

## **Iraqi Stability and the “ISIS War”**

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**August 12, 2015**

The war against ISIS is a critical U.S. national security interest. It not only threatens to create a major center of terrorism and extremism in a critical part of the Middle East, and one that could spread to threaten the flow of energy exports and the global economy, but become a major center of international terrorism. It is important to understand, however, that ISIS is only one cause of instability in the region, and only one of the threats caused by spreading sectarian and ethnic violence.

### **Military Force Cannot Bring Iraqi Security and Stability**

Iraq is a key case in point. No defeat of ISIS can bring it security or stability, and give it the unity and independent strength to resist pressure from Iran and threats based in Syria and Turkey. No military course of action can – by itself – create a stable regime and economy and reduce the tension between Iraqi Sunni and Shiite and Arab and Kurd to workable levels. As is the case in Syria, Libya, and Yemen, as well, military action must be joined to political and economic action and the creation of some form of viable governance.

U.S. policy must also understand that nothing could be more damaging or pointless in serving American interests at this point than a partisan debate that focuses on whether President Bush or President Obama “lost Iraq” by mishandling the U.S. military effort.

It is important to remember that the original status of forces agreement (SOFA) that President George W. Bush signed in 2008 was the *Agreement Between the United States of America and the Republic of Iraq On the Withdrawal of United States Forces from Iraq and the Organization of Their Activities during Their Temporary Presence in Iraq*. It stated that U.S. combat forces would withdraw from Iraqi cities by June 30, 2009, and all U.S. combat forces will be completely out of Iraq by December 31, 2011. U.S. contractors remaining in Iraq working for U.S. forces would have been subject to Iraqi criminal law, and it did not clearly protect U.S. forces accused of “major premeditated felonies” committed off-duty and off-base.

Most important, it did not foresee the level of U.S. advisory and train and assist activity that would still be necessary to aid both the Iraqi military and Iraqi police after the deadline of December 31, 2011, and it could not possibly foresee the political nightmare caused by the uncertain outcome of the 2010 election and the degree to which Maliki would increasingly seek to create a power structure free of a U.S. presence, and the extent to which he would increase his power and control over the Iraqi forces.

Arguably, the Obama Administration might have done more to press for a continued U.S. troop presence, and it is clear that some senior U.S. officers and Secretary Gates did call

for a continuing residual force – evidently with the support of then with Secretary Clinton. Key figures like the Grand Ayatollah and a number of Iraqi political leaders opposed this, however, and the role of Maliki, Iran, and others in ensuring that no agreement was possible is one where a serious effort is needed to provide the full record from 2007 onwards with as little classification as possible.

That record will show that both U.S Administrations – as well as key U.S diplomats on the scene – made serious mistakes, but it will also show Iraq’s problems have been shaped far more by Iraqis and Iran, and that Iraq must begin to deal with all of its critical military and civil problems if defeating ISIS is to be a prelude to any meaningful form of strategic success in Iraq.

### **The Need for Civil-Military Solutions**

Any analysis of the overall pressures on Iraqi stability must begin by acknowledging the very real threat that ISIS (ISIL, the Islamic State, or Da’esh) present. At the same time, the U.S. and other outside powers sometimes fixate on ISIS as if some form of military “victory” over ISIS could defeat the broader range of threats posed by Islamic extremism, lessen tensions and civil conflicts between Sunnis and Shi’ites and Alawites, solve the Kurdish problem, and give Iraq and Syria the stability necessary to both reassure and deter their neighbors.

The broader civil-military situation in Iraq is less dire than it is in Syria, It is all too clear, however, that Iraq cannot wait on such a “victory” to deal with its internal problems and that any such “victory” might well make the tensions between Sunni and Shiite, and Arab and Kurd, even worse if it is won in ways that do not offer Iraq’s Sunnis a clear future, and make the defeat of ISIS a real liberation rather lead to further Shi’ite mistreatment of Sunnis, and a prelude to territory struggles over the size of the Kurdish dominated areas and the powers of the Kurdish Regional Government (KRG).

Iraq also cannot create effective security forces or meaningful rule of law without addressing the sectarian and ethnic divisions that are tearing the country apart. No form of U.S. air campaign, train and assist mission, or mix of combat advisors will have lasting success if Iraq remains divided into a Shi’ite dominated military and police, Shi’ite militias, separate Kurdish forces, and a weak mix of Sunni tribal forces that are only active in its west.

The Bush and Obama Administrations must share the blame for part of the political process that divided the country along sectarian and ethnic lines, which led Iraqis to resist continuing a limited U.S advisory and troop presence. And that empowered Maliki in politicizing Iraq’s forces, dividing the country, bringing it to a state of low-level civil war by 2013, and creating the conditions where ISIS could successfully invade. A full history of these events, however, will show that Iraq’s problems began long before the U.S. invasion, were driven more by Iraqi divisions than U.S. mistakes, and are at least as much the product of the underlying civil causes of Iraqi instability as any fault of the U.S.

Stability in Iraq is also imperative because it is equally clear that only a far more stable Iraq can limit the role of Iran, create some kind of buffer against what seems likely to be continuing instability in Syria, largely decouple its Kurdish area from Turkish concerns over the Kurds, create favorable relations with the other Arab states, and end the risk of

constant power struggles over the control of its petroleum resources and export revenues. Iraqis need to “dominate” and fully unite Iraq if Iraq is ever to become a force for regional stability, rather than a threat to it.

The last few weeks have made it all too clear that the real challenge in Iraq is not to drive ISIS out of Anbar and Ninewa, but to help Iraq achieve some form of broader security and political and economic stability. To be sure, it is critical to drive ISIS out of the Sunni areas in Western Iraq, but simply defeating ISIS will not matter if it is not part of a broader effort to find a stable political and economic relationship between Sunni and Shi’ite and Arab and Kurd, give them all security, create a structure of governance that all Iraqis feel serves their primary concerns, put Iraq back on a path to broader economic recovery, and then towards broadly based development.

