

Iraq After ISIS: The Other Half of Victory

Dealing with the Civil Dimension



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This study is being circulated as a working draft. Please send comments, corrections, and suggested additions or changes to acordesman@gmail.com.

The United States, its allies, and international organizations are just beginning to come to grips with the civil dimensions of "failed state" wars in Afghanistan, Iraq, Libya, Somalia, the Sudans, Syria, and Yemen. In each case, it is clear that the civil dimension of the war will ultimately be as important as the military one.

Any meaningful form of "victory" requires far more than defeating the current extremist threat in military terms, and reaching some temporary compromise between the major factions that divide the country. The current insurgent and other security threats exist largely because of the deep divisions within the state, the past and current failures of the government to deal with such internal divisions, and the chronic failure to meet the economic, security, and social needs of much of the nation's population.

In practical terms, these failures make a given host government, other contending factions, and competing outside powers as much of a threat to each nation's stability and future as Islamic extremists and other hostile forces. Regardless of the scale of any defeat of extremists, the other internal tensions and divisions with each country also threaten to make any such "victory" a prelude to new forms of civil war, and/or an enduring failure to cope with security, stability, recovery, and development.

Any real form of victory requires a different approach to stability operations and civil-military affairs. In each case, the country the U.S. is seeking to aid failed to make the necessary economic progress and reforms to meet the needs of its people – and sharply growing population – long before the fighting began. The growth of these problems over a period of decades helped trigger the sectarian, ethnic, and other divisions that made such states vulnerable to extremism and civil conflict, and made it impossible for the government to respond effectively to crises and wars.

The economy and infrastructure of Iraq and the other countries involved in "failed state" wars have now been further crippled by years of war. As a result, each conflict has changed the country to the point where it creates a need to establish a new structure of governance and economy that reflects major shifts in the population, the balance of power in each state, and its real-world post-conflict opportunities for development.

The cumulative result is to make "stability operations" a key part of grand strategy. Defeating a given mix of terrorists or insurgents requires aid and assistance efforts that look beyond the fighting and the short-term priorities of conflict termination. Negotiations and new political arrangements, emergency humanitarian aid, and recovery aid are all critical steps towards lasting stability.

But, far broader reform is necessary. Lasting conflict resolution and/or an end to violent extremism requires political, governance, and economic reform that will provide lasting reductions in the tensions between competing sects, ethnic group, tribes, and other major factions. Above all, development must look beyond the macroeconomics of each war-torn state, and focus on the economics of each fact in ways that bring enough equity and acceptance to produce lasting stability.

Iraq: The Challenge of Creating Lasting Stability

Iraq provides a critical test case. Defeating ISIS in Iraq will not—by itself—deal with any of Iraq's broader problems in politics, governance, and economics, and may well be the prelude to new forms of conflict between (and within) the Shiites and Sunnis, Arabs and Kurds, various extremist groups, and the remnants of ISIS.

Iraq also offers unique opportunities relative to other conflict states. It does not face the same level of post-conflict challenges as Syria, Libya, Somalia, the Sudans, Yemen, or Afghanistan. It did achieve substantial levels of development relative to other “failed states” in spite of nearly a half century of revolution, turmoil, and war—and it has substantial petroleum income.

This does not mean, however, that there is any guarantee that the defeat of ISIS will bring stability, recovery, or successful national development unless Iraq has substantial outside help. Iraq was a “failed state” in virtually every respect before ISIS invaded and is still largely a failed state. Ending ISIS's physical “caliphate” in Iraq will not end ISIS or the broader threat of terrorism and Islamist extremism.

Dealing with these civil challenges has two dimensions. First, Iraq faces many short-term challenges in creating stable postwar civil order where U.S. diplomatic efforts will be needed to help it shape its future. Finding a stable relationship between the central government and the Kurdish regional government presents a critical challenge, as does finding a stable relationship between Sunni and Shi'ite Arab and protecting minorities. Moreover, each major sectarian and ethnic group in Iraq has its own, sometimes violent, internal divisions. Each has so far concentrated far more on gaining political power than shaping a stable future for Iraq.

Unless Iraq's leaders can come together and govern far more effectively, defeating ISIS may well be a prelude to continuing ethnic and sectarian crises or civil war. While the war against ISIS has created some degree of cooperation, it is important to note that the ISIS invasion was enabled by massive misgovernment under former Prime Minister Nouri Maliki, and a steady rise in ethnic and sectarian violence—violence that had risen back to the 2008 levels of civil conflict by the time ISIS invaded Fallujah in January 2014.

Iraq has already been forced to deploy extensive forces to try to secure its border with Syria, and it is still unclear that it can develop the level of security it needs along that border. Significant tensions and risks of violence exist within the Kurdish, Sunni Arab, and Shi'ite Arab factions, and among the competing groups within each faction. In addition, a Kurdish referendum that called for Kurdish independence has already led the central government to send forces to seize back the territory around Kirkuk and move forces to the dividing line between the areas under central government and Kurdish Regional Government control.

The fighting against ISIS has led to the creation of various Shi'ite and Sunni militias that pursue their own agendas and divide military advisory efforts by the U.S. and Iran. Iraq is not able to choose its neighbors or its “friends.” Other powers like Russia, Iran, Turkey, other Arab states, and the United States all have conflicting interests and compete for influence.

Second, many of the reasons why Iraq is a “failed state” are structural, and not the result of the impact of war, internal political differences, and pressures from outside powers. Iraq's governance is corrupt and dysfunctional at every working level from the central government down to local government. Iraq's justice systems are weak, sometimes virtually non-existent at the local level,

and often corrupt and ineffective. Iraq has critical economic problems at every level, and it has long been under acute population pressure in spite of the impact of its wars.

This complex mix of short-term and structural pressures makes creating any form of lasting stabilization, recovery, and movement towards development a challenge that will require years of patient outside advice and support. It also makes it grossly unrealistic to assume that stability can be accomplished simply by political dialogue, or that recovery and development can take place by implementing some form of nation-wide economic reforms that ignore the need to reduce regional, ethnic, and sectarian differences—and the role played by given powerbrokers—in various parts of Iraq. Far too many recent U.S. and other outside efforts to bring stability to Iraq at the end of the major fighting with ISIS ignore these realities, and do not address the full range of challenges that will to shape Iraq's "post-ISIS" future for at least the next half decade.

Dealing with Structural Challenges

No one can predict how the short-term challenges that now divide Iraq will evolve. This analysis does not attempt to address the immediate problems in dealing with the political, sectarian, and ethnic divisions in Iraq, and they must be dealt with if Iraq is to successfully address its structural problems.

It is possible, however, to assess the depth and structural nature of Iraq's broader structural failures and challenges. These include failures in governance, economics, and demographics which have developed over decades. They also include factors like population pressure and the prolonged impact of key factors like poverty, unemployment, and the gross—state-centric—distortion of the nation's economy.

The data available are uncertain in many cases, and one key challenge is to provide better data and diagnostics. Accordingly, this analysis draws on data from a wide range of sources. It relies primarily, however, on well-established sources of expertise like the World Bank, IMF, CIA, UN, Transparency International, Institute for the Study of War (ISW), and the International Institute for Strategic Studies (IISS).

It addresses Iraq's deeper structural issues with a focus on six key sets of challenges:

- Impact of past divisions and conflicts,
- Ethnic and sectarian challenges,
- Human challenges,
- Governance challenges,
- Economic challenges, and
- The challenges posed by the cost of Military and Security Forces.

Iraq is still a country with vast opportunities, but this study warns that Iraq faces critical structural challenges in each of these areas which could leave it a violent and divided failed state indefinitely into the future. Short-term political compromises cannot deal with any of these issues or maintain a lasting peace.

No One Can Help an Iraq that Will Not Help Itself

The analysis of these challenges also shows that Iraq's problems cannot be solved through some burst of outside aid, and a fixed approach to finding broad solutions, like some modern form of the Marshal Plan. Success will require years of patient effort, careful diagnostics and planning, and adaptation to the changing flow of events. However, the scale and complexity of Iraq's structural problems, the political challenges they create, and the cost of the resources needed to deal with them, make one thing all too clear.

Iraq can only hope for near-term stability and security if its leaders look beyond the immediate priority of finding some practical solution to Iraq's ethnic and sectarian divisions, face the seriousness of these challenges, examine possible solutions, and establish clearer priorities and options for dealing with them.

No mix of outside efforts, aid, or advice can deal with the scale of the structural challenges outlined in this study unless Iraq's leaders take responsibility for their country and the broader consequences of their actions. The past and current mistakes of outside powers and factions may be all too real, but they are irrelevant. No one can successfully help an Iraq that does not help itself.

Iraq's leaders can only succeed if they look beyond the tensions that divide them, and find some way to work together. The first step is to take advantage of the defeat of ISIS's "caliphate," and actually find a common path to short-term stability and the ability to work towards common goals. Iraqis also need to understand—as do the leaders and peoples of all other failed states—hoping for outside aid on the scale needed to deal with their problems—or blaming outside powers and interests for their current problems—will be an exercise in self-destructive futility. The past is the past, and no real-world combination of no outside states has the required resources, mix of national interests, and/or real-world capability.

Iraq cannot succeed entirely on its own. It will need outside advice and support, and some financial aid for years until Iraq's progress reaches a self-sustaining level. Outside states like the United States—and international institutions like the World Bank—do have a common interest in helping Iraq, and a moral responsibility to do so, *but only if Iraq's leaders can come together and show that such help will serve a clear purpose.*

This leadership must also be honest about the speed with which Iraq can meet its challenges and will often have to offer hope and limit progress as a promise for the future. Dealing with some of Iraq's challenges will be a matter of years and possibly even decades. There are many useful steps Iraq can take in the short term, but even a proper diagnostic effort will require years of in-country effort. Only years of consistent Iraqi effort can create the kind of ongoing planning and management effort to deal with Iraq's evolving problems and needs.

This is why it is so critical that Iraq's leaders understand that they—and they alone—must assume responsibility for creating the necessary politics, leadership, and institutions that can ensure Iraq's success. Iraq's past tendency to try to export blame and responsibility will only end in another exercise in self-destructive behavior, regardless of the faults of outside states and institutions.

Outside states, international aid organizations, and NGOs need to face these realities as well. As the failures of the U.S.-led aid efforts during 2003-2011 showed all too clearly, no outside power can help an Iraq that is not prepared and organized to actively meet the full range of challenges outlined in this report.

These same lessons about the costs of a nation's failure to assume responsibility for its own future have emerged again and again since World War II. The end result of exporting responsibility, and depending on outside aid efforts, may allow Iraq's leaders to focus on their own or factional interests and dodge full responsibility for their actions. It will, however, end in failure, create crises that many such leaders will not survive, and create growing resentment and tension that may well divide the nation or lead to new forms of civil war.

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Dealing with Iraq as a "Failed State"

It is critical that both Iraqis and outside sources of aid understand the scale of the problems they face. Iraq provides a critical test case for U.S. policy and for international aid. **Figure One** to **Figure Six** provide a range of metrics that illustrate the scale of Iraq's problems compared to other Middle East and North Africa (MENA) and conflict states. Iraq is scarcely the worst case, but it is a deeply challenging one.

- **Figure One** shows how low Iraq's rating in governance are compared to other states in the MENA region, and that poor governance ratings are typical of the failed states engaged in insurgencies and civil wars.
- **Figure Two** shows Iraq's dismal human development and corruption rankings, which again are typical of "failed state" wars.
- **Figure Three** reveals that Iraq is under acute pressure from population growth, although these pressures are typical of the entire region.
- **Figure Four** shows that this has created a massive "youth bulge" that already is seeking jobs and puts severe pressure on their parents and Iraqi society to pay for large numbers of dependents.
- **Figure Five** shows how low Iraq's GDP per capita is relative to the wealthy oil states, its high levels of youth unemployment, and its poor ranking in ease of doing business.
- **Figure Six** shows some of Iraq's educational problems, and high dependency and child mortality rates.

It is all too clear from these figures that Iraq faces major challenges that go far beyond simple conflict resolution, and the analyses that follow make this point in far more depth. At the same time, Iraq is the only one of America's "failed state" wars where the United States has a near-term prospect of winning both some form of military victory and of being able to implement some form of conflict resolution that can begin to deal with the other critical factors that have long made Iraq a "failed state."

Iraq also offers unique opportunities. It does not face the same level of post-conflict challenges as Syria, Libya, Yemen, or Afghanistan. It has achieved substantial levels of development relative to other "failed states" in spite of nearly a half century of revolution, turmoil, and war, and it has substantial petroleum income. The other failed states—with the exception of Libya—are all among the world's poorest countries.

The impact of the fighting in Iraq has also been largely regional, rather than nation-wide. Most of the recent fighting against ISIS has been in the less populated areas of Western Iraq—although Mosul has been a notable exception. Iraq still scores much higher on the overall human development rating issued by the UN than the other major conflict states. Iraq's global ranking is 121st out of 188 countries (Medium Human Development) versus 149th for Syria (Low Human Development), 168th for Yemen, and 169th for Afghanistan.¹

"Terminating" Conflict in a Failed State

This does not mean, however, that the defeat of ISIS will bring stability, recovery, or successful national development. Iraq was still a "failed state" in virtually every respect before ISIS invaded and it is still largely a failed state. Ending ISIS's physical "caliphate" in Iraq will not end ISIS or the broader threat of terrorism and Islamist extremism. Finding a stable relationship between the central government and the Kurdish regional government presents a critical challenge as does finding a stable relationship between Sunni and Shi'ite Arabs and protecting minorities.

Unless Iraq's leaders can come together and govern more effectively, defeating ISIS may well be a prelude to continuing ethnic and sectarian crisis or civil war. While the war against ISIS has created some degree of cooperation, it is important to note that the ISIS invasion was enabled by massive misgovernance under former Prime Minister Nouri Maliki.²

It was also due, in part, to a steady rise in ethnic and sectarian violence, which had risen back to the 2008 levels of civil conflict by the time ISIS invaded Fallujah in January 2014. Significant tensions and risks of violence exist within the Kurdish, Sunni Arab, and Shi'ite Arab factions. Iraq also is not able to choose its neighbors or its "friends." Russia, Iran, Turkey, other Arab states, and the United States and its allies all have conflicting interests and compete for influence.

Moreover, many of the reasons why Iraq is a failed state are structural, and not just a matter of current internal political differences. Iraq's politics and governance are corrupt and dysfunctional at the working level from the central government down to the local government. Its justice and political systems are weak, sometimes virtually non-existent at the local level, and often corrupt and ineffective. Iraq has critical economic problems at every level, and it has long been under acute population pressure despite the impact of its wars.

