this
6 is exactly what we like. We have an action plan
7 with the timing, with the possibility, and what
8 needs to be done. This is the first, and I think
9 in that mode, that we have to look at it as a model
10 that we probably, hopefully, can replicate
11 somewhere else.

12 But the most important thing, as I heard
13 you all, is that action plan, embedded in that
14 action plan, a capacity development of the
15 financial institutions, including the Central Bank
16 by the way manage their funds, but other, non-
17 related--sorry--related financial institutions in
18 terms of human capital, in terms of training, in
19 terms of management system, capacity, financial
20 system.

21 It is fundamental because I recall in the
22 discussion, you said yes, the capacity is very low

1 and anything that you want to implement in Iraq, we
2 should first and foremost start by building the
3 capacity. So this is a model that we really need
4 to replicate in anything that we should do and we
5 should help Iraq as the next tiger of the region.
6 Thank you very much.

7 [Applause.]

8 MR. KARASAPAN: Ladies and gentlemen,
9 before going, we should also thank our translators
10 who unable to do have been working the whole time.

11 [Applause.]

12 MR. KARASAPAN: And also Halid Al-Awan,
13 Sophie Cox and David Fann [ph]. Without them, none
14 of this would have happened. And, of course, the
15 MENA EXT team.

16 [Applause.]

17 MR. KARASAPAN: And Nalia, yes.

18 PARTICIPANT: [Off microphone.]

19 MR. KARASAPAN: Next time around we will
20 have everybody here.

21 Thank you very much.

22 [Whereupon, at 3:36 p.m., the seminar

1 concluded.]