### **Understanding the History and Sheer Scale of Iraq’s Stability Problems**

One way to turn the past into a continuing future is to forget it, and both Iraqis and Americans seem to have little desire to understand the extent to which Iraq’s security and stability problems began decades before the U.S. invasion of Iraq and the departure of U.S. troops.

Iraq never had the kind of governance that helped it effectively exploit its potential for development or meet the needs of the accelerating growth of its population after 1950. The bloody end of the Iraqi monarchy in 1958 was followed by decades of equally bloody political infighting between largely Sunni Arab Iraqi factions, and a shift to a focus on state industry and military competition with Iran that systematically distorted the Iraqi economy and limited Iraqi development on a national level.

While many Iraqis remain in denial of the scale of the discrimination against religiously active Shi’ites and the scale of the problems with Iraq’s Kurds, these were a key factor of Iraq’s development from 1958 through the late 1970s and a civil war with the Kurds that began in 1961 and lasted at various levels through the first half of the 1970s. These struggles culminated in Saddam Hussein’s ruthless purge of all rivals in 1979, and the creation of a ruthlessly repressive dictatorship that was built of a Sunni Arab minority power base, and lasted until the U.S. led invasion in 2003.

The fall of the Shah in Iran and the resulting unrest in world oil markets gave Iraq a brief burst of wealth in 1979, most of which was wasted on further distorting the economy by unproductive investments in the state sector. In 1980, however, Saddam Hussein tried to take advantage of the revolutionary turmoil in Iran to invade and annex key oil rich areas in Iran’s southwest under the guise that its Arab population had called for such aid.

By 1984, the Iraqi invasion had virtually bankrupted Iraq, forced mass conscription, halted development, and sharply reduced the quality of education and most government services. Iraq became dependent on Saudi and Kuwaiti loans and aid in oil exports, and it entered a period of continuing internal fighting and crisis that still continues. It never had a period after 1980 in which its civil government services and education sector fully recovered. One over-ambitious economic plan after another faded into unimplemented archives, and civil governance became less effective.

From 1980 to the end of the Iran-Iraq War in 1998, major elements of Iraq’s Kurds again began to seek independence, and in 1986, Saddam began the bloody Anfal campaign that

caused some 50,000-200,000 casualties. Significant elements of Iraq’s Shi’ite population came to support Iran and Saddam’s overthrow, and a Shi’ite armed opposition movement developed in the border areas and marshes in the south, leading to the ruthless suppression of any Shi’ite religious and political leaders that appeared to be a threat.

The invasion of Kuwait in 1990 was followed by Iraq’s catastrophic defeat in 1991, and by major new Kurdish and Shi’ite uprisings. The Shi’ite uprisings were initially joined to Sunni protests, but came to have significant ties to Shi’ites in Iran and were put down relatively quickly in the south – followed by further repression of any Shi’ite challenge to the regime through 2003 and the quiet execution of several key religious figures.

This long history of growing Sunni and Shi’ite tension between the early 1980s and 2003 laid the groundwork for the creation of Iraq’s Shi’ite exile movements and ties to Iran, as well as the Shi’ite effort to dominate Iraq’s government after the U.S. invasion and both take revenge and ensure continued power through measures like De-Baathification and disbanding the Iraqi Army, as well as establishing Shi’ite control over the security services and key elements of the once minority Sunni controlled structure of governance.

The outcome was different in the north. The U.S. led an effort that created a Kurdish security zone during 2003-2005, and laid the groundwork for the creation of a Kurdish Regional Government in spite of the infighting between the two leading Kurdish political factions – the KDP and PUK – and a civil war between them during the mid-1990s and that lasted until 1997. The result was the creation of an unstable and corrupt Kurdish enclave that became the Kurdish Regional Government, and was able to take control of significant amounts of disputed territory after the U.S. invasion in 2003, as well as more territory in Ninewa and Kirkuk during the fighting against ISIS in 2014.

The U.S. invaded Iraq and overthrew Saddam in 2003 under the assumption that Iraq did not need the U.S. to plan for stability operations, the restructuring of the Iraqi government and security forces, and that U.S. combat units could begin to withdraw 90 days after the fall of Saddam Hussein. A combination of this lack of planning and the sudden rise to power of inexperienced and deeply divided Shi’ite leaders, coupled to an awkward and unstable relationship with the KRG, helped keep Iraq from developing any form of stability and triggered a civil war between Shi’ite and Sunni that lasted from 2004 to 2010, and was then revived by Maliki’s actions during 2011-2013.

Iraqi development was sharply limited and distorted from 1991-2003 by Saddam’s efforts to reinforce his own power, and the impact of his efforts to disguise the growing destruction of the remaining elements of his weapons of mass destruction and missile programs. UN Security Council adopted United Nations Security Council Resolution 661 that led to major economic sanctions before the fighting in 1991, and, even stronger sanctions after the fighting in 1991 as part of Resolution 687 which called for the removal of Iraq’s capability to produce and use weapons of mass destruction.

These sanctions came to affect all trade and financial resources except for medicine and some foodstuffs. They initially limited Iraqi oil exports and then led to UN controls over Iraq’s oil export income that Saddam succeeded in manipulating-- in part because of the corruption of a key UN Administrator. They put serious limits on all investment and development, and forced a process of food rationing and Iraqi attempts to increase agricultural output that further undercut Iraq’s development,

The gross over-centralization and authoritarianism enforced by Saddam Hussein through 2003 was followed by a series of elections, political crises, and half-formed, half implemented plans which failed to produce either stable governance or development, wasted most of the outside aid that was not consumed by the fighting, and proved unable to find any political solution to the need to integrate Sunnis into Iraq's new power structure, the divisions between Kurd and Arab, or the effective allocation of Iraq's oil export income.

Ambitious economic, budget, aid, and petroleum sector plans and projects often did little more than further distort Iraq's economy, and anti-corruption efforts did little more than punish a few scapegoats while creating a government that became one of the most corrupt in the world.