This complex mix of pressures makes creating any form of lasting stabilization, recovery, and movement towards development a massive challenge. It also makes it grossly unrealistic to assume that stability can be accomplished simply by political dialogue, or that recovery and development can take place by implementing some form of nation-wide reforms that ignore regional, ethnic, and sectarian differences and the role of given factions and powerbrokers. Far too many recent U.S. and other outside efforts to bring stability to Iraq at the end of major fighting with ISIS ignore these realities, and do not address the full range of challenges that will shape Iraq's "post-ISIS" future for at least the next half decade.

Figure One: Comparing World Bank Governance Ratings

(Percentile Rank is rank compared to all countries in the world. 0 is lowest. 100 is the highest)

	Government Effectiveness	Political Stability & Absence of Violence	Rule of Law	Control of Corruption	Public Voice & Account- ability	Regulatory Quality
Maghreb						
Algeria	35.10	13.33	20.67	28.37	24.63	10.58
Libya	1.92	3.33	1.92	0.96	9.85	0.48
Morocco	50.48	34.76	54.81	50.48	28.08	49.04
Tunisia	49.04	19.05	56.25	55.29	54.68	38.94
Levant						
Egypt	22.12	8.57	35.58	35.10	18.23	24.52
Gaza	--	--	--	--	--	--
Israel	87.50	11.43	84.62	78.37	71.43	87.02
Jordan	59.13	26.67	68.27	64.42	26.60	55.29
Lebanon	37.98	7.14	24.52	17.79	31.03	43.75
Syria	2.88	0.00	4.33	1.92	2.96	4.33
West Bank	35.58	4.76	32.69	26.92	22.66	56.25
Gulf						
Bahrain	73.08	11.90	67.79	62.50	12.32	76.44
Iran	47.12	17.14	16.35	31.73	5.42	6.73
Iraq	9.13	2.86	3.85	4.33	14.78	8.65
Kuwait	52.88	40.95	58.65	51.44	28.57	49.52
Oman	55.77	68.57	68.75	62.98	20.20	71.63
Qatar	79.33	81.90	77.88	81.25	20.69	73.08
Saudi Arabia	60.58	27.62	64.90	59.62	3.94	54.81
UAE	91.83	71.43	75.00	82.69	19.20	82.69
Yemen	2.40	0.48	7.21	2.88	7.88	12.50
Other Conflict						
Afghanistan	8.17	1.43	2.40	4.81	16.26	13.46
Pakistan	27.40	0.95	23.56	23.56	27.09	29.33
Somalia	0.00	1.90	0.00	1.44	1.48	0.96
Sudan	6.25	4.29	8.17	2.40	3.45	4.81
South Sudan	0.48	2.38	0.96	0.48	6.40	2.88
Controls						
U.S.	89.9	69.5	90.4	89.9	81.3	88.5
China	68.3	27.1	43.8	50.0	4.9	44.2
Japan	95.7	82.4	89.4	91.3	79.3	85.1

Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues and World Bank Governance Indicators, 2015, <http://info.worldbank.org/governance/wgi/index.aspx#reports>.

Figure Two: Comparing HDI, Corruption, Urbanization, and Security Burden Challenges

	<u>UN Human Development Rank (of 188)</u>	<u>CIA % of Urbanization 2016</u>	<u>Transparency International Corruption Rank (out of 176)</u>	<u>IISS Military Burden 2016 % of GDP 2014-2016</u>	<u>Active Uniformed Personnel In 1,000s</u>
Maghreb					
Algeria	83	74	108	5.6-6.3	130
Libya	47	80	170	-	-
Morocco	123	63	90	3.2-3.4	196
Tunisia	97	68	75	2.0-2.5	78
Levant					
Egypt	111	45	198	1.9-2.2	439
Gaza	--	--	--	--	--
Israel	19	94	28	6.1-7.5	177
Jordan	86	88	57	4.4-4.5	101
Lebanon	76	88	136	2.7-3.5	60
Syria	149	59	173	--	--
West Bank	--	73	--	--	--
Gulf					
Bahrain	47	91	70	4.0-4.9	8
Iran	69	76	131	3.6-3.9	523
Iraq	121	73	166	8.5-12.9	64
Kuwait	51	98	75	2.9-3.8	16
Oman	52	86	64	11.8-15.4	43
Qatar	33	99	31	2.4-2.9	12
Saudi Arabia	38	85	62	8.9-12.7	227
UAE	42	88	24	--	63
Yemen	168	(39?)	170	--	20
Other Conflict					
Afghanistan	164	31	169	14.0-16.2	171
Pakistan	147	41	116	2.6-2.7	654
Somalia	176	44	176	--	20
Sudan	170	36	170	--	244
South Sudan	175	24	175	2.9-8.5	185
Controls					
U.S.	18	82	18	3.3-3.5	1,347
Europe/EU	--	--	--	1.4-1.4	249
China	79	59	79	1.2-1.3	2,183
Japan	20	94	20	1.0-1.0	247

Source: Adapted by Anthony H. Cordesman from CIA *World Factbook*, accessed August 30, 2017), Tables 8, 11 and Dashboard 2 to *UN Human Development Report 2016*, and World Bank "Ease of Doing Business Indicators, 2016," <http://www.doingbusiness.org/rankings>.

Figure Three: Comparing Population Pressure: 1950-2050

	<u>Population in Millions</u>			<u>Growth in Times</u>	<u>Growth in Percent</u>
	<u>1950</u>	<u>2017</u>	<u>2050</u>	<u>1950-2017</u>	<u>2017-2050</u>
Maghreb					
Algeria	8.9	41.0	55.4	X4.6	35%
Libya	0.961	6.7	9.0	X7.0	34%
Morocco	9.3	34.0	43.0	X3.7	26%
Tunisia	3.5	11.4	12.78	X3.3	11%
W. Sahara	0.091	0.603	1.2	X6.6	99%
Levant					
Egypt	21.2	97.0	168.9	X4.6	74%
Gaza	0.245	1.8	3.1	X7.3	72%
Israel	1.3	8.3	12.4	X6.4	49%
Jordan	0.561	10.2	15.6	X18.2	53%
Lebanon	1.4	6.2	5.6	X4.4	-10%
Syria	3.5	18.0	31.2	X5.1	73%
West Bank	0.6771	2.7	4.2	X3.5	56%
Gulf					
Bahrain	0.114	1.4	1.8	X12.3	29%
Iran	16.4	82.0	98.6	X5.0	20%
Iraq	5.2	37.1	76.5	X7.1	106%
Kuwait	0.1456	2.9	3.9	X20.0	34%
Oman	0.489.	3.4	5.4	X7.0	59%
Qatar	0.025	2.4	2.6	X92.0	13%
Saudi Arabia	3.9	28.6	40.3	X7.3	41%
UAE	0.72	6.1	8.0	X8.4	31%
Yemen	4.8	28.0	46.1	X5.8	65%
Other Conflict					
Afghanistan	8.2	34.1	63.8	X4.2	87%
Pakistan	40.4	204.9	290.8	X5.1	42%
Somalia	2.4	11.0	22.6	X4.6	105%
Sudan	6.5	5.2	7.6	X-0.2	46%
South Sudan	2.7	13.0	26.8	X4.8	58%
Controls					
U.S.	151.9	326.6	398.3	X2.2	22%
China	562.5	1,379.3	1,301.6	X2.5	-9%
Japan	83.8	126.5	107.2	X1.5	-15%

Source: Adapted by Anthony H. Cordesman from U.S. Census Bureau, International Data Base (IDB, accessed August 30, 2017), <https://www.census.gov/population/international/data/idb/informationGateway.php>

Figure Four: Comparing the Youth "Bulge"

	<u>0-14 Years</u>		<u>15-19 Years</u>		<u>20-24 Years</u>	
	<u>Millions</u>	<u>% of Total</u>	<u>Millions</u>	<u>% of Total</u>	<u>Millions</u>	<u>% of Total</u>
Maghreb						
Algeria	12.0	29.3	2.9	7.0	3.4	8.3
Libya	1.7	25.8	0.568	8.5	0.568	8.5
Morocco	8.8	25.8	2.9	8.5	2.9	8.5
Tunisia	2.9	25.1	0.752	6.6	0.843	7.4
W. Sahara	0.23	37.2	0.62	10.3	0.56	9.2
Levant						
Egypt	32.3	33.3	9.0	9.3	9.3	9.6
Gaza	19.8	24.2	5.6	6.8	6.5	7.9
Israel	2.3	27.5	4.1	10.5	3.4	8.8
Jordan	3.6	34.7	1.1	10.4	1.0	9.7
Lebanon	1.5	24.1	0.51	8.2	0.51	8.3
Syria	5.7	31.6	1.8	10.2	1.7	9.3
West Bank/ Palestinian	1.0	36.5	0.31	11.2	0.28	10.2
Gulf						
Bahrain	0.269	19.1	0.098	7.0	0.122	8.7
Iran	19.8	24.2	5.6	6.8	6.5	7.9
Iraq	15.5	39.5	4.1	10.5	3.4	8.8
Kuwait	0.719	25.0	0.176	6.2	0.257	8.9
Oman	1.0	30.1	0.304	8.9	0.336	9.8
Qatar	0.292	12.6	0.092	4.0	0.194	8.4
Saudi Arabia	7.5	26.1	2.5	8.8	2.8	9.8
UAE	1.3	21.0	0.31	5.2	0.51	8.3
Yemen	11.2	39.8	3.2	11.3	2.8	9.9
Other Conflict						
Afghanistan	14.0	40.9	4.1	1.9	3.5	10.3
Pakistan	64.3	31.4	22.1	10.8	21.2	10.3
Somalia	4.8	43.1	1.2	10.8	0.91	8.3
Sudan	14.4	38.67	4.3	11.5	3.6	9.5
South Sudan	5.8	44.4	1.5	11.4	1.2	9.2
Controls						
U.S.	61.2	18.7	21.1	6.5	22.2	6.8
Europe/EU	79.7	15.5	26.8	5.2	28.7	5.6
China	236.6	17.2	79.8	5.8	96.4	7.0
Japan	16.2	12.8	6.0	4.8	6.2	4.9

Source: Adapted by Anthony H. Cordesman from U.S. Census Bureau, International Data Base (IDP. accessed August 30, 2017), **Millions**

Figure Five: Comparing Economic Challenges

	CIA Per Capita Income (2016/PPP) \$US	UN Severe Multi-Dimen Poverty (%)	UN Youth Unemploy- ment (%)	World Bank Ease of Doing Business (rank)	UN % Child Malnutrition: Under Age 5-	
	World Rank	Overall economy	Severe 2010-2015			
Maghreb						
Algeria	15,000	109	--	28.6	157	(11.7)
Libya	14,200	115	(0.1)	50.0	188	21.0+
Morocco	8,400	147	4.9(?)	19.3	69	14.9
Tunisia	11,700	131	(0.2)	34.5	78	(10.1)
Levant						
Egypt	12,00	125	(0.4)	19.5	123	22.3
Gaza	--	--	--	--	--	--
Israel	34,800	55	--	8.1	53	--
Jordan	18,500	91	(0.1)	33.4	119	(7.8)
Lebanon	18,500	91	(1.3)	21.6	127	(16.5)
Syria	2,900	194	(1.3)	28.5	174	27.5
West Bank	4,300	175	(0.2)	39.8	141	(7.4)
Gulf						
Bahrain	50,300	24	--	(5.4)	64	--
Iran	18,100	92	--	24.1	121	(6.8)
Iraq	16,500	101	(2.5)	35.1	166	22.6
Kuwait	71,300	11	--	17.3	103	5.8
Oman	43,700	37	--	19.3	67	14.1
Qatar	129,700	2	--	(0.8)	84	--
Saudi Arabia	54,100	21	--	--	95	9.3
UAE	67,700	14	--	11.1	27	--
Yemen	2,500	216	(19.4)	(30.1)	180	46.5
Other Conflict						
Afghanistan	2,000	204	29.8	19.9	184	40.9
Pakistan	5,100	171	26.5	(10.7)	145	45.0
Somalia	400	230	(11.7)	63.6	190	25.9
Sudan	4,500	172	31.9	22.5	169	38.2
South Sudan	1,700	212	6.6	--	186	31.1
Controls						
U.S.	57,300	20	-	11.8	9	2.1
China	14,600	112	(1.0)	12.1	79	9.4
Japan	38,900	44	--	5.3	35	7.1

Source: Adapted by Anthony H. Cordesman from CIA *World Factbook*, accessed August 30, 2017), Tables 8, 11 and Dashboard 2 to *UN Human Development Report 2016*, and World Bank "Ease of Doing Business Indicators, 2016," <http://www.doingbusiness.org/rankings>.

Figure Six: Comparing Educational, Support, and Medical Challenges

	Mean Years of Schooling	Government Spending on Education as % of GDP*	% with some Secondary Education	Dependency Ratio** Youth 0-14 Old Age 65+	Mortality Rate*** Infant Under Five		
Maghreb							
Algeria	7.8	--		34.9	43.6	9.1	21.8 25.5
Libya	7.3	--		(55.1)	44.5	6.9	11.4 13.4
Morocco	5.0	--		29.4	40.9	9.3	23.7 27.6
Tunisia	7.1	6.2		43.9	33.8	11.0	12.1 14.0
Levant							
Egypt	7.1	--		(61.4)	53.8	8.5	22.3 24.0
Gaza	--	--		--			
Israel	12.8	5.9		88.8	45.7	18.4	3.2 4.0
Jordan	10.1	--		81.3	58.5	6.2	15.4 7.9
Lebanon	8.6	2.6		54.2	35.4	12.0	7.1 8.3
Syria	5.1	--		(38.9)	63.1	6.9	11.1 12.9
West Bank	9.9	--		58.8	70.8	5.2	18.0 21.1
Gulf							
Bahrain	9.4	2.6		57.9	28.2	3.2	5.3 6.2
Iran	8.8	3.0		67.7	33.1	7.1	13.4 15.5
Iraq	6.6	--		(45.6)	73.2	5.9	26.5 32.0
Kuwait	7.3	--		57.4			7.3 8.6
Oman	8.1	5.0		58.8	26.7	3.4	9.9 11.6
Qatar	9.8	3.5		68.4	18.6	1.4	6.8 8.0
Saudi Arabia	9.6	--		66.5	41.7	4.2	12.5 14.5
UAE	9.5	--		67.7	16.4	1.3	5.9 6.8
Yemen	3.0	--		(24.4)	70.7	4.9	33.8 41.9
Other Conflict							
Afghanistan	3.6	4.8		(22.2)	82.3	4.6	66.3 91.1
Pakistan	5.1	2.5		35.4	57.9	7.4	65.8 81.1
Somalia	--	--		--	92.5	5.6	85.0 136.8
Sudan	3.5	--		16.3	72.1	5.9	47.6 70.1
South Sudan	4.8	0.8		--	77.3	6.4	60.3 92.6
Controls							
U.S.	13.2	5.3		95.3	28.6	22.3	5.6 6.5
China	7.6	--		75.0	23.5	13.0	9.2 10.7
Japan	12.5	3.8		91.9	21.1	43.3	2.0 2.7

* Like national poverty data, and percent of GDP spent on health, countries generally do not report negative data or exaggerate their performance. ** per 100, ages 15-64. ***per 1,000.