If anything, the counter-corruption efforts created an Iraqi bureaucracy that was afraid to act at a point where constant shake ups in Ministers and its structure limited its ability to act. This, and the continuing fighting, blocked effective recovery, reform, and development of key elements of the Iraqi economy including basic service like electric power and the development of Iraqi petroleum sector and increases in its export revenues

### **Effective Reform Requires Time and Meeting Massive Challenges**

The new reform efforts of the Abadi government only address the symptoms of most of these problems. During July and August, the pressures on the Central Government and Iraqi national unity have grown for a wide variety of reasons. One key trigger were temperatures that reached 120° with no or almost no centrally generated electric power after years of promises. Iraqis are no more immune to heat than Americans and adding this burden to all the others Iraqis now face pushed many beyond the limit.

The government faced growing public demonstrations, triggered in part by a major heat wave and a decade-long failure to create enough electric power – a problem many blame on inefficiency and corruption. Widespread anti-government protests and a call by Grand Ayatollah to combat corruption “with an iron fist” led to the resignation of Bahaa al Araji, deputy prime minister for energy affairs, among other changes Prime Minister Haider al-Abadi introduced as part of a sweeping reform package announced in August of 2015.

There are no reliable estimates of the power Iraq can now generate and distribute on a sustained, effective basis. But to put this in perspective, Iraq only had a capacity of some 4,300 megawatts at the time of Saddam Hussein, and the lifting of controls on imports and the failures to implement developments plans from 2003 onwards have vastly increased demand. The Iraqi Minister of Electricity Qasim al-Fahdawi estimates that Iraq now needs 30,000 MW.

The full range of reasons for this new round of protests, however, is the cumulative impact of a much wider mix of problems. Some date back to the mistakes the U.S. made after 2003, but many date back to the full mix of security, governance, and economic problems described earlier, and that were created during the time of Saddam Hussein and decades earlier. These problems included Iraq's ethnic and sectarian tensions, the uncertain character and effectiveness of its various security forces, growing economic hardships over a period of years, and gross government in efficiency and corruption in virtually every aspect of government activity.

It is difficult to put many of these pressures into any form of quantitative perspective because there are no reliable estimates of Iraq’s key data on population, GDP, investment, poverty, and employment data, and many sources extrapolate on the basis of past data and ignore the impact of war. However, a number of key problems and trends remain all too clear:

***Political, Sectarian, and Outside forces***

- A political power structure driven by national lists, rather than direct representation, and by top-level power brokering that reflects sectarian and ethnic power struggles between Sunni and Shi’ite and Arab and Kurd.
- Iranian intervention at all political and security levels in the Shi’ite and Kurdish areas, and minimal support and activity by neighboring Arab states, coupled to an uncertain mix of Turkish support for the KRG, poor Turkish relations with the Iraqi Central government, and a Turkish focus on Assad and Syria.
- The need to finance much of a steadily increasing mix of forces in the fight against ISIS, to provide local security, and create Shi’ite, Kurdish, and Sunni militias and power forces.
- A renewal of the sharp tensions between the Central Government and Kurdish Regional Government (KRG), caused in part by the breakdown of a deal between the Central Government and KRG that was supposed to give the KRG 17% of Iraq’s oil export revenues, and also because of growing political tensions within the KRG, and disputes over the allocation of remaining oil export revenues to Shi’ite portions of Iraq. The KRG faces problems in exporting oil directly through Turkey, and the pipeline from the Kirkuk oilfields has been sabotaged, but the KRG reports that they exported 16,019,090 barrels of crude oil, or an average of 516,745 barrels per day (bpd) through the Kurdistan pipeline network to the port of Ceyhan in Turkey in July 2015.
- Efforts by Maliki to exploit these problems, and return to power in ways where he has focused on his ties to Shiites, compounded by the fact that the various Shi’ite militias are becoming a growing political as well as military force, and include factions that clearly favor Shi’ite Arab interests and/or ties to Iran.

***The Political character of the Security Forces***

- Tensions between the Kurdish Pesh Merga and Iraqi government forces and Shiite militias, problems arising from KRG seizure of non-Kurdish and disputed areas during the fighting against ISIS including Kirkuk and its surrounding oilfields, and the breakdown of the ceasefire between Turkey and its Kurdish PKK and Turkish bombing of PKK enclaves in Iraq.
- Growing Iraqi Arab concern that the U.S. train and assist effort is favoring the Kurds.
- These problems interact with the fact the Iraq has only had limited success in recruiting Sunni forces, and has not been able to pass the National Guard legislation that has been strongly supported by the U.S. and would create provincial National

Guard forces that would have strong Sunni and Kurdish elements tied to the central government.

- At the same time, it still unclear how many elements of the Iraqi central government armed forces can be rebuilt to act as truly national forces, and will not become Arab Shi'ite forces in a sectarian or ethnic crisis or be under significant Iranian influence. Figures like Qasem Soleimani, the head of Iran's Quds Force, and other IRGC advisors play an important role in both some Iraqi government units and militia elements.
- Iraq has created growing forces of Shi'ite militias as a result of the Grand Ayatollah's call for such militias to come to the aid of the government in fighting ISIS. While many Shi'ites joined the new Popular Mobilization Units that largely support the government, some have established their own political identity, or shown little regard for the Sunni population in the areas where they fight or the need for Sunni recovery in the areas they liberate.
- More independent militias continue to grow, and Moqtada al-Sadr has threatened to rebuild his militia. Some of these militias were formed by political parties or are initially the military wings of these parties, and include the Ashura Brigades, which is affiliated with the Islamic Supreme Council of Iraq, the Saraya al-Salam (Peace Brigades) of the Sadrist Movement and Badr Corps of the Badr Organization. These groups have political roots and follow different religious authorities.
- Other militias are more radical, have been in Iraqi for years, and fought the U.S. in the past as well as more recently in Syria. They include the Asa'ib Ahl al-Haq, Hezbollah Brigades, Liwa Abu al-Fadl al-Abbas, Saraya al-Khorasani and others. These factions have their own political goals and some leaders ran in the in the 2014 elections. Some also remain actively hostile to the U.S. The head of the hardline Harakat Nujaba has threatened to attacks U.S forces in Iraq, and Qais al-Khazali – the leader of Asaib Ahl al-Haq – has stated that the U.S. is only in Iraq for its own interests and cannot be trusted.
- The UN estimates that at least 3 million Iraqis have become internally displaced persons (IDPs) in the course of the recent fighting and no longer have their homes, businesses, or jobs, or secure sources of education, medical services, and sometimes lack food. These are primarily Sunnis, and these numbers disguise the real forces involved because Iraqi Sunnis face major problems in moving to Shi'ite and Kurdish areas and in competing for services with Syrian refugees if they are able to leave Iraq.
- More broadly, military victory cannot bring stability to liberated areas without effective policing and rule of law. The U.S. effort to reform the Iraqi police and justice systems was never problem integrated before it effectively ended with the withdrawal of U.S forces in 2011 and the transfer of the police development program to a U.S. State Department that could not manage or staff the program.

***Steadily Growing Economic Problems Triggered by Limited Oil Export Revenues***

- Iraq faces critical challenges because of sheer population growth. There are no reliable numbers, but the U.S. Census Bureau seems roughly correct in estimating that Iraq’s population grew from only 5.16 million in 1950 to 13.23 million in 1980 when the Iran-Iraq War began, and to 18.14 million in 1990 when Saddam invaded Kuwait, and was 29.67 million in 2010 as the U.S. phased out its presence. Even assuming a declining birthrate, this population pressure is estimated to continue for at least several decades in the future and reach 50.46 million in 2040.
- It has created an extremely young population and massive numbers of young men and women desperate for careers, jobs, marriage, a home, and a family. The CIA estimates that an extraordinary 36.7% of Iraq’s population is 0-14 years of age, and 19.6% is 15-24 years of age, and Iraq is nearly 70% urbanized. Its economy, politics, and social tensions will be under acute population pressure for at least another two decades.
- Iraq’s status as a petro-economy – and what is sometimes called the Dutch or Oil Disease – has done little to prepare it to cope with this population growth, or the many ways in which war, repression, civil conflict, and past ideology have combined to cripple its development. This includes more than 35 years of continuous pressure and, like Afghanistan, it has left a heritage that affects every aspect of Iraqi life.
- The impact of the current war has also combined with the growing problems caused by the impact of far lower oil revenues. Revenues were 11% lower in 2014 than the government had originally projected, in spite of a growing total volume of oil exports. Official Iraqi estimates in April 2015 projected a budget deficit of at least \$22 billion in 2015 for a budget of \$105 billion.
- Iraq’s oil wealth is also limited at best. Even in 2014, the U.S. Energy Information Agency estimated that Iraqi annual per capita oil income was only \$2,682 vs. \$25,362 for Kuwait, \$36,012 for Qatar, \$7,900 for Saudi Arabia, and \$9,435 for the UAE.
- At the same time, these figures are a warning as to how limited Iraq’s overall economic wealth really is. Estimates of Iraq’s GDP per capita are uncertain at best, but the CIA puts it at \$14,400. This compares with figures of \$143,400 for Qatar, \$71,000 for Kuwait, \$64,500 for the UAE, and \$52,500 for Saudi Arabia. Iran – at \$17,100 – is the only Gulf oil exporting state whose per capita income comes close to Iraq, and Iran, too, after years of crippling international sanctions, is anything but a wealthy country.
- Shortfalls in oil revenues are critical in an economy that makes a minimal effort to collect tax revenues, and that the CIA rates as receiving 90% of its government income and 80% of its export revenues from the petroleum sector – a sector with one of the lowest rates of necessary employment relative to capital and dependence on locally made equipment and technology of any sector in the country.
- The impact of the “oil disease” is compounded by the fact that the allocation of key portions of Iraq’s national income is not driven by market forces, and the Iraqi government cannot make effective allocation of the oil export money that is



received. Key Ministries fail to allocate substantial funds. There is a broad internal failure to control waste corruption within the petroleum sector, and within the various government agencies receiving petroleum income at the central to local government levels.

### ***Broader Problems in Governance***

- Political elements within the wealthier oil producing governorates or provinces in the south that favor some form of growing political autonomy or “federalism” that allows them to keep more of their oil wealth.
- The steadily accumulating impact of war and crisis in cutting direct and disguised employment, a critical lack of meaningful employment for young men and women, and a breakdown in the quality of education.
- War and crisis continue to reduce investment and economic activity outside the petroleum sector, reducing the GDP and GDP per capita. Major inequities exist in the level of and distribution of income in given governorates or provinces.
- Iraq’s economic problems are interacting with a prolonged structural agricultural crisis and unproductive, inefficient, and grossly overstaffed state industries, compounded by excessive and corrupt government employment.
- The value of the Dinar has been unstable relative to the dollar. Large-scale inequalities in income distribution have grown steadily, the banking sector has had growing problems and some banks have sharply limited payments.
- Iraq continues to deal with a far broader and long-standing level of corruption as rated by the World Bank and Transparency International –which ranks Iraq the 170<sup>th</sup> most corrupt nation of the 175 countries rated in its Corruption Perceptions Index.

### **The Abadi Reform Announcements**

Prime Minister Haidar al-Abadi did make a major new effort to address some of these problems by issuing a seven point reform program on August 9th, and correctly focused on the area where he could have the most near-term impact and do most to defuse public protests.

He had the support of the Ayatollah Sistani, and coordinated his proposals with the leading Sunni political figure in the current Iraqi government: the speaker of the parliament, Salim al-Jabouri. The end result was that the Iraqi parliament nearly unanimously approved the reforms on August 11, 2015, and did so virtually without debate. One needs to be very careful about the resulting program, however, because Iraq has never been able to turn broad goals into effective action in the past, and the actual substance of Abadi’s brief reform package focused largely on politics.

One key step involved calling for the elimination of Iraq’s three vice presidents as well as a corrupt Deputy Prime Minister Bahaa al Araj. The vice vice presidents included former Minister Nouri al-Maliki, a divisive and power hungry figure that had brought Iraq back to the edge of civil war by 2013, crippled its security forces, and made Iraq’s Sunnis vulnerable to the invasion by ISIS. It also, however, included Ayad Allawi, a Shiite whose

bloc had heavy Sunni support and won the most seats in national elections in 2010; and Osama al-Nujaiifi, a leading Sunni Arab leader.