Source: Adapted by Anthony H. Cordesman from CIA *World Factbook*, accessed August 30, 2017), Tables 1, 7, 8 and 9 to *UN Human Development Report 2016*.

Focusing on the “Structural” Causes of Failure

This analysis focuses on the depth and structural nature of these broader structural failures and challenges. It does not address the immediate problems in dealing with the political, sectarian, and ethnic divisions in Iraq in depth, but instead focuses on their deeper structural nature and how they interact with population pressure and the impact of key factors like poverty, unemployment, and the gross—state-centric—distortion of the nation's economy. It also focuses on the aspects of stability and Iraq's status as a failed state that receive less attention than the risk of factional political conflict, but are equally important. These include failures in governance, economics, and demographics.

There are serious limits to the data available on these failures. In many cases, the data currently available are uncertain or dated, and many key data simply do not exist. The economic and other data that are available -- and are illustrated in **Figure One** to **Figure Six** -- only cover Iraq as a nation—providing little or no insight into the exact nature of the regional, ethnic, sectarian, and other key differences that challenge future stability.

There are other serious problems in such data. As past experience in other conflict states -- “failed” or not -- has shown, recovery and stability require major data collection and analytic efforts *in country*. This is particularly true because there are no reliable models for estimating the impact of war in terms of the need to rebuild, the practical options for doing so, and their cost. Even less is known about dealing with the human dimension of prolonged conflict. Immediate humanitarian efforts are difficult enough, but building a new and stable social structure and society and coping with all of the longer-term human legacies of war is largely uncharted territory.

At the same time, many of the data on Iraq are good enough to serve as clear warnings that it will take years of internal Iraqi effort and outside support to put Iraq on the path towards some form of stable recovery—and longer to reach the kind of broad development that benefits most of Iraq's people. Stability, recovery, and development will not occur at all unless Iraqis—and those outside Iraq—face the full range of challenges that Iraq must meet.

This study is also able to draw heavily on a pioneering World Bank study of Iraq entitled a *Systematic Country Diagnostic Report on Iraq* issued in February 2017.³ Unlike far too many UN, U.S., IMF, World Bank, and NGO studies, the World Bank diagnostic study does attempt to address Iraq's internal problems in depth. It does so with levels of objective criticism that highlight Iraq's failures and real world needs for the kind of stability, security, recovery, and development programs that can deal with the conflicting interests of its major sectarian, ethnic, regional, tribal, and other internal factions.

Many other sources have been used in creating this analysis, but the majority sharply understate the nature of Iraq's problems. Like most studies of the problems in dealing with past conflict stability in other “failed states,” they were too politically correct to honestly address the problems in given governments and societies, only provided limited diagnostics, and made recommendations for nationwide economic and governance reforms that had no practical chance of ever being implemented in the form they suggested.

They ignore the practical problems in politics and governance that created conflicts in the first place and will leave a given nation even more of a "failed state" when the fighting ends. If there is any consistent lesson from the history of "failed state" wars, it is that paving the road to hell with optimism and good intentions does nothing to produce real progress and usually does far more harm than good.

Any real-world approach to achieving stability in Iraq must recognize that it must focus on what *can* be done, rather than what *should* be done. The first priority must be to deal with immediate political realities, and this can pose a massive challenge to any effective effort. Iraq's short-term politics and internal dynamics are extremely volatile and unpredictable. It is still far too early to determine how the defeat of ISIS's physical "caliphate" in Iraq will affect the overall pattern of violent Islamist extremism that threatens Iraq, and the balance of power, tensions, and potential violence between key ethnic divisions like Arab and Kurd, and sectarian divisions between Sunni and Shi'ite. There are competing factions within each major faction—some of which have a long history of violence and in-fighting between groups within their own factions. Each faction has competing economic interests, and regional aspects as well.

At the same time, any systematic and enduring effort to move Iraq away from the status of a "failed state" requires that careful attention is given to the deeper and more consistent forces that divide Iraq at the human level. These forces also interact with the lasting structural problems in governance and the Iraqi economy, and all three sets of challenges will need to be dealt with over time. This is why a serious effort to achieve some lasting form of strategic stability can easily take a decade.

The Need for Nation Building and Strategic Stability Operations

The United States, its allies, and international organizations are just beginning to come to grips with the civil dimensions of "failed state" wars in Iraq as well as those in Afghanistan, Libya, Somalia, the Sudans Syria, and Yemen. In each case, any meaningful form of "victory" requires far more than defeating the current extremist threat in military terms. The insurgent threat exists largely because of the deep divisions within the state, and the past and current failures of the government to deal with such internal divisions, and the chronic failure to meet the economic, security, and social needs of much of the nation's population.

Regardless of the scale of any defeat of a given nation's insurgents and extremists, the other internal tensions and divisions with each country also threaten to make any such "victory" a prelude to new forms of civil war, and/or an enduring failure to cope with security, stability, recovery, and development. They also require a different approach to stability operations and civil-military affairs.

The Post-Conflict Need for Strategic Stability

In Iraq and each similar case, the most immediate priority will be to find some working political compromise that can hold the country together and to provide immediate humanitarian relief and short-term emergency recovery efforts. It is all too clear, however, that short-term compromises, stability operations and humanitarian efforts will fail to have lasting effects unless the deeper problems that make a state a "failed state" are addressed to the point where the vast majority of its people want to live with the result.

However, no existing "failed state" conflict would have reached anything like its intensity if there had not faced critical political, governance, economic, and social problems before the insurgency or civil fighting began. As a result, post-conflict efforts must do far more than simply attempt to achieve recovery at pre-war levels. Meaningful stability efforts must address the key problems and divisions within a nation that led to successful insurgencies and the fracturing of that nation.

These efforts must create a working political structure and sharply raise the quality of governance. Stability, recovery, and development must build confidence and trust in the government and political system and address the competing needs of key factions, along with ethnic, sectarian, tribal, and regional groups.

They must address the deep economic failures that shaped the recent history of each "failed state" before the fighting began, and at least create enough economic hope for each major faction to be willing to work within the government. Similar improvements must take place in security, police activity, and the other elements of the rule of law, and corruption must be reduced to tolerable levels.

At the same time, such efforts must take full account of the demographic realities involved. In each case, the population has increased radically since 1950—usually by five to seven times. This put a massive strain on infrastructure, education, medical services, housing, and job creation long before the fighting began, and created a critical pre-war deficit that years of conflict have since made far worse.

An extremely young population could not find jobs or careers that met its expectations, and population growth sharply increased urbanization and put steadily rising pressure on already

limited water supplies and arable land—problems which years of war have left largely unaddressed. Government's chose short-term employment and economic policies that created major barriers to growth and doing business, created major structural economic problems, and made most development plans unrealistic or sources of further problems.

“Nation Building” or Continued Self-Destructiveness

Outside states and international organizations also need to change their approaches to dealing with the realities of "failed state" wars. Much of the modern history of warfare is the product of a failure in achieving post-conflict stability in previous conflicts, and much of modern warfighting is the product of repeated struggles between factions or between a government and key elements of the people it should serve.

Nations must help themselves, but they also need the right kinds of help to succeed. Iraq -- like every state now involved in a “failed state” war will require sustained help in nation building over a period that will often approach or exceed a decade once the active fighting ends. It is all too true that such help will be pointless—or be little more than an endless humanitarian subsidy—if that state is incapable of helping itself.

The history of post-conflict development has a grim consistency in showing that nations, governments, and factions must either take full responsibility for their own destiny or fail. Nations cannot be built from the outside using outside models. It is equally clear, however, that even the most competent effort to build an effective state that really services its people will need sustained outside aid or even the most successful warfighting security effort will end in a lost peace.

The United States has already attempted to deal with many of these failures in Iraq and Afghanistan. So far, it has largely failed. Whenever the United States has attempted to impose its own political, governance, and economic structures on very different cultures, peoples, and nation states—like Afghanistan, or Iraq between 2003 and 2011—it has failed to prevent their fracture lines from creating new tensions or conflicts. In the process, it has become all too clear that military forces alone cannot defeat an insurgency no matter how successful they are at a tactical level.

At the same time, many efforts by outside civil bodies like the UN, IMF, World Bank, NGOs, and think tanks have been equally ineffective and equally unrealistic. Most have failed to fully address the failures in given states that led to civil wars and insurgencies. Any review of the public studies by such bodies reveals that they have suffered from most or all of the following defects:

- Key aspects of their diagnostics are heavily politicized and designed to avoid direct criticism of the existing power structure and government—creating serious problems in “clientitis” on the part of countries seeking a security partner like the US or Russia, or that are unwilling to risk political confrontation like the UN. IMF, and World Bank.
- They assume a mythical future in which a nation’s government can pursue recovery and development in an abstract world without regard to its political and security realities.
- They do not address the factors that led to major popular unrest and instability before the conflict began.
- They treat the country as a unified nation when it has ethnic, sectarian, tribal, regional, and other internal differences that drive its problems with stability, security, and development.
- Some, like many of the IMF Article Four reports focus on fiscal and balance of payments issues, and economic growth in macroeconomic terms to the near exclusion of the internal divisions, employment issues, and other tensions that have led to civil conflict.⁴

- Others focus on core economics and humanitarian needs, and largely ignore key problems in governance, practical politics, and the scale of the black economy and criminal activity like narcotics.
- They complain about poor governance and corruption, and sometimes major levels of criminal activity like narcotics, without analyzing its impact on governance, economics, and development in detail. A critical source of problems and waste of resources from the central government to the local level does not receive serious analysis. No tangible plans are made to suggest reforms, and the impact of poor governance and corruption in contributing to internal tensions and violence, extremism, and popular anger is not assessed.
- They do not address the post-conflict need to fund large military forces, develop effective police, and create a functioning justice system and rule of law.
- They make roughly the same broad recommendations for each country—often reflecting the institutional focus and biases of the source of the study—without regard to whether such recommendations are feasible, meet the full range of a country's needs, or have any serious chance of being implemented. Some recommendations focus largely on the stability of national currency, levels of debt, and the balance of payments without addressing internal needs and stability problems.
- They do not create realistic (or often any) picture of the phases of a successful effort or the time involved, and either ignore the cost and resources required or make “guesstimates” that lack a credible methodology.

Far too many outside efforts have failed to honestly address the fact that host country political systems and governments could not or would not address a broad list of nation-wide reforms that were needed long before conflict began. They also have suggested generic nation-wide reforms that did not meet the needs of key factions. They did not address the real-world costs of post-conflict security and military forces, and did not provide realistic plans for stability, recovery and development.

Equally important, the United States, Russia, and other states that provide military support and aid have largely ignored the fact that no amount of security can provide post conflict stability, recovery, and development. It has long been clear that military force alone cannot win a victory in such wars, and it should now be clear that military victory alone cannot produce lasting stability.

The Challenge of Past Divisions and Conflicts

No stability, recovery, and development effort can be successful unless it acknowledges the extent to which Iraq has been a nation in crisis during most of its existence. A long series of wars, living under sanctions, and other crises have combined to create major problems in the lives of ordinary Iraqis and reduced the quality of its human capital. Here, it is critical to understand that the tendency to focus only on Iraq's current war—while natural—seriously distorts the extent to which its current problems are the result of decades of conflict and crisis.

The Prelude to Saddam

Any short summary of these forces has to leave major gaps, but the broader forces at work remain clear. Iraq was formed after World War I by combining sectarian and ethnic groups in ways that led to major popular unrest against the British mandate, and that forced Arab and Kurd into a single state in a region which had never had stable or natural borders.

Britain only created a meaningful local government in 1921, after serious Iraqi popular resistance to British rule, limited revolt, and the exposure of serious tension between Arab Sunni, Arab Shi'ite, and Kurd. Britain imported a monarchy from the Hashemite family and empowered the Sunni minority as a way of helping to control Iraq's Shi'ites and Kurds. Britain then granted independence in 1932, but kept forces in Iraq and kept control over the Iraqi National Oil Company—which had been created following the discovery of large-scale oil reserves in 1927.

The resulting resentment led Iraq's prime minister, Rashid Ali, to ally himself with the Axis, demand that British forces leave in 1941, and invite Germany so send Luftwaffe forces. The British defeated Iraqi forces in a limited military campaign, and British and Iraqi forces also defeated the first major Kurdish uprising under Barzani in 1945, who fled to the Soviet Union.

Britain kept direct control of the country through 1945, and then exercised substantial power through Iraq's young king, Faisal II and his ministers. This regime favored rural and "loyal" factions, and did little to develop the country in the years that followed. Iraqi oil revenues remained low and erratic and development remained slow. Britain also pressed Iraq to create and join the Baghdad Pact as a reaction to Nasser—which included Turkey, Britain, and Iran. Nasser reacted by launching a propaganda campaign against the Faisal regime, and a crisis occurred in 1958, after efforts to create a union between Iraq, Jordan, and Kuwait in response to the union between Egypt and Syria.

The wave of Arab nationalism led the Iraqi military to oppose the monarchy and it fell in a bloody coup on July 14, 1958. A series of military dictators followed, with substantial military purchases but limited economic progress. At times, nearly 90% of the budget was spent on military forces. The military leaders did not effectively suppress the Arab nationalist Baath Party, however, and it was able to take lasting power under Ahmad Hasan al-Bakr in 1968.

Al-Bakr's regime broke up the British monopoly control of the Iraq Petroleum Company (IPC), signed a contract with a French oil company called ERAP, and later nationalized the IPC. The 1973-1974 oil embargo following the October War marked the first time that Iraq was able to take real advantage of its export revenues under a government that did focus on development, and it triggered the first major rise in Iraq's oil revenues—although the average global price of oil only changed from \$3 to \$12 a barrel.