In addition, the program called for the end of ethnic, sectarian, and party quotas. Like many of the steps in the program, this would be useful if it led to the kind of implementation that brought sectarian and ethnic unity, but an open ended effort can simply shift the balance of money and influence, and actually increase Shi'ite favoritism and corruption. Cutting back on government employment is also one thing in a growing economy and quite another if it creates more unemployment and resentment,

Many of al-Badi's proposals also are largely statements of broad intent that do not involve any clear pattern of action. He instead sought to present a broad program to parliament that he stated was the “first batch of measures along the path of reform that we seek, and the fight against corruption. With the passage of this package, we will take the necessary measures to implement them.”

An English summary of Prime Minister Abadi's proposed reform agenda, as reported by *1000 Iraqi Thoughts*, reads as follows:

**Administrative Reform:**

- 1) Comprehensive and immediate reduction in the number of security personnel for all state officials, including the three presidencies, ministers, members of parliament, special ranks, director generals, and governors and members of the provincial councils, and to continue identifying other privileges of state officials such as housing and vehicle privileges and reducing them to legal standards. The surplus [security personnel generated by this decision] would be reassigned to the Ministry of Defense and the Ministry of Interior to assist [the ministries] in carrying out their duties in the national defense of the homeland and the protection of citizens.
- 2) Cancellation of the vice president and deputy prime minister posts immediately.
- 3) Exclude all senior positions within independent bodies, deputy ministers, advisers and director generals from political and sectarian quotas. A professional committee appointed by the Prime Minister would oversee the selection of candidates based on competence and integrity, and relieve all those who do not have the required conditions to fulfill their duties.
- 4) Consolidate ministries and independent bodies to increase government efficiency and reduce costs.
- 5) Holding ministries and other departments not associated with a ministry to account through programs designed for this purpose. A committee evaluates their performance and submits periodic reports to the Prime Minister.
- 6) Cancellation of contracted advisor posts in ministries and limiting advisor posts in the three presidencies to five advisers each.
- 7) Revoke the [inequitable] differences in salaries through reform of salaries and allowance systems, and a new salary scale to be created within one month.
- 8) Cancellation of special provisions for the presidencies, bodies, state institutions and retirees, based on instructions issued by the Prime Minister that take into account fairness and professional competence.
- 9) Authorizing the Prime Minister to dismiss governors or heads of local councils and their members in cases of faulty performance or violation of applicable laws or corruption cases.

**Financial Reform**

- 1) Reforming the structure of expenses and revenues of the state through:
  - a. Tackling tax evasion both in terms of income tax and broadening the tax base, and the development of a system to prevent corruption and reduce the burden on the self-employed.
  - b. Application of fair customs tariffs at all border crossing points, including the Kurdistan Region crossing points; and the use of distinguished international companies in this field to prevent corruption and promote the national product; and prevent dumping in the Iraqi markets.
- 2) Lowering the upper limits of retired officials' pensions and submitted a draft proposal, within one week, to correct wrong decisions taken previously.

### **Economic Reform**

- 1) The Crisis Cell shall take the appropriate decisions to activate investment and stimulate the private sector through:
  - a. Activation of loans to stimulate the economy and reduce unemployment, both the loans endorsed by the cell in respect of loans allocated to the industrial sector and the agricultural sector and the housing sector amounting to 5 trillion dinars, and in respect of loans to support small projects amounting to 1 trillion dinars. The committee in charge shall develop appropriate mechanisms and submit its recommendations before the end of this week.
  - b. Carrying out the cabinet and the crisis cell's decisions to pay the dues of private sector companies in an equitable manner to facilitate their work and create new jobs.
  - c. Completion of the payment term program prepared by the Ministry of Planning in cooperation with the Ministry of Finance within one week, and submitting it to the Crisis Cell for approval, in order to provide services to citizens.
- 2) Cancellation of all government contract exceptions, excluding current armament contracts in the Ministry of Defense, and authorizing the Prime Minister to grant emergency exceptions.
- 3) Activation of strategies prepared by state institutions, especially those that have been prepared in cooperation with international organizations.

### **Services**

- 1) Creating a package of measures to resolve electricity problems in the areas of production, transmission and distribution, and collection, to be completed within two weeks.
- 2) The adoption of effective community-based monitoring program to detect any decline or failure in the delivery of services in order to hold the negligent accountable, which requires competent service collection, whether at the level of ministries, or local governments.

### **Combating Corruption**

- 1) Activating the role of the Anti-Corruption Council, chaired by the Prime Minister, and the launch of a "where did you get this" campaign along with the other functions of the Council, and in cooperation with the judiciary.
- 2) Activating the role of regulatory institutions, identifying corrupt officials and establishing criteria for evaluating the performance of regulatory this requires activating the role of the National Integrity Commission, the reassessment of the offices of inspector generals, while focusing on the core functions of their offices to consolidate them and increase their efficiency.
- 3) Opening past and current corruption cases under the supervision of a supreme committee composed of specialists to combat corruption, and inviting the judiciary to approve a number of specialized judges, known for their integrity to investigate and prosecute corrupt officials, and set a time limit to resolve the issues according to the law.

These decisions, which we are launching today, are the first batch of measures along the path of reform that we seek, and the fight against corruption. With the passage of this package, we will take the necessary measures to implement them.

It is important to read this translation carefully. It does not address most of the challenges listed earlier. It does not touch upon the fight against ISIS, the security forces, any aspect of Iraq’s sectarian and ethnic divisions other than removing some key officials, and a broad statement that he would end the quota system. The effort to reduce excessive privileges for government officials is defined in clearer terms than the rest, but does not include clear plans for implementation.

The financial reform program has many good goals, but no specifics. The economic reform program is only defined in terms of a few steps to meet immediate needs and does not involve any clear goals or priorities. The section on services is little more than a vague pledge of good intentions, as is the section on corruption.

In short, it is a good potential beginning in some areas – *if it is effectively and equitably implemented* - but scarcely the plan of action necessary to deal with most of Iraq’s underlying problems. It is also far from clear that Prime Minister Abadi can get the political support he will need to move forward even in the areas he has listed when and if he provides actual specifics.

The reform plan may suit the summer of Iraq’s discontents, but it will not get the government through the winter and Iraq almost certainly needs substantial aid and help in planning to address the range of broader range of issues that will shape its future regardless of the future of ISIS.

In practical terms, Iraq cannot really defeat ISIS and the Islamist threat in the West, create a lasting working relationship between Shi’ite and Sunni or Arab and Kurd, deal with the division within each sect and ethnic group, or cope with the need to meet the broader needs of its people without much broader reform. The U.S. and other outside powers cannot hope to create the level of stability and security Iraq needs unless they do far more than simply provide air power and train and assist troops, and help Iraq address this wider range of issues. **Dealing with Iraq’s Sunnis and the Kurdish Problem: The Limited Impact of ISIS on Iraq**

It is also important to keep the real impact of the fight against ISIS in the broader perspective of the challenges that Iraq faces in dealing with its Sunnis and Kurds. A defeat of ISIS is not the prelude to any workable form of “federalism” in dealing with these problems, and it is far easier to talk about separation in broad terms than deal with the reality of any such action. Iraq’s most critical problem is not ISIS, it is creating a workable basis for sectarian and ethnic unity.

As decades of past efforts show, there are no quick or easy answers to these problems. Defeating ISIS can help if the Iraqi central government can actually implement the National Guard bill and create Sunni and Kurdish security forces that build a new degree of trust.

ISIS does occupy a large part of the two critical Western provinces in Iraq: Anbar and Ninewa. It occupies the two largest cities in Anbar – Ramadi and Fallujah – and Mosul in Ninewa, Iraq’s second largest city.

Anbar and Ninewa are also provinces which are largely Sunni, and whose ties to the central government are critical if Iraq is to ever have adequate security, stability, and development along its Western borders with Syria, Turkey, and its Arab neighbors to the south and create a stable balance between a Shi’ite Iran and the Sunni Arab states.

It is important, however, to keep the role ISIS plays in shaping the future of Iraq perspective. The maps which show ISIS occupying vast areas are little more than demographic nonsense. Anbar is largely uninhabited desert except for the northeastern section along the Euphrates River, and has had serious drought and climate problems. It had critical unemployment problems in UN and other surveys before ISIS invaded Iraq, and was the scene of some of the Iraqi government's worst abuses in using its security forces to put down peaceful protests and try to enforce former Prime Ministers Maliki's control of the country.

Looking at UN Inter-Agency Information and Analysis Unit (IAU) annual reporting in early 2011, its total population was only about 1.4 million, and a significant amount of that was in the East and loosely tied to Baghdad.

Ninewa did have a modern urban core in Mosul, but it was also a key source of sectarian violence, and its agricultural areas had long been in decline before ISIS took over a large part of the province. Its rural areas were generally poor and literacy rates were exceptionally low outside the urban areas. Its ethnic boundaries with the Kurdish KRG were disputed and came close to armed incidents on several occasions before ISIS invaded. Its population was roughly 2.8 million in late 2011 according to UN estimates.

There are no reliable estimates of the population and economic impacts of the incidents and fighting caused by Maliki's efforts at repression during 2011-2013, or by ISIS once it made claims to creating an Islamic Caliphate. It seems likely, however, that the GDP impact has been to cut provincial income by at least 50%, and that many of Iraq's three million internally displaced persons, as well as its refugees, come from the two provinces.

It also seems likely that the number of IDPs would be much higher if Sunni Iraqis were welcome in an increasingly Shi'ite and segregated Baghdad or the more densely populated parts of the country. It also seems likely that it was middle class, educated, and urban Sunnis who have suffered most from the impact of Maliki's legacy and ISIS, that unemployment and underemployment among young men is even more critical than the estimates of 30-40% made in 2011, and that the breakdown in the education system is entering at least its third year and will have a long-term impact on the Sunni part of the population.

What is far less clear is what level of governance and economic activity ISIS has been able to maintain, how much central government revenue has actually flowed into either province and kept some elements of governance functioning, how the structure of the economies of "occupied" areas has changed, and how "recovery" would have to function in terms of investment, immediate emergency spending and activity, and creating a mix of employment and services to stabilize areas that ISIS was forced to leave. The answer seems to be that there may be plans for future military operations, but there are no meaningful plans for the hold and build phase, and the days after any major military success.

### **ISIS and the Realities of the Sectarian Divide and Prospects for Federalism**

At the same time, it is important to understand that Iraq cannot solve its sectarian problems by focusing on Anbar and Ninewa or the areas ISIS now controls, and that Iraq's current demographics mean that there is no clear approach to "federalism" or separating Iraq into Sunni and Shi'ite portions that would not involve a massive and impractical exercise in

population relocation. The challenge the Iraqi government faces is not simply to recover or “liberate” the West, it is to find a way of ending the growing segregation and division of the country.

Taken together, it is unlikely that the present population of both provinces is now more than 4 million, or roughly 11% of the 37 million people the CIA estimates are now in Iraq’s total population, and there are significant populated areas in both provinces that are not under ISIS control. (Other population estimates are generally lower, but seem less credible given estimates of Iraq’s birth rates.)

At the same time, the fact that Anbar and Ninewa are largely Sunni, does not mean they can be the basis for a Sunni federalist entity. Unfortunately, there are no reliable estimates of the total sectarian and ethnic population groups in Iraq. However, the CIA “guesstimate” puts the percentage of Sunnis at 32% to 37% or 11.8 to 13.7 million, many in Baghdad.

Given the fact that there are Shi’ite and other sects in Anbar and Ninewa, this means that at least 8 million Sunnis are not in Anbar and Ninewa, are not under ISIS control, and would not be included in any form of “federalism” that focused on the two Western provinces, ignores the critical problem of dividing up Iraq’s petroleum wealth (which now pays for 90% of government revenue and makes up 80% of foreign exchange earnings), ignores the geography of Iraq’s water and infrastructure, and ignored the cost and inevitable violence in relocating large elements of the population.