The Rise and Fall of Saddam

Saddam Hussein rose to power during this period. Barzani had returned and again created a Kurdish effort to win independence in 1961. The fighting continued and the Ba'ath took power until Saddam Hussein—then Secretary General of the Baath—negotiated a compromise governance agreement in 1970. Hussein steadily gained in status and power, and negotiated the Algiers Accord over the Iraq-Iran border in 1975. He formally replaced Bakr in 1978, carrying out a broad and bloody purge of rivals in the Ba'ath and outside opposition in the process.

Saddam Hussein did carry out limited economic reform, improved housing, and encouraged measures like the creation of agricultural cooperatives. He also, however, indulged in a major arms race with Iran, created and funded a Baath-oriented Popular Army to counter the political threat from Iraq's regular forces, and used major amounts of Iraq's oil revenues to buy turnkey economic projects for its state-owned enterprises—efforts which were often terribly managed and had little productivity once Iraq took over. He also heavily subsidized Sunni areas in Iraq, and was careful to keep Sunni control over the military and security forces.

The fall of the Shah in 1979 first gave Iraq a new wave of oil revenues as prices rose because of the Shah's fall. It then led Saddam to react to Iranian efforts to convert Iraq's Shi'ites and to the seeming opportunity to seize some of Iran's oil wealth by launching the Iran-Iraq War. The result was eight years of war where Iraq was eventually able to force Iran into a ceasefire in 1988 after the bloodiest war in the modern history of the Middle East.

By then, however, Iraq had been effectively bankrupted and was deeply indebted to Kuwait and Saudi Arabia. It also had helped create major anti-Saddam factions among Iraq's Shi'ites, some of which actively opposed Saddam in Iraq's eastern marshes while others fought for Iran from bases in Iran. A new effort by the Kurds to win independence had also triggered a major effort to relocate Sunnis into Kurdish areas, and a set of government anti-Kurdish offenses that made extensive use of poison gas.

Saddam reacted by invading and attempting to annex Kuwait—which had been the subject of Iraqi claims since the country's formation. This triggered the first Gulf War in 1990-1991, which led to a catastrophic defeat of Iraq's forces. It also brought about new internal political upheavals, some led by the Kurds and other by Iraqi Shi'ites. Saddam was able to put down the Shi'ite uprisings, although this led to further efforts to restructure the military and security forces to deal with Shi'ite opposition. The United States and other states, however, blocked him from occupying the Kurdish areas and a de facto Kurdish state was created under the Kurdish Regional Government (KRG).

The new fighting left Iraq even poorer than before, and with the need to pay major reparations for invading Kuwait. It also precipitated UN sanctions on Iraq to ensure payment and that Iraq give up its stocks of missiles and chemical, biological, and nuclear weapons. Those sanctions led to a series of military crises from 1992-2003, and left the Iraqi economy shattered during this period. The uncertainties surrounding Iraq's compliance with the key UN resolutions was also a key factor leading to the U.S.-led invasion of Iraq in 2003. This invasion created still further economic pressures, as well as still further distortions of Iraq's economy—including grossly inefficient state management of the agricultural sector.

2003-2017

The United States had made no meaningful preparations to ensure Iraq's stability, recovery, and development after the success of the invasion—it originally planned to being major withdrawals of its combat force no later than 90 days after it succeeded in deposing Saddam Hussein. As a result, it first had to install a rapidly improvised occupation government, and then try to improvise a new system of politics and governance during 2003-2011 where the U.S. relied far too much on Iraqi Shi'ite, exiles and effectively institutionalized a replacement of Sunni rule with Shiite rule while leaving Arab and Kurds divided.

The end result was a growing series of civil failures, the worst of which was a de-Baathification process that pushed so many Sunnis out of politics, governance, and the security services that it empowers Sunni extremists, and helped trigger a major insurgency. During 2004-2011, the U.S. was able to work with Iraqi forces to largely put down the remnants of Saddam's forces, and then work with both Iraqi security forces and an uprising by Sunnis who opposed the extremists, to establish a tenuous level of security.

As a CIA analysis shows, the U.S. also pushed Iraq in a series of political reforms which had only limited success,⁵

In October 2005, Iraqis approved a constitution in a national referendum and, pursuant to this document, elected a 275-member Council of Representatives (COR) in December 2005. The COR approved most cabinet ministers in May 2006, marking the transition to Iraq's first constitutional government in nearly a half century. Nearly nine years after the start of the Second Gulf War in Iraq, US military operations there ended in mid-December 2011. In January 2009 and April 2013, Iraq held elections for provincial councils in all governorates except for the three comprising the Kurdistan Regional Government and Kirkuk Governorate. Iraq held a national legislative election in March 2010 - choosing 325 legislators in an expanded COR - and, after nine months of deadlock, the COR approved the new government in December 2010. In April 2014, Iraq held a national legislative election and expanded the COR to 328 legislators. Prime Minister Nuri al-MALIKI dropped his bid for a third term in office, enabling new Prime Minister Haydar al-ABADI, a Shia Muslim from Baghdad, to win legislative approval of his new cabinet in September 2014. Since 2014, Iraq has been engaged in a military campaign against ISIS to recapture territory lost in the western and northern portion of the country.

As World Bank and Transparency International studies of governance and corruption show, these U.S. efforts did not succeed in reforming Iraq's governance, in reducing its corruption, or creating an effective rule of law.⁶ Transparency International notes that,⁷

After a difficult beginning marked by institutional instability, Iraq's new regime has in recent years become increasingly aware of the enormous corruption challenges it faces. Massive embezzlement, procurement scams, money laundering, oil smuggling and widespread bureaucratic bribery have led the country to the bottom of international corruption rankings, fueled political violence and hampered effective state building and service delivery. Although the country's anti-corruption initiatives and framework have expanded since 2005, they still fail to provide a strong and comprehensive integrity system. Political interference in anti-corruption bodies and politicization of corruption issues, weak civil society, insecurity, lack of resources and incomplete legal provisions severely limit the government's capacity to efficiently curb soaring corruption. Ensuring the integrity of the management of Iraq's massive and growing oil revenue will therefore be one of the country's greatest challenges in the coming years.

As becomes all too clear from the following analysis, the only major positive impact the U.S.-led invasion of Iraq had on Iraq's development was the reduction of sanctions and a major increase in petroleum export revenues. Efforts to create a post-Saddam system of politics and governance created an awkward layering of new institutions over old, half-implemented efforts at reform, and

a political system which encouraged Sunni, Shi'ite, and Kurdish factions by relying on nationwide party lists, rather than actual representation by given area. Removing the cap from state control over the political system meant that competing Arab Shi'ite factions gained power, the Kurdish factions in KRG expanded their power and sought autonomy, and that the Arab Sunnis lost much of their power and influence.

The U.S. began to withdraw its combat forces in 2007, and completed this withdrawal in 2011. It was able to work with Sunni tribal forces in the West to largely defeat the Sunni Islamist extremist forces that had become a major threat after 2004, but it did not create effective Iraqi security forces. A close election kept Nouri al-Maliki in power, but created even more tension between Sunni and Shi'ite. Maliki prevented the U.S. from keeping a major train and assist program to help build Iraqi forces, and restricted the leadership of Iraq's security forces to make them an instrument of personal power. Maliki's actions created major tension with the Sunnis in Iraq's West and created a level of hostility that helped empower the ISIS invasion in 2014. The end result was yet another divisive war, further major damage to Iraq's economy, and a further deepening of ethnic and sectarian divisions.

Iraq's present constitution relies largely on election from nationwide party lists that mean there is often no effective local representation, merely a series of competing factions that emphasize ethnic and sectarian differences, but also the divisions within them. The nation is too divided to produce a consensus on many issues, or even reasonable levels of compromise, and its awkward cross between a presidential and a parliamentary system—which has created an unstable line of authority—is linked to a massive lack of transparency and accountability. As a World Bank *Diagnostic* of Iraq's problems notes,⁸

In March 2003, a military coalition led by the United States and Britain invaded Iraq, and a month later the coalition troops controlled the country. The Coalition Provisional Authority (CPA) dismantled the Baath Party and the Iraqi army, measures which have had a lasting impact. The Baath party was “disestablished,” and the four most senior levels of members within the Baath party were “removed from their positions and banned from future employment in the public sector.” It should be noted that, in Saddam Hussein's Iraq, membership in the Baath party was the standard requirement for much state employment, and many joined the party in title only. Many of the state's most competent administrators were fired overnight from an administration already severely weakened by two wars and more than a decade of sanctions, thus removing what was left of the state and its institutional memory. A number of key institutions were dissolved, including the army, navy, air force, and the Ministry of Defense. The sweeping de-Baathification policy left tens of thousands of public sector employees as well as security personnel unemployed, without pensions, and with no prospects of participating in state institutions in the future (World Bank, 2016). The widespread violence and looting that followed the dissolution of security forces lasted nearly a month and severely damaged the state's administrative capacity; 17 of Baghdad's 23 ministry buildings were completely gutted. Overall, the looting is estimated to have cost as much as US\$12 billion, equal to one-third of Iraq's annual GDP, creating a climate of citizen insecurity and criminal impunity (Dodge, 2014).

...De-Baathification, intended originally as a necessary vetting mechanism, quickly turned into a tool of political retribution and sectarianism. Opposition groups perceived the government as using state institutions in a sectarian manner to marginalize them. What had been an insurgency against US occupation mutated into an all-out civil war with sectarian rhetoric used to justify the killing of civilians and population transfers. The violence peaked in 2006 and 2007, with over 25,000 recorded civilian deaths in each of those years. Shia and Sunni militias, whether state-sanctioned or outside the control of government, operated with impunity; many militias continue to exist today. A military surge by coalition troops and agreements between the government and Sunni tribes succeeded in dramatically reducing the violence, and between 2009 and 2012 the average number of civilian deaths fell by over 80 percent. Violence has surged again since 2013 as Daesh campaigns have taken an increasing toll.

...Following the overthrow of Saddam's regime in 2003, Iraq's main political blocs representing the country's major identity groups (Shiites, Sunnis, and Kurds) informally agreed to a system of ethno-sectarian quotas, or *muhasasat* in Arabic, in the apportionment of high-level government positions to ensure each group's representation in government. Under the *muhasasat* system, cabinet posts, along with the positions of prime minister and president, have been allocated in line with an ethno-sectarian formula that also takes into account the number of seats won by each group's political parties in elections. Today, the quota system has permeated the rank and file bureaucracy, well beyond high-level positions.

Plans for a widespread reform of government were announced in August 2015 in response to popular anti-government protests over electricity shortages and corruption, including an initiative to replace cabinet ministers with technocrats. The plans encountered tough opposition as political parties would not agree to limit their own influence, resulting in an escalation of the political crisis (Oxford Analytica, 2016).

No study of Iraq's stability, recovery, and development has value that does not acknowledge this legacy.

Ethnic and Sectarian Challenges

The most immediate and critical problem that Iraq must deal with after the defeat of ISIS is finding some solution to the competing interests of Sunni and Shi'ite and Arab and Kurd in ways that protect smaller factions. The current data on the exact size of each major sectarian and ethnic faction are little more than sophisticated guesstimates, but the scale of the problem is still clear.

Many experts feel that the CIA is broadly correct in estimating that the following ethnic differences exist within a population that the CIA estimates at over 38 million: Arab 75%-80%, Kurdish 15%-20%, and Turkmen, Assyrian, Shabak, Yazidi, and other 5%. These problems are compounded in given areas by linguistic differences. While an Iraqi dialect of Arabic is dominant, Kurdish (official), Turkmen (a Turkish dialect), Syriac (Neo-Aramaic), and Armenian are all dominant in given regions.⁹

Sectarian affiliation is also uncertain, but the CIA estimates the following percentages: Muslim (official) 99% (Shia 55-60%, Sunni 40%), Christian <.1%, Yazidi <.1%, Sabean Mandaean <.1%, Baha'i <.1%, Zoroastrian <.1%, Hindu <0.1%, Buddhist <0.1%, Jewish <0.1%, folk religion <0.1, unaffiliated 0.1%, other <0.1%.¹⁰ Decades of violence and tension, since the beginning of the Iran-Iraq War in 1980, have further polarized much of Iraq's population, forced major population movements and de facto segregation in some areas, and changed Iraq's demographics.

Smaller minorities present particular problems. Some U.S. government working estimates indicate that well over 70% of Iraq's smaller minorities have been forced out of the country since 2003. This is true of some larger minorities as well. The CIA states that, "while there has been voluntary relocation of many Christian families to northern Iraq, recent reporting indicates that the overall Christian population may have dropped by as much as 50 percent since the fall of the Saddam Hussein regime in 2003, with many fleeing to Syria, Jordan, and Lebanon (2010 est.)."¹¹

When it comes to Iraq's challenges in terms of stability, security, recovery, and development, the World Bank *Systematic Country Diagnostic Report* differs somewhat in terms of numbers, and summarizes the current impact of ethnic and sectarian pressures as follows:¹²

...There are no reliable demographic numbers for Iraq. No full census has been held since 1987 as the 1997 census did not include the three Kurdish governorates...Nevertheless, according to government statistics from 2010, 97 percent of Iraq's 35 million population is Muslim, with Shia Muslims constituting a 60 to 65 percent majority. Shia are predominantly Arab but also include approximately 2 million Turkmen, Farsi Kurds, Shabak, and Circassians. Sunni Muslims constitute 32 to 37 percent of the population, comprising Arabs, Kurds, a small number of Turkmen, and Circassians. Kurds – mainly Sunni – constitute an estimated 15 to 20 percent of Iraq's population.

...Iraq previously had a thriving non-Muslim population. The pre-2003 Christian population may have been as high as 1.5 million, or 5 percent of the population, whereas estimates of the number of remaining Christians range from under 400,000 to 800,000. At least 14 Christian denominations continue to exist in Iraq, with the Chaldean Catholics being the largest group. An Ottoman census in 1917 counted 80,000 Jews in Baghdad out of 220,000 residents. In 1948, there were an estimated 150,000 Jews in all of Iraq. However, by 2008, the Iraqi Jewish population was thought to number fewer than 10 individuals (New York Times, 2008). The Yazidis, Shabak, Kakai, Mandaean-Sabeans, and Bahai are other groups.

... The usual division of Iraq into three major groups associated with distinct territories – a Shia south, a Sunni center, and a Kurdish North – is also something of a misrepresentation. Iraq does not have neat ethnic dividing lines. Kurds dominate the North and Shia the South, yet neither is a homogenous group, and all groups have significant political and intra-sectarian divisions. While there has never been a census of Iraq that shows exactly how Sunnis, Shia, Kurds, and other groups are divided or where they are located, elections have made

it clear that its cities and governorates all have significant minorities. Iraq's various groups are highly intermixed across many regions, particularly in the larger cities like Baghdad, Basra, Mosul (at least until the Daesh takeover), Erbil, and Suleimaniya...Depending on which percentage cut-off is used, only one-third to one-half of Iraq's provinces can be said to be demographically dominated by a single group (Vanzo, 2008).