In fact, Diyala – one of Iraq’s most eastern provinces – had a Sunni majority when the U.S. invaded in 2003, although some estimate indicate that nearly 50% have since left. There are also still large numbers of Sunnis in Salah al-Din, Kirkuk, and Babil – as well as a Sunni area along the Kuwaiti border to the southeast of Basra. Most of this population could not be relocated to working economy a largely desert area along the Euphrates, and any such relocation today would leave the Sunnis with no developed oil fields or major source of hard currency income.

A practical solution to ending the tensions and violence between Sunni and Shi’ite must also take account of the critical role of urbanization and petroleum income in Iraq’s economy and development. Mosul is the only major city in either Anbar or Ninewa. The CIA estimates the population of Iraq’s major cities as follows: Baghdad: 6.643 million; Mosul: 1.694 million; Erbil: 1.166 million; Basra: 1.019 million; As Sulaymaniyah: 1.004 million; and Najaf: 889,000 (2015). Put differently, the CIA estimates Iraq’s population as 69.5% urbanized, or 25.7 million. It seems doubtful that Anbar and Ninewa now have a total urbanized or “modern” population of more than 2.3 million or about 9% of the total.

Water is also a growing issue. Rural development in Iraq has had only marginal priority since the fall of the monarchy in 1958, while the climate has increasingly affected rainfall and the flow of the Tigris Euphrates has been affected by dams and increasing water consumption in Turkey, Syria, and Iran.

The Turkish Southeastern Anatolia Project alone is creating a total of 22 dams and eight major dams and basins, and mismanagement of the agricultural sector under Saddam Hussein helped increase desertification and salination, as well as damaged Iraq’s marshlands. While a major drought in 2008 did lead Turkey, Iraq, and Syria to form a Joint Trilateral Committee on the use of the water from the two rivers, the fighting in Syria and

Iraq has since blocked serious joint planning for the future. It is unclear how serious the future problems will be for Iraq, but the days in which Iraq benefits from more than adequate water supplies may be ending. Certainly, any plan to deal with Sunni and Shi'ite needs must consider water issues along with all of the other issues shaping Iraq's transportation infrastructure, dams, and power generation.

Defeating and degrading ISIS is a critical priority, but it will not secure Iraq as long as Syria is unstable and the Syrian civil war and its Islamist extremist elements and Sunni fighting with Syria's Alewites and Shi'ites can spill over into Iraq. It will not resolve any of the tensions between Iraq's Kurds and Arabs. In fact, the moment that ISIS is gone from Ninewa, the expansion of the KRG into Kirkuk and other Arab areas will become a major issue and possible source of civil conflict.

What is even more critical is that Anbar and Ninewa can play an important role in convincing Iraq's Sunnis they can stay in a united country, but this will require as much civil effort as military. Iraq's geography, water, infrastructure, economics, and demographics all make it clear that some form of political separation could not work, and that no form of "federalism" can work that focuses on Anbar and Ninewa and does not find a far broader solution to Iraq's sectarian and ethnic divisions.

This makes the central government's actions and credibility in ensuring the protection, recovery, and development of every Sunni area it liberates absolutely critical. More promises that are not kept, Shi'ite abuses of Sunnis and revenge seeking will make military success against ISIS just as temporary and pointless as the way in which the central government failed to build on the success of the Sons of Iraq. If the Abdai government fails to do this one thing, it will fail Iraq just as badly and dismally as Maliki.

## **The Kurdish Issue**

The Kurdish issue may or may not be less urgent. The spillover of the Syrian civil war in creating strong relationships between the KRG and Syrian Kurds, their ties to Turkey's Kurds and the new fighting between Turkey and the PKK, the breakdown of yet another set of agreements between the Iraqi central government and KRG over petroleum exports and revenue sharing, and the unstable completion between Turkey and the Iraqi central government for influence over the KRG and its oil exports are just a few of the uncertainties involved.

They also include growing Iranian influence and competition with the U.S. in the KRG and Pesh Merga, and increasing unstable politics and leadership of both the PKK and KDP, and the fact that the KRG no longer is receiving its past level of outside aid, and cannot count on its current oil revenues to sustain its current level of economic activity and development – a problem made worse by corruption and the misallocation of the resources it does have available.

The past decade has shown that waiting for a plebiscite or referendum to decide the uncertain boundaries between KRG and central government control is about as useful as waiting for Godot. At the same time, the recent success of the KRG and Pesh Merga in fighting ISIS has now given the KRG de facto control of Kirkuk and the Kirkuk oil fields, and created new uncertainties as to what territory the KRG will have if Ninewa if ISIS is defeated.

It also has created an uncertain situation in terms of the ethnic and sectarian population within the KRG zone of control. There does not seem to be anything approaching a remotely reliable estimate of the mix of permanent residents and refugees by ethnic group. Even Iraq’s overall distribution is extremely controversial and uncertain. The CIA estimates that it is Arab 75%-80%, Kurdish 15%-20%, Turkoman, Assyrian, and other 5%, but many of Iraq’s minorities have been forced to leave the country, the KRG has accepted some refugees, but sought to push Arabs out of other areas, Arab leaders make different claims from the Kurds, and Turkoman’s claim to be a much larger minority.

The fight against ISIS is not going to solve any of these problems, and it is not clear what solution can. One key step, however, is to make the existing proposals for sharing oil revenues and controlling exports work. This will at least defuse the most critical problem in terms of politics and money. Another is to leave the Pesh Merga intact as a separate force until some political solution is possible while nominally integrating it into the central government security forces. Some issues are best left until last. A third is to have the KRG pull back to its previous lines near Kirkuk, and not make any lasting advances in Ninewa, but allow the government of Kirkuk City to remain largely Kurdish and make the control of the Kirkuk oilfields and explicit part of the export and revenue sharing agreement.

At some point, both sides will have to do more. The answer, however, may not be creating new lines of control. Like dealing with the Shi’ite-Sunni issue, it may rather be to create much stronger local and provincial levels of government. Local police and security forces whose sectarian and ethnic composition matches the population, institutionalize the National Guard as part of that structure, and replace national lists in electing the Parliament with locally elected candidates that represent the real needs and ethnic and sectarian composition of their constituents.

As for the broader Kurdish issue – and Turkey, Syria, and Iran – Iraq desperately needs to limit any engagement as much as it can. It is not clear how the search for any broader Kurdish independence or state can do anything at this point than replace the fight against ISIS with a permanent state of regional ethnic conflict, and how a deeply divide mix of Kurdish elements could create a viable political, military, and economic entity.

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## **Appendix A: Outside Views of the Importance of Iraq's Economic Problems**

There is tendency on the part of some sources to ignore the sheer scale of Iraq's internal problems even when they do focus on Iraq's broader problems rather than the war on ISIS, and international and outside analysis finds it difficult to cope with the lack of reliable data and impacts of war and crisis. However, the World Bank's country overview of Iraq in March 2015 is at least partial exception and helps further indicate the sheer scale of Iraq's problems,

Iraq's economy suffers from structural weaknesses. The public sector is very large even by regional standards, government and state-owned enterprises employ approximately half of the labor force, but the quality of public services has been weak. The non-oil sector represents only 46% of the economy and services.

Construction, transport, and a small agricultural sector are highly dependent on government spending and thus on oil revenues. Unemployment is high. Demographic pressure is strong, with 41% of the population under 15 years. The labor force needs training on basic skills. The business environment is weak. Poor governance, inconsistent regulations, and security issues keep Iraq at low ratings of global rankings for doing business.

The economy remains extremely vulnerable to the country's ongoing security problems, which impede investment and inhibit private economic activity. Furthermore, high dependence on the oil sector is making the economy more vulnerable to declining oil prices. The non-oil sector represents only 46% of the economy and services. Non-oil growth has deteriorated since the start of the conflict due to the destruction of infrastructure, impeded access to fuel and electricity, low business confidence, and disruption in trade. Non-oil GDP growth declined by 5.2% in 2014. In 2015, real GDP growth is projected to decline by 1% due to lower oil prices and the impact of the conflict.

The prevailing insecurity has seriously hampered trade and investment, and disrupted northern oil exports for most of 2014. Due to the regional conflict, the economy contracted by 0.5% in 2014, from 4.2% growth in 2013, despite better than expected oil exports from the south (Basra). Economic diversification remains a challenge for the Iraqi government to promote income creating opportunities for the majority of the Iraqi population.

The (now grossly dated) 2012 household survey indicates that Iraq's headcount poverty was reduced by about 4 percentage points during 2007-12, and national poverty fell from 23.6% in 2007, to 19.8% in 2012. However, poverty reduction has been spatially uneven. In Baghdad, by far the most populous governorate in the nation, poverty did not change significantly, while in the (KRG), poverty

declined, albeit at a small rate. In contrast, poverty increased sharply in five governorates – Nineveh in the north and Qadisiya, Thi Qar, Missan and Muthanna in the south.

Similarly, the CIA World Factbook section on the Iraqi economy reported in August 2015, that,

The government of Iraq is eager to attract additional foreign direct investment, but it faces a number of obstacles, including a tenuous political system and concerns about security and societal stability. Rampant corruption, outdated infrastructure, insufficient essential services, skilled labor shortages, and antiquated commercial laws stifle investment and continue to constrain growth of private, nonoil sectors.

Under the Iraqi Constitution, some competencies relevant to the overall investment climate are either shared by the federal government and the regions or are devolved entirely to local governments. Investment in the IKR operates within the framework of the Kurdistan Region Investment Law (Law 4 of 2006) and the Kurdistan Board of Investment, which is designed to provide incentives to help economic development in areas under the authority of the KRG.

Inflation has remained under control since 2006. However, Iraqi leaders remain hard pressed to translate macroeconomic gains into an improved standard of living for the Iraqi populace. Unemployment remains a problem throughout the country despite a bloated public sector. Encouraging private enterprise through deregulation would make it easier for Iraqi citizens and foreign investors to start new businesses. Rooting out corruption and implementing reforms - such as restructuring banks and developing the private sector - would be important steps in this direction.

Reporting by the IMF Mission to Iraq is more dated, and does not reflect many of Iraq’s more recent problems, but did report in December 2014, that,

Iraq’s GDP is expected to contract by about 0.5 percent this year largely because of the economic effects of the ISIS insurgency. We estimate non-oil growth to have deteriorated since the start of the conflict due to the destruction of infrastructure, impeded access to fuel and electricity, low business confidence, and disruption in trade. In contrast, as most of the oil infrastructure is in the south of the country and beyond the reach of ISIS, and taking into account the output of Kurdistan Regional Government (KRG), oil production should reach 3.3 million barrel per day (mbpd) in 2014, up from 3.1 mbpd in 2013, with exports remaining at 2013 levels of 2.5 mbpd. Next year, growth is projected to rebound to about 2 percent as oil production and exports increase further, helped by the recent agreement between the central government and the KRG on oil exports from KRG and the Kirkuk oil fields. End-October year-on-year inflation was 0.9 percent outside the conflict-affected provinces.

“The central bank has maintained the peg with the U.S. dollar. The spread between the official and parallel exchange rates narrowed to 2.6 percent in September, thanks to steps taken by the CBI towards the liberalization of the foreign exchange market. Nevertheless, high imports, combined with declining oil revenues and lower government sales of foreign exchanges to the CBI to finance government spending, contributed to a decline in international reserves from over \$77 billion at end-2013 to about \$67 billion at end-November. The government also tapped the Development Fund for Iraq (DFI), the balances of which have now been transferred to the CBI; the DFI declined from \$6.5 billion at end-2013 to about \$4 billion in November.

“The government expressed its commitment to present a draft 2015 budget to parliament soon. Lack of parliamentary approval of the draft 2014 budget has triggered a fiscal rule that has partly limited spending this year. However, off-budget spending, particularly on security, has boosted the deficit, which will likely reach about 5 percent of GDP. The staff team discussed with the ministry of finance the challenges related to formulating the draft 2015 budget, which is intended to address the ongoing exceptional spending pressures and the strong decline in oil prices. As projected financing in 2015 will be limited, we expect the government deficit to decline to less than 2 percent of GDP.