Sunni, Shi'ite, or Iraqi

Prime Minister Abadi declared that the fighting with ISIS in Iraq was over on December 10, 2017. His declaration was somewhat premature, given the number of ISIS fighters that were still alive, and the risk that Iraq would face both a continuing threat from within Iraq and from ISIS fighters in Syria.

His statements also ignored the fact that Iraq is sandwiched between a Syria where Assad seems to have won with Russian, Iranian, Turkish, and Hezbollah aid, and an Iran that whose Al Quds Force and other military forces joined the US and its allies in playing a critical role in training and supporting Iraq in its fighting against ISIS.

To its West, Iraq faces a Syria led by an Alawite minority that is closely tied to Iran's Shiites, and that faces a large Sunni majority with many hostile elements -- including former rebels and extremist factions similar to Al Qaida and ISIS. These, in turn, have close links to the Shi'ite Hezbollah in Lebanon. To its North, Iraq faces an increasingly Sunni Islamist Turkey that sees Iraq's Kurds as a potential threat, and as having links to the Turkish PKK.

To the East, Iraq faces a Persian Iran that is both Shi'ite and has a large Shi'ite majority, and whose strategic interests tie to Iraq's Shi'ites and competition with the Sunni Arab states. To its South, Iraq faces Arab Sunni states that seek to preserve Iraq's Arab identity at the expense of Iran. and Each of its neighbors has a different set of ethnic and sectarian priorities in Iraq, and its own extremist and terrorist threats that can spillover into Iraq as well.

Iraq must also now deal with a substantial mix of Iraqi militia forces, including some Shi'ite forces that some estimates put as high as 66,000 fighters -- although many are not now active. Iraq must also deal with Iraq Kurdish forces like the Peshmerga, as well as forces of the individual Kurdish political parties; Iraqi Arab Sunni militias and tribal forces, Sunni veterans of both its current fighting and that served under Saddam Hussein, and significant numbers of ISIS Sunni fighters that faded back into its civil population. It also must deal with much larger number of Shi'ite militias that gained serious combat experience in fighting ISIS and that are divided between loyalty to Iran, Iraqi leaders like the Ayatollah Sistani, and their own leaders.¹³

Iraqi polls still indicate that a majority of Iraqi Arabs prefers to think of themselves as Iraqi and not in terms of sect, and that significant numbers of Kurds and minorities also prefer an Iraqi identity. This situation, however, remains potentially explosive and no one can totally rule out the risk of sectarian splits in the Iraqi Army and security forces. Any failure by the Central Government to meet the key needs and expectations of key blocs of either Arab Sunnis or Arab Shi'ites could trigger new extremist groups, terrorist violence, local fighting or even escalate to civil war.

Kurdish Integration, Autonomy, or Independence

The Kurdish issue is particularly dangerous. The end of the fighting with ISIS has already created a higher level of tension over the future power and zone of control of the Kurdish Regional Government (KRG). The KRG occupied a substantial amount of territory during 2003-2011 that

had not been under Kurdish control in the past. This expansion involved areas previously under Sunni Arab control, as well as Turcoman and other minority areas. The KRG then gained substantially more territory during 2013 to October, 2017 in the fighting against ISIS. Work by the Institute for the Study of War (ISW) in the northern portions of the map in **Figure Seven** shows the areas Kurdish fighters gained the between 2013 and early October 2017.

The Kurds suffered serious reversals in mid-October 2017, however, as a result of military action by the Iraqi Central government forces that reclaimed much of the area that had come under Kurdish control, including the Kirkuk and nearby oil and gas fields. As **Figure Seven** also shows, the Kurds lost nearly 20% of the territory they had held in a matter of days.

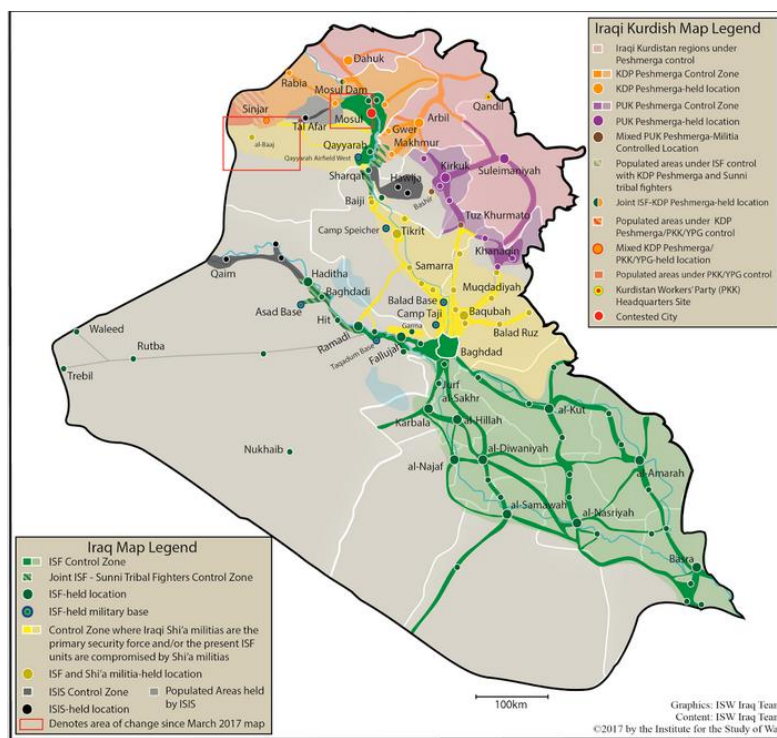
This action came after a long series of Iraqi Central government efforts to stop the KRG from independently developing its own oil and gas exports, exporting oil through Turkey and Iraq, and arguments over how to share the nation's oil export revenues. It was also triggered by the fact that Masoud Barzani, the President of the KRG, held a referendum on Kurdish independence although he was warned not to do so by both the Central government and the U.S., and he did not have the full support of other Kurdish political parties.

The KRG had announced on June 7, 2017 that it would hold a referendum on independence in September 2017. It held the referendum in spite of strong objections by the Central Government and the United States, and the referendum produced a solid majority in favor of independence. This immediately made the size of the area under Kurdish control a major issue.¹⁴ Moreover, the fighting against ISIS had raised other issues because the Iraqi Kurds got substantial military aid from the U.S., had developed strong ties to certain Kurdish elements in Syria and their ties to the Turkish Kurds had led to growing tension with Turkey.

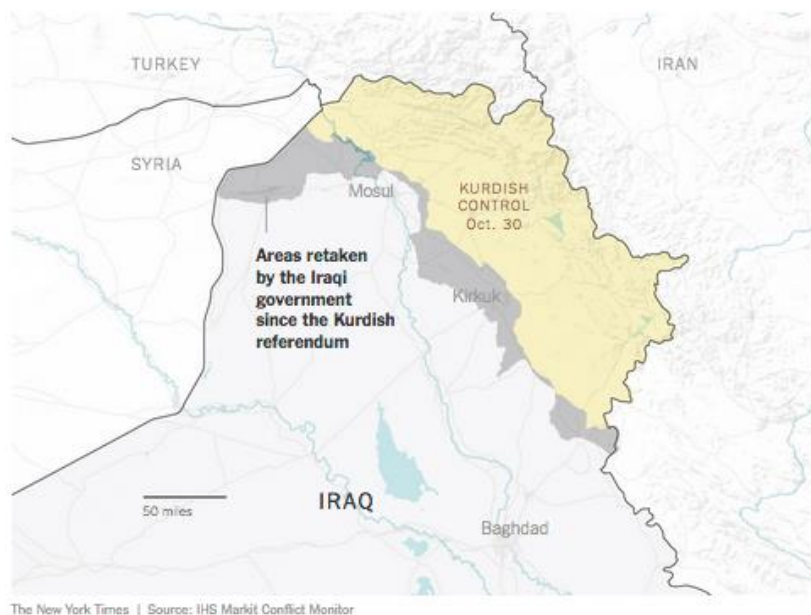
As a result, Iraq's Prime Minister, Haider Al-Abadi sent Iraqi forces into the Kurdish areas in Kirkuk on October 14, 2017, and they quickly took control of the Kurdish areas in the province. The Kurdish governor of Kirkuk, Najmaddin Kareem, was removed from office, and Barzani was forced to stand aside from the presidency a few weeks later.

The crisis did not produce a lasting settlement about governance or territory between the Central government and the KRG, however, or reach any budget or economic settlement. Moreover, the renewal of active fighting between Turkish forces and the PKK forces of Turkish Kurds, new troop deployments by the Iraqi Central Government, the creation of a U.S.-armed Kurdish enclave in Syria in the fighting against ISIS, and growing tensions with Iran, all acted to both worsen and "internationalize" the Iraqi Kurdish problem.

Figure Seven: ISW Estimate of Zones of Control in Iraq
As of June 16, 2017



As of October 1, 2017 vs. November 5, 2017



Source: Institute for the Study of War, <http://iswresearch.blogspot.com/2017/06/iraq-control-of-terrain-map-june-16-2017.html>; and Sergio Pecanha, How the Kurdish Quest for Independence in Iraq Backfired, New York Times, November 5, 2017, <https://www.nytimes.com/interactive/2017/11/05/world/middleeast/kurd-independence-iraq-turkey-iran-syria-maps-backfired.html>.

Who Has (and Keeps) Petroleum Resources

The control and allocation of Iraq's petroleum resources and export income is another key dimension of its sectarian, ethnic and regional divisions. All of the previously described ethnic and sectarian issues interact with broader structural issues affecting the distribution of Iraq's petroleum resources and wealth.

A CIA report that predates the Central government's recovery of the Kirkuk oilfields highlights these issues:¹⁵

Iraq's largely state-run economy is dominated by the oil sector, which provides more than 90% of government revenue and 80% of foreign exchange earnings. Oil exports in 2016 averaged 3.3 million barrels per day from southern Iraq, up from 2015. Moreover, the slow recovery of global oil prices improved export revenues throughout 2016, although monthly revenue remained below 2015 levels. Iraq's contracts with major oil companies have the potential to further expand oil exports and revenues, but Iraq will need to make significant upgrades to its oil processing, pipeline, and export infrastructure to enable these deals to reach their economic potential.

Iraqi oil exports from northern fields are hampered by fundamental disagreements between the Iraqi Government and autonomous Kurdistan Regional Government (KRG) in Iraq's Kurdistan region (IKR) on the roles of federal and regional authorities in the development and export of natural resources. In 2007, the KRG passed an oil law to develop IKR oil and gas reserves independent of the federal government. The KRG has signed about 50 contracts with foreign energy companies to develop its reserves, some of which lie in territories whose status is in dispute between Baghdad and Erbil. Some of the companies have left or returned blocks, citing lack of commercial prospects. In 2014, the KRG began exporting its oil unilaterally through its own pipeline to Turkey, which Baghdad claims is illegal. In the absence of a national hydrocarbons law, the two sides have entered into four provisional oil- and revenue-sharing deals since 2009, all of which collapsed. In September 2016, the two sides began implementing a fifth ad hoc agreement to split oil exports from Baghdad-controlled fields in Kirkuk.

Iraq is making slow progress enacting laws and developing the institutions needed to implement economic policy, and political reforms are still needed to assuage investors' concerns regarding the uncertain business climate. 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.

Earlier reporting by the CIA noted that,¹⁶

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The World Bank diagnostic of Iraq notes that:¹⁷

Mineral wealth has been a key underlying factor in Iraq's development since the 1950s. The world's fourth largest oil exporter, Iraq also holds the world's fifth largest proven reserves of petroleum. Yet oil wealth has not been successfully exploited as a platform for sustained and equitable development. Iraq is the world leader today in terms of dependence on oil, with the hydrocarbon sector accounting for 58 percent of the country's GDP, 99 percent of its exports, and more than 90 percent of central government revenue in 2015. Unlike some of its oil-rich neighbors, however, Iraq's reliance on oil does not represent a viable source of broad-based economic development. The country's large and rapidly growing population means that, even under optimistic scenarios for oil production, continued reliance on oil alone will not generate sufficient jobs to ensure the welfare of all Iraqis. Moreover, Iraq has been unable to generate productive spillovers from oil as the sector creates few jobs and has negligible links to the rest of the economy.

.. Today's Iraq is not only geographically diverse – dominated by the Tigris and Euphrates rivers, with mountains, plains, desert, marshes, and access to the sea – but is also demographically diverse. While Shia and Sunni Arabs and Kurds represent the country's largest religious and ethnic groups, Iraq is home to numerous other communities, including Christians, Turkmen, Farsi Kurds, Shabak, Circassians, and Yazidis among others. Iraq is also characterized by spatial diversity. Most relevant in today's context, the country's oil wealth is differentially distributed across the country. The bulk of proven reserves are located in the south, with most of the rest being in the north. The differential geographic distribution of oil resources has critical implications for any discussions about decentralization in Iraq. Poverty and welfare are geographically differentiated as well, and conflict has led to more pronounced spatial divergences not only in poverty but also in the delivery of services. These geographic inequalities have not been adequately addressed, which is why they persist.

... Poor governance has transformed Iraq's strengths – oil wealth and diversity – into the twin liabilities of oil dependence and ethnic and sectarian fragmentation. Iraq's institutions, which were not robust even in the 1970s, the decade of rapid economic growth and progress in many aspects of human development, have been severely debilitated by decades of wars, sanctions, and conflict. Despite its size, the state has in many cases not been able to effectively provide security, development, or the most basic services. Poor governance has contributed to undermining the state's legitimacy, giving rise to a multitude of alternative groups seeking to capture resources and power. These have ranged from sectarian and ethnic militias to Daesh. Close links between political and militarized groups have exacerbated existing political divides along sectarian lines and further weakened governance. External intervention has brought sanctions and wars as well as massive humanitarian and development assistance.

... its oil wealth is differentially distributed across the country...The bulk of the country's proven reserves are located in the south, with most of the remainder in the north – including 6 percent in the present Kurdistan region and 15 percent in Kirkuk. The Sunni-dominated west has no proven oil revenues (although it does possess gas). Oil wealth and its distribution is at the center of the dispute between the central government and the Kurdistan Regional Government (KRG). According to their existing agreement, the KRG was to export 550,000 bpd through Ceyhan, Turkey (250,000 bpd from its own fields and 300,000 bpd from federal fields) for the central government's State Oil Marketing Organization (SOMO). In return, the central government would resume making agreed-upon budgetary transfers to the KRG. However, this agreement has not been fully implemented and, since June 2015, the central government has suspended the transfers and the KRG's oil deliveries to SOMO have stopped. Because of the differential geographic distribution of oil resources, any decentralization or federalism reform would need to ensure a stable and equitable resolution to resource sharing to ensure that there were no "losers" who had little choice but to continue the conflict.

...The geographical impact of violent conflict over the past decades has also varied. Whereas the Kurdish region had been the most victimized before the 1990s, its *de facto* autonomy from 1991 onwards meant that it could meet its basic needs more effectively during the sanctions years. On the other hand, the southern provinces experienced a double negative impact – the destruction of wars compounded by a failed rebellion. Even after 2003, these spatial differences continued as a result of significant and persistent variations in the quality of service delivery across the country. With the level of security being uneven across the country, new differences between provinces emerged. In the South, while oil continued its self-contained, enclave development, other sources of economic activity such as pilgrimages to holy sites in Karbala and Najaf, trade

with Iran, and the Basra port came into play as growth drivers in some areas. The provinces north and west of Baghdad on the other hand, remain highly contested between sects, ethnicities, tribes, and insurgents

An analysis by the U.S. Energy Information Administration (EIA), which is part of the U.S. Department of Energy, is somewhat dated but notes that,¹⁸

The Kurdistan Regional Government (KRG), the official ruling body of the semiautonomous region in northern Iraq that is predominantly Kurdish, has been involved in disputes with national authorities related to sovereignty. The plan by Iraq's North Oil Company (NOC) to boost production at the Kirkuk field in northern Iraq at the edge of the KRG region has been met with objections by the KRG, which insists that development plans at this field require KRG cooperation and approval.

More generally, the Iraqi Ministry of Oil insists that all hydrocarbon contracts must be signed with the national government, and that all oil produced in the KRG region be marketed and shipped via State Oil Marketing Organization (SOMO), Iraq's oil exporting arm. However, the KRG passed its own hydrocarbons law in 2007 in the absence of a national Iraqi law governing investment in hydrocarbons. In late 2011, the KRG challenged the authority of the national government when it signed oil production-sharing agreements with ExxonMobil to develop blocks in northern Iraq, some of which are in disputed border areas. The KRG has since signed additional contracts with major oil producers such as Chevron, Gazprom, and Total. ExxonMobil withdrew from some of its projects in Iraq, notably the Common Seawater Supply Project, and the company had been asked by the Iraqi government to choose between its involvement in the West Qurna 1 oilfield and its projects in the KRG. Turkish Petroleum Corporation (TPAO) had also been asked to withdraw from its involvement in the Block 9 concession that was awarded during the fourth bidding round because of disputes regarding Turkey's involvement in KRG energy projects.

Past agreements to export oil independently and via Iraqi state-owned infrastructure from Iraqi Kurdistan have fallen apart because of payment disagreements, security problems, and delays building infrastructure required to transport the amounts of oil promised. Oil exports directly from the KRG have been another contentious issue. The KRG has been exporting crude oil and condensate to Turkey and Iran by truck. In May 2014, the KRG started exporting crude oil via a newly built independent pipeline to Turkey's Ceyhan port.

...Oil production in northern Iraq is a contentious topic because of an ongoing dispute between the central Iraqi government in Baghdad and the KRG over the vast amount of oil resources in the Kirkuk structure. The tension and confusion over northern production has escalated since the ISIL offensive in 2014. Before 2014, Iraq (Baghdad) produced most of the oil in the north, mainly at the Kirkuk field (Avana and Baba Domes) and Bai Hassan field, along with other smaller fields. However, after the closure of the IT pipeline in March 2014 and the Baiji refinery in June 2014, northern production lacked its traditional commercial outlets. As a result, the KRG took over operations at the Avana Dome, a part of the Kirkuk field, and Bai Hassan in July 2014 and started exporting the oil through its newly built independent pipeline to Ceyhan, Turkey (Table 1). During this time, Baghdad's NOC continued to operate some of the northern fields, although the production was exported via KRG's pipeline and marketed by the KRG.

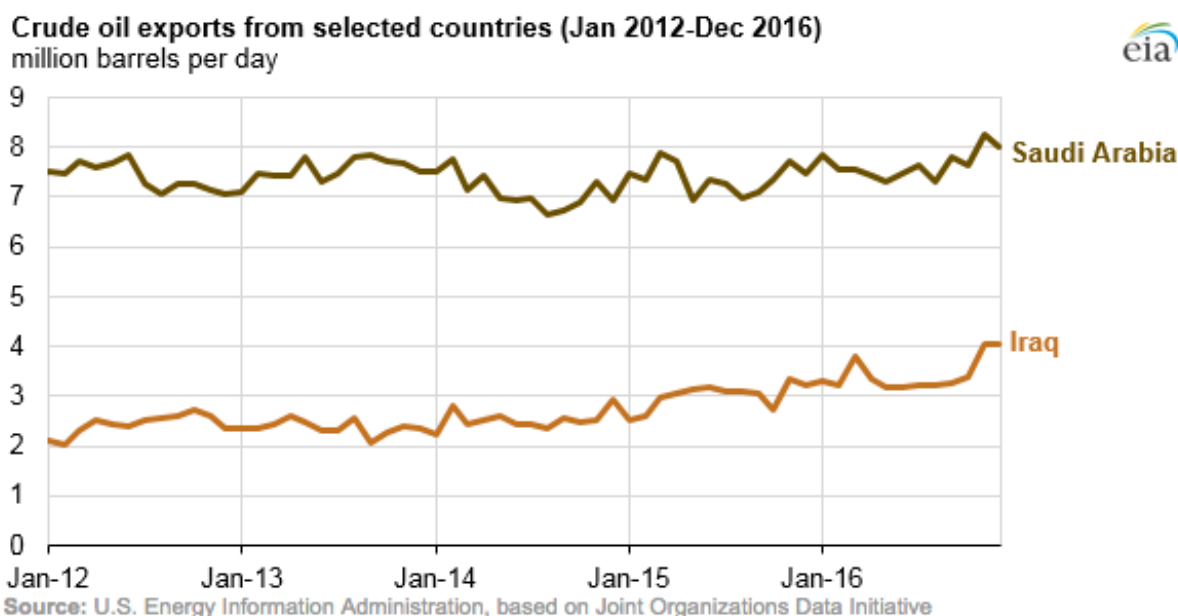
The KRG began transferring some of the crude oil at Turkey's Ceyhan terminal to SOMO in late 2014 in accordance with a deal made between Baghdad and the KRG in December 2014. The two sides agreed that: (1) the KRG give 250,000 b/d of the crude oil produced in its territory to SOMO at the Ceyhan terminal to market the crude, (2) Iraq (Baghdad) export 300,000 b/d of Kirkuk crude through KRG's pipeline to Ceyhan, and (3) Iraq (Baghdad) resume federal payments to the KRG that will amount to a 17% share of Iraq's federal budget and pay KRG's Peshmerga military forces \$1 billion. The deal was intended to allow SOMO to reclaim marketing control over much of Iraq's northern crude exports.

The deal has since collapsed. KRG oil allotments to SOMO decreased substantially in June 2015 and the last one was given in August 2015. The KRG started to directly sell all northern oil because it was receiving much less than the 17% of the overall federal budget from Baghdad. In response, in March 2016, the federal NOC stopped pumping oil into KRG's pipeline, upon guidance from Baghdad, in an attempt to leverage negotiations on northern oil revenue sharing with the KRG. The NOC-operated fields were producing between 150,000 and 200,000 b/d, of which now most is being reinjected into the oil wells to maintain natural gas production for local power generation.²⁹

More recent EIA reporting, shown in **Figure Eight**, indicates that Iraqi oil export capacity rose steadily from 2012 to 2016 in spite of the fighting with ISIS, and other EIA reporting shows that total production was 4.32 million barrels a day (MMBD) in November 2017.¹⁹ The Iraqi Central government does seem to have made gains in the control of oil and gas production and export revenues as a result of its gains in Kirkuk in October 2017, but this issue remains unsettled.²⁰ So does the control of Iraq's pipelines, how best develop its oil and gas fields, how best to allocate oil export revenues to meet popular and development needs and fund the diversification of Iraq's economy.

It is also important to note that there are serious Sunni and Shi'ite differences over the allocation of export revenues, and that the Shi'ites in oil producing and exporting areas feel that they deserve a larger portion of the nation's oil revenues. The recent fighting has limited outside investment and Iraqi plans for the further development of the petroleum sector and the expansion of downstream activities like refineries and petrochemicals also remain uncertain. as is discussed in more depth later in this report, Iraq needs to create a far more diversified economy as well as use its oil revenues far more wisely, but there are few signs as yet that it is prepared to do so.

Figure Eight: Iraqi and Saudi Oil Production 2012-2016



Source: EIA, *U.S. crude oil imports from Saudi Arabia and Iraq recently increased, but may decline soon*, February 24, 2017, <https://www.eia.gov/todayinenergy/detail.php?id=30092>.

Human Challenges

There are no clear dividing lines between the short-term challenges that Iraq faces and the structural challenges it must deal now that the ISIS "caliphate" is largely defeated. They all interact. In broad terms, however, the structural challenges that make Iraq a "failed state" can be grouped into four major categories: human, governance, economic, and security. The ethnic and sectarian aspects of the human challenges have already been touched upon, but it is equally critical to understand that Iraq's structural and long-term human challenges have another critically important cause.

Population Pressure

Demographics, population pressure, and the resulting changes in Iraq's social structure and economy underlie and shape many of its current structural problems, although far too much analysis of Iraq—like much of the analysis of the Arab world—ignores or understates these forces.

While much of the political analysis of the current divisions within Iraq focuses on the resulting sectarian and ethnic tensions, these are only part of the forces driving Iraq's status as a failed state. One of the strange aspects of far too many efforts to deal with the security, political, governance, and economic problems in the Arab world is that they ignore the sheer force of population growth, the extent to which population pressures have affected today's problems and conflicts, and the extent to which any effort to achieve stability and development must take the level of future population growth into account.

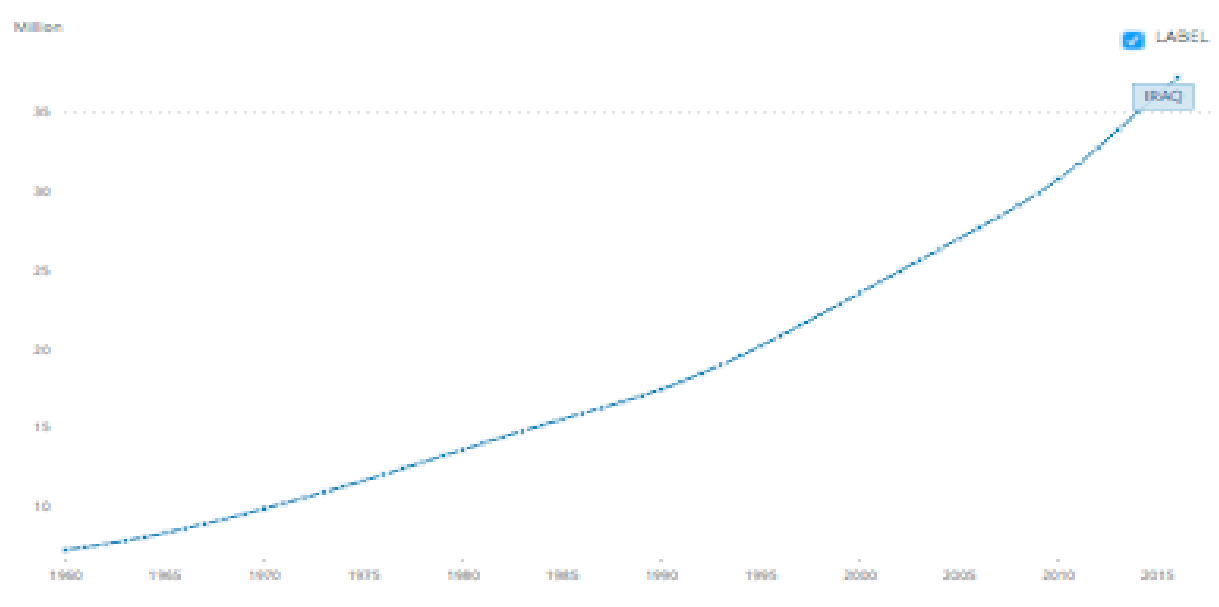
Figures Three and **Figure Four** have already shown how serious the problem of population pressure and the "youth bulge" are in Iraq and throughout the region. Once again, there are no accurate figures that quantify the past and current trends with any exactness that are based on a reliable census, and there is no reliable data base or methodology for predicting future growth.

It seems likely, however, that the trends shown in shown in **Figure Nine** are broadly correct. The U.S. Census Bureau seems likely to be right in estimating that Iraq's population increased from some 5.2 million in 1950 to a figure like 13.2 million in 1980—at the beginning of the Iran-Iraq War.

It also seems likely that Iraq's population was around 18.1 million in 1990, when Saddam Hussein invaded Kuwait, and over was 25 million in 2003 when the U.S. invaded. It now seems likely to be near the 39.2 million the Census Bureau estimates — more than seven times what it was in 1950. It is also clear that the war has not produced major cuts in the birth rate. And, the Census Bureau may again be roughly correct in estimating that Iraq's population will reach a figure close to 53.4 million by 2030 and 76.5 million by 2050.²¹

Figure Nine: Iraq's Growing Population

World Bank/UN Estimate: From 7,290,000 in 1960 to 37,203,000 in 2016



U.S. Census Bureau Estimate: 1950-2050

Demographic Overview - Custom Region - Iraq

Demographic Indicators	1950	1960	1970	1980	1990	1995	2000	2005	2010	2015	2017	2020	2025	2030	2040	2050
Population																
Midyear population (in thousands)	5,163	6,822	9,414	13,233	18,140	19,658	23,128	27,538	30,526	37,056	39,192	42,213	47,657	53,386	65,148	76,519
Growth rate (percent)	(NA)	(NA)	(NA)	(NA)	-2.7	3.2	3.3	3.4	3.3	2.9	2.5	2.4	2.4	2.2	1.8	1.4
Fertility																
Total fertility rate (births per woman)	(NA)	(NA)	(NA)	(NA)	6.1	5.5	5.0	4.7	4.4	4.1	4.0	3.8	3.5	3.3	2.8	2.5
Crude birth rate (per 1,000 population)	(NA)	(NA)	(NA)	(NA)	39	38	37	37	34	31	30	29	27	25	22	19
Births (in thousands)	(NA)	(NA)	(NA)	(NA)	702	748	863	1,010	1,043	1,165	1,192	1,228	1,295	1,355	1,418	1,438
Mortality																
Life expectancy at birth (years)	(NA)	(NA)	(NA)	(NA)	67	67	73	72	75	75	75	75	76	77	79	80
Infant mortality rate (per 1,000 births)	(NA)	(NA)	(NA)	(NA)	67	69	45	38	37	37	37	37	31	25	17	12
Under 5 mortality rate (per 1,000 births)	(NA)	(NA)	(NA)	(NA)	83	85	52	43	43	43	43	43	35	29	19	14
Crude death rate (per 1,000 population)	(NA)	(NA)	(NA)	(NA)	7	7	4	5	4	4	4	4	4	4	4	4
Deaths (in thousands)	(NA)	(NA)	(NA)	(NA)	127	131	100	126	115	140	148	161	172	191	249	339
Migration																
Net migration rate (per 1,000 population)	(NA)	(NA)	(NA)	(NA)	-59	0	0	2	3	2	-1	-1	0	0	0	0
Net number of migrants (in thousands)	(NA)	(NA)	(NA)	(NA)	-1,067	8	0	47	94	60	-46	-63	0	0	0	0

Source: World Bank estimate based upon 1) United Nations Population Division. World Population Prospects, (2) Census reports and other statistical publications from national statistical offices, (3) Eurostat: Demographic Statistics, (4) United Nations Statistical Division. Population and Vital Statistics, <https://data.worldbank.org/indicator/SP.POP.TOTL?locations=IQ>; and U.S. Census Bureau, International Data Base, accessed 30.6.17, <https://www.census.gov/population/international/data/idb/region.php?N=%20Results%20&T=13&A=separate&RT=0&Y=1950,1960,1970,1980,1990,2000,2010,2017,2020,2030,2040,2050&R=-1&C=IZ>; and <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>.

The “Youth Bulge”

The problems that Iraq's population growth has created for its governance and economy are scarcely new. Arab economists recognized them in the 1970s, and the Arab Development Report for 2002 recognized that the patterns in population growth had created a "youth bulge" of young men and women that made finding new jobs for a very young labor force critical to Iraq's stability. The World Bank focused on the seriousness of the issue in 2006, as did a USAID field team report in 2012 -- before the rise of ISIS. The World Bank report noted that,²²

Youth unemployment and underemployment combine with a lack of middle class economic opportunity to threaten Iraqi security and stability over the medium term. The Government of Iraq's (GOI) recently published National Development Plan seeks to create 4.5 million additional jobs by 2014—but provides no roadmap to achieve this goal. Dr. Abdulhussein al-Anbaki, the senior economist to the Prime Minister's Advisory Council in Iraq, has advised that the government intends to create these new jobs by: (1) improving the investment and business climate (including through increased access to credit and equity, youth training and diversified trade); and (2) reducing bureaucracy and regulations that constrain broad based private sector growth.

Iraq's population is young. Forty-one percent of the estimated 31.7 million people in the country are below the age of 15. Many tens of thousands of young people enter the labor market each year. The official unemployment rate for youth (15–24 years) is around 18% (27% for females and 17% for males), which is higher than any other economically active age group. In human terms, this means that nearly a quarter of a million young people are officially looking for a job in the formal sector. In fact, the figure is much higher if one counts those current underemployed and those who may be looking for work but not through normal channels that are officially counted. Given that the youth unemployment rate across the Middle East is 25.7%,¹⁰ one can only assume that the problem in Iraq is close to 30%. Alarming, the unemployment rate is much higher for youth with more education. This only adds to the level of frustration for those who expect a better future.

... As job seekers, women are at an extreme disadvantage in Iraq. A major barrier for female employment is the culture and community view of working women. Other misperceptions and lack of understanding, mostly by the male side of the community, make it difficult for women to work. Women are 50% of the population yet they represent only 13% of the formal active labor force over the age of 15. Although women comprise 20% of the all public sector employees, this represents nearly 94% of all working women in the Iraqi workforce, while only 2% of private sector employees are women. Only a tenth of women aged 15–29 are working or actively seeking work, of which over a third are unemployed. Women have a lower unemployment rate in rural areas. However, in urban areas it is reversed. Geographically the official female unemployment rates (those without a job and actively looking) are highest in the following governorates: Diyala (30%), Kerbala and Thi-Qar (18%) and Sulaymaniya (17%). The lowest are in Kirkuk (3%) and Salah Al-Din (4%), reflecting a combination of different cultural and economic influences. These figures do not reflect high rates of underemployment and those informally looking or not actively searching...

... Another group that needs special attention is internally displaced persons (IDPs). There are an estimated 1,332,382 internally displaced persons in Iraq or about 3.5% of the population.¹⁸ Nearly two-thirds (63%) are concentrated in five governorates: 27% in Baghdad, 12.2% in Diyala, 8.8% in Kirkuk, 7.6% in Salah al Din and 7.1% in Ninewa. The rest are dispersed throughout the country as can be seen in the table to the right.

Over 70% of IDP households have no family members employed. Many have been forced to flee to areas with limited employment opportunities and have poor access to government services.²⁰ As many as 70% of returnees continue to fear for their safety and do not want to return to their original locales.

.... Ethnic and religious minorities (Christians, Muslim Shebaks, Sabean Mandeans and Yazidis, among others) make up about more than 5% of the Iraqi population. Some have also experienced prolonged periods of displacement and persecution and have similar needs to other IDPs and/or marginalized communities...

...An added dimension to the employment problem is the extensive public sector involvement in the economy. The government and public sector employs 40% of those employed. State-owned enterprises (SOEs) employ over 630,000 people with as many as 300,000 of those being inactive. The World Bank estimates that 80% of SOEs are not commercially viable. Recently, the Ministry of Industry and Mines (MIM) seems to have decided to reform 23 of the lower performing industries that will likely create large numbers of retrenched workers. Oil revenues often are used to hire additional employees to stabilize unemployment numbers, which has only added to the over staffed public-sector ranks. Though 90% of the revenue of Iraq comes from the oil sector, only 1% of employment comes from the sector directly, but indirectly it is very much more.

... USAID has identified the most critical problem now facing the GOI and the Iraqi people—the need to create jobs and improve economic opportunities. In a public opinion survey conducted April 2012, 55% of the population rated jobs and unemployment as the most important issue that government should address.³⁰ The problems are central to the entire project of nation-building. Unemployment poses a serious threat to stability and is likely to jeopardize Iraq's fragile democratic institutions if allowed to continue unaddressed. This underscores the urgent need for a robust and effective employment strategy that can keep pace with changing demand for skilled labor and be responsive to the skill requirements of local employers as well as address the special needs of women, youth and minorities.

All of these problems have grown far more serious since 2012 because of the half decade of fighting with ISIS between 20013 and 2017, ongoing ethnic and sectarian power struggles, weak and corrupt central governance, and growing cumulative pressure new entrants put on jobs and the need to increase the labor force.

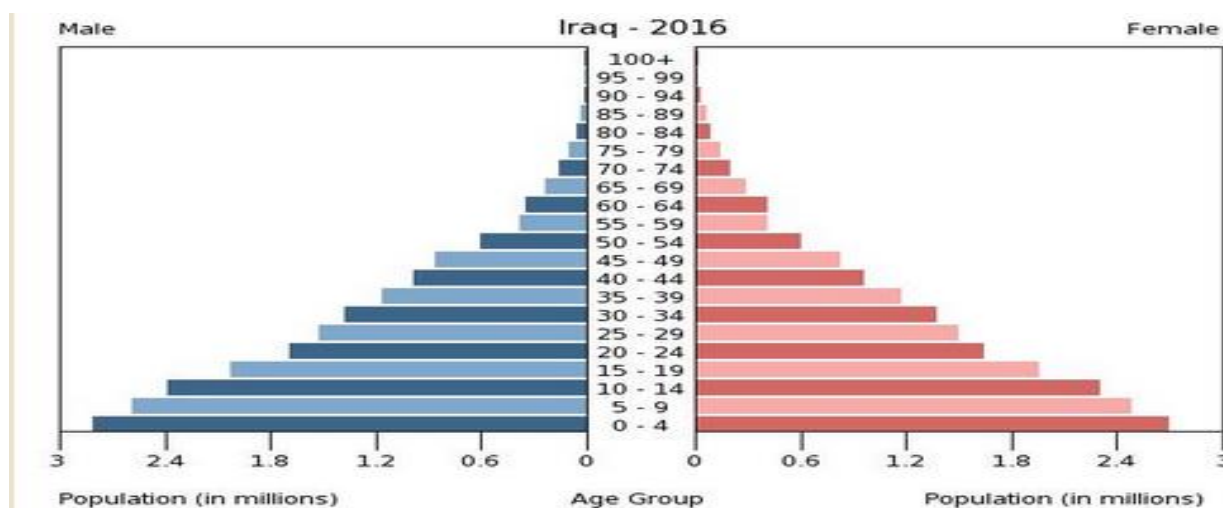
The U.S. Census Bureau's estimate of the youth of Iraq's current population is shown in **Figure Ten**. The CIA estimates that the median age in Iraq is one of the youngest in the world (only 19.9 years), and almost exactly 40% of the entire population is 14 years of age or younger. The average age of the population is distributed as follows:²³

- 0-14 years: 39.88% (male 7,766,832/female 7,445,633)
- 15-24 years: 19.07% (male 3,703,302/female 3,572,702)
- 25-54 years: 33.7% (male 6,499,345/female 6,354,506)
- 55-64 years: 3.96% (male 720,976/female 790,301)
- 65 years and over: 3.39% (male 574,521/female 717,907) (2016 est.)²⁴

One key aspect of having a population this young is the resulting rise in the dependency ratio: The number of young and old people who depend on adults of working age for their living. Technically, the dependency ratio is the age-population ratio of those that are typically outside the labor force (of age 0 to 14 years of age, and age 65 and over) to those typically in the labor force (ages 15 to 64). The CIA estimates that Iraq's total dependency ratio at a very high 77.7, placing a very high burden on Iraq's work force. The youth part of this dependency ratio is 72.3, and the elderly dependency ratio is only 5.5.²⁵

Figure Ten: The Youth of Iraq's Growing Population

US Census Bureau Estimate for 2016



<https://www.census.gov/population/international/data/idb/region.php?N=%20Results%20&T=13&A=separate&RT=0&Y=1950,1960,1970,1980,1990,2000,2010,2017,2020,2030,2040,2050&R=-1&C=IZ;> and <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>.

Population and Unemployment

There are no accurate figures for the current levels of total and youth unemployment in Iraq, and conventional unemployment data would be misleading in any case. The fighting and political instability have created significant economic development and employment problems, particularly in the western part of Iraq. The creation of large numbers of internally displaced persons (IDPs) and refugees creates force levels of unemployment, as do attacks on infrastructure and key facilities. At the same time, increases in security forces and war related aid and recovery create jobs.

Like many MENA states, Iraq also has a history of creating unnecessary 'make work', or non-productive jobs in government and state-owned enterprises (SOEs). As has already been touched upon, and is discussed in more depth later in this study, Iraq has created many unproductive jobs in state-owned industries and government, and the pressure to survive has forced many Iraqis to take jobs that provide minimum incomes and where the net productivity is so low that they amount to disguised unemployment.

Figure Eleven provides a range of "guesstimates," and it is almost certainly broadly correct in putting the average level of youth unemployment above 30%. *But*—as is the case with many developing countries—employment is not a measure of popular satisfaction, of productivity, or even of the portion of the population that has found some form of work.

From a stability viewpoint, employment also involves more than the person who is actually employed. As noted earlier, Iraq's kind of age distribution not only creates a massive continuing need for new jobs, it creates a dependency ratio of over 77%, and the need to support those who do not work places a major burden on the existing workforce. It also has forced rapid social change

and made much of Iraq's population change its location and profession. Population pressure has interacted with the forces of war to push various ethnic and sectarian groups into very different alignments and economic and social circumstances.

Here, the World Bank issued an important warning in its 2017 diagnostic—and one that tracks closely with assessments of the impact of unemployment on the attitudes of youth in other "failed states,"²⁶

Youth exclusion (lack of education, employment, trauma, discrimination, and neglect) coupled with mistrust of government authorities has fostered their radicalization and facilitated their recruitment by militias and violent groups. A recent Arab Youth Survey (Burson-Marsteller, 2016) has highlighted the connection between youth unemployment and the potential for radicalization. Almost a quarter (24 percent) of surveyed youths listed the lack of jobs and other opportunities as the main reason for some youths joining Daesh... In countries such as Iraq where Daesh has a significant presence, young people have worse perceptions of the economy and of sectarian conflict...

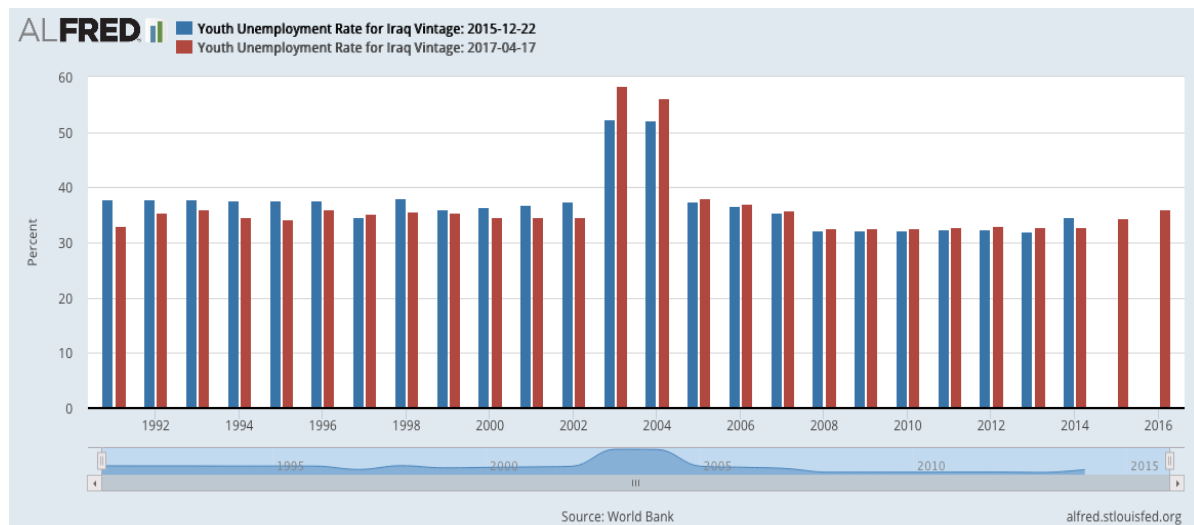
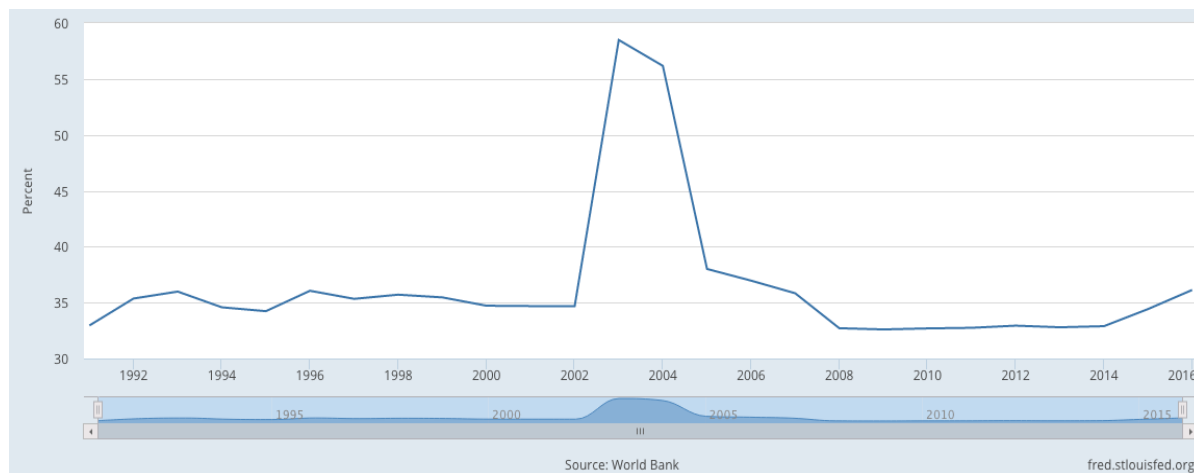
Militias and extremist groups may fill the void left by the government by offering marginalized youths a sense of identity and opportunities for upward socioeconomic mobility. Low incomes and unemployment reduce the opportunity costs of rebellion.³⁶ Most Iraqi youths who have joined militias or Daesh have few economic prospects and have failed to complete primary or secondary education. As reported by the Iraq Crisis Group (ICG), young militants typically worked in precarious labor conditions and earned no more than ID 25,000 per week (US\$21.4), making it almost impossible to afford even basic rent at ID 200,000 (around US\$180)...

In contrast, Daesh offers young combatants anywhere from US\$400 to US\$1,200 per month, in addition to the authority that youths gain within their communities... Youths joining extremist groups circumvent traditional community hierarchies and ascend to positions of power that would be unreachable for them in state institutions. Shia youths have also flocked to join militias for non-financial reasons following the fatwa issued by Iraq's Shia spiritual leader, Ali al-Sistani, which summoned them to volunteer in the defense of the country and their holy shrines. Therefore, while youths have an economic incentive to join sectarian or extremist groups, they also tend to find a sense of purpose as members of these organizations.

Additionally, a combination of population pressure and war have increasingly favored male education and employment in a society undergoing a great deal of stress. The World Bank concludes that these forces have had a major impact on gender equality, but an emphasis on human rights understates the problem. Denying women education and employment rights makes Iraq substantially less competitive and productive than if it can reform and modernize its economy, and creates its own source of social tensions. Nations pay a serious economic and material price for regressing backwards in liberalizing the role of women.²⁷

As for the near-term level of unemployment, this is anyone's guess. **Figure Twelve** provides one guesstimate by a respected research firm, Trading Economics. As this report shows all too clearly – many of its estimates differ broadly from those made by the other sources used in this analysis – including the IMF data presented in the later section on economics. (See **Figure Twenty-One**) Iraq's near-term civil future is as uncertain as its military one, data real and disguised unemployment are highly uncertain, and population pressure is only one of many such key uncertainties.

Figure Eleven: Youth Unemployment in Iraq: A "Guesstimate"



Source: FRED, Economic Data, Federal Reserve Bank of St. Louis, <https://fred.stlouisfed.org/series/SLUEM1524ZSIRQ>, and https://alfred.stlouisfed.org/series?seid=SLUEM1524ZSIRQ&utm_source=series_page&utm_medium=related_content&utm_term=related_resources&utm_campaign=alfred.

Figure Eleven: Trading Economics - One Possible Near-Term Economic and Population Future

GDP	Actual	Q4/17	Q1/18	Q2/18	Q3/18	2020		
GDP Annual Growth Rate	11.00	5.2	5.8	5.8	5.97	3.5	percent	[+]
GDP	171.49	153	147	140	134	93.3	USD Billion	[+]
Gross National Product	224153528.60	215320483	209999500	204678518	199357536	101953257	IQD Million	[+]
GDP per capita	5695.70	4820	5337	5311	5285	5029	USD	[+]
GDP per capita PPP	16086.90	13200	14975	14774	14573	13209	USD	[+]
LABOUR	Actual	Q4/17	Q1/18	Q2/18	Q3/18	2020		
Unemployment Rate	16.00	17.4	16.9	16.9	17.42	16.5	percent	[+]
Population	37.20	38.24	38.49	38.75	39	41.16	Million	[+]

Source: Trading Economics, Iraq, *Economic Forecasts 2017-2020 Outlook*, accessed December 18, 2017, <https://tradingeconomics.com/iraq/forecast>.

Hyperurbanization

Iraq has been sharply affected by the combination of a migration from the countryside to towns and cities, and the impact of internal violence and war on urban populations both in terms of the destruction of urban areas and internal population shifts due to sectarian and ethnic violence.

Iraq still had many elements of a "traditional " society through the early 1960s and its population was probably roughly 75% rural vs. 25% urban. Today, Iraq is a very different place. War, a critical lack of water and arable land, and population growth have led to a level of hyperurbanization that has effectively reversed this situation, but also then force migration from one urban area to another, or to secure ethnic and sectarian areas in the same city or population center -- particularly in Baghdad and its environs.

The CIA estimated in 2008 that only 21.6% of Iraq's labor force was now in agriculture. It also estimates that urbanization has been growing at 3.0% per year, and has shifted to the point where urbanization will reach 75.5% in 2017.²⁸ The CIA also estimates that the urban population data of five key cities has reached levels where cities that have far more modern urban needs and values will be critical to shaping Iraq's future stability: Baghdad (capital) 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).²⁹

These shifts to a more modern urban life not only have changed the values and expectations of much of the population, they have combined with the impact of war to alter the distribution of given ethnic groups and sects—sometimes pushing them together in new ways and other times creating new patterns of local segregation for security reasons.

They take people out of farms and self-sustaining rural economies and create a large number of young Iraqis seeking jobs in an economy where the CIA estimated that the remaining portions of the labor force included 18.7% in industry and 59.8% in services -- with at least another 16% of the labor force unemployed. This puts intense social pressure on younger males and educated females to find urban jobs in a society where marriage still offers the principal path to an active social life and can be critical to social standing.

These problems are made worse by a lack of merit-based hiring in Iraq's large State-Owned Enterprises (SOEs) and in its swollen state sector, and by the lack of reform in the agricultural sector which further limits job creation at a time when changes in regional rainfall, drought in some areas, draining marshes in the south, and growing Turkish and Iranian use of the water in the Tigris, Euphrates, and other riverine sources of water all add to the lack of jobs and opportunities.

This, in turn, puts intense pressure on the state to create jobs regardless of their productive output. It also puts heavy pressure on males to join the army and security services when these are the only ready source of employment, while job creation for the sake of jobs further encourages waste and corruption in every aspect of hiring and promotion.

Housing and Construction

Iraq's mix of conflict, displacement, and population pressure will have a major impact on the need for postwar reconstruction, and its overall construction activity, and infrastructure needs. For example, the World Bank *Systematic Country Diagnostic Report* notes that,³⁰

Iraq has a large and growing housing deficit following decades of sanctions, conflict, and substantial under-

investment in new formal housing, which has been exacerbated by rapid population growth, ongoing urbanization, and large inflows of displaced people. The housing deficit continues to increase and is currently estimated by the Ministry of Construction and Housing to amount to at least 2 million units (Ministry of Construction and Housing, 2010). The quality of the existing housing stock is deteriorating as a result of the proliferation of substandard informal settlements.

The formation of new households is generating a demand for at least 200,000 units per year, *even without accounting for displacement and conflict-related damage*. The rapidly growing demand for housing has been fueled by population growth of 3.3 percent annually (between 2010 and 2015) and will likely further accelerate as the average household size continues to decrease (6.5 people per household in 2012, down from 7.6 in 1997). These factors will create the need for at least 3 to 3.5 million new units by 2020 if the current rate of housing construction stays the same. In addition, meeting the housing needs of IDPs and re-building the housing stock damaged by conflict will require further substantial investments.

The existing housing stock is of low quality, partly because substandard informal housing has been growing rapidly, with nearly 2.4 million people living in slums. Recent estimates (2014) indicate that 30 to 40 percent of the population lives in very poor housing conditions and that at least 10 percent of housing units are overcrowded and lack proper maintenance (World Bank, 2015h). Up to 90 percent of homes built in the last 30 years are self-constructed and likely to be informal. In Baghdad alone, more than 740,000 people were living in slums in 2013, most of whom had no access to water, sanitation, or other basic public services.

The situation is particularly severe in those governorates where many of the 3.2 million IDPs have sought shelter. The massive inflow of IDPs has created a huge demand for new units (more than 500,000 units), mainly in and around urban areas. Housing supply has not kept pace with demand, and this has put a severe strain on public services, creating tensions between IDPs and their host communities. The return of IDPs to their homes is hindered by the growing number of housing units that have been damaged or destroyed in areas affected by the conflict with Daesh (World Bank, 2015i). A 2015 assessment led by the World Bank in conflict-affected areas found damaged housing units to account for as much as 26 percent of the housing stock in the most affected cities such as Ramadi.

Housing remains unaffordable for many Iraqi families, placing a significant burden on household budgets. The large inflow of IDPs and migrants to urban areas has put substantial pressure on the housing market. In 2012, low-and middle-income families spent over 35 percent of their monthly income on housing, utilities, and maintenance (CSO, 2012). Unable to afford housing, more than half of Iraq's urban population (including the majority of the displaced) live in slum-like conditions (UN Iraq, 2016). On the supply side, weak institutional and coordination capacity, poor land management, centralized urban planning, and a weak housing construction industry have limited the housing supply in the country. Between one-fifth to one-quarter of Iraqi households rent, but very little formal rental stock is produced by the private sector (World Bank, 2014d).

These data date back to 2012-2016, and pre-date much of the most serious fighting against ISIS in urban areas and towns. The current situation in Iraq is far worse and more demanding than these numbers indicate.

Human Capital

Other impacts involve key aspects of human development, and goals and values. Once again, the World Bank's *Systematic Country Diagnostic Report* provides a number of important insights about the impact of decades of tension, crisis, and fighting:³¹

Iraq's institutions, which were not robust even in the 1970s, the decade of rapid economic growth and progress in many aspects of human development, have been severely debilitated by decades of wars, sanctions, and conflict. Despite its size, the state has in many cases not been able to effectively provide security, development, or the most basic services. Poor governance has contributed to undermining the state's legitimacy, giving rise to a multitude of alternative groups seeking to capture resources and power. These have ranged from sectarian and ethnic militias to Daesh. Close links between political and militarized groups have exacerbated existing political divides along sectarian lines and further weakened governance. External

intervention has brought sanctions and wars as well as massive humanitarian and development assistance.

Persistent poverty and arrested development are the symptoms of Iraq's predicament. There has been no overall movement towards reductions in either poverty or income equality in Iraq since 2007. Headcount poverty as measured in 2014 has remained virtually unchanged at 22.5 percent. What limited gains in poverty reduction had been achieved up to 2012 had been reversed by 2014 as a result of a resurgence in violence and the worsening of the economic environment due to the collapse of oil prices. More than 4 million Iraqis have been displaced by the country's various conflicts.

The loss of human capital over the past three decades in Iraq has been massive, a legacy of conflicts and continuing fragility. While the Iraqi education and health systems were ranked near the top of the MENA region in the late 1970s, they have fallen to near the bottom today. Achievements in increasing literacy and reducing gender disparities have been erased. Although some progress has been made in increasing primary enrollment and gender parity at the primary level and improving maternal health, much remains to be done in order for the country to progress towards sustained growth and poverty reduction. A huge vulnerable population exacerbates pressure on an already weak system, sharpens disparities of access between regions, and is poorly served by the education and health systems and by social safety nets.

... Wars, sanctions, and domestic strife have taken a heavy toll on the Iraqi population...Iraq's per capita GDP is estimated to have dropped from US\$3,500 in the early 1980s to about US\$770 in 2001. Per capita GDP has climbed to \$5,000 today, largely thanks to hydrocarbon revenues, but the cumulative impact of Iraq's troubled past and present continue to be acutely felt. The United Nations estimates that 10 million Iraqis (one-third of the population) need humanitarian aid of some form. Eight million Iraqis are poor, one-third of whom have fallen into poverty since 2014.

Iraq's endowment of human capital has been steadily eroded as a result of decades of conflict. The sanctions that followed Iraq's invasion of Kuwait halted the country's development, obliterating the gains in welfare made in the 1970s. Health outcomes, for example, suffered a long-term deterioration. In the 1970s, Iraqi males enjoyed higher life expectancy than their counterparts in the Middle East and North Africa, but since 1980 (the beginning of the Iran-Iraq war), they have lagged behind. In 2011, Iraq's infant mortality rate was the second highest in the region after Yemen. Iraqi primary school enrollment rates were near the top of the MENA region a generation ago but declined precipitously throughout the 1990s....Although these enrollment rates have recovered, the lost decades have had a severe impact on Iraqis of all ages. The most prevalent level of education today is primary schooling or less, and 18 year olds in Iraq are as likely to have completed primary school as those aged 30 or older. Similarly, adult literacy rates are below the MENA average and well below the average for upper-middle-income countries.

The years of protracted violence have produced changes in family structure and a deterioration of child welfare. Women and children are the most heavily affected by the crisis, with 49 percent of IDPs being under the age of 18. There are an estimated 1.6 million widows, an increased number of female-headed households, and large numbers of orphans. Twenty percent of school-age children have dropped out of the education system in the last two years, including more than 2 million displaced children and children from host communities, partly due to the closure of 23 percent of schools during the 2015-2016 academic year.¹⁰ The psychological impact of the violence on children is likely to have a lifelong impact. Children who have been forced to flee their homes due to violence often exhibit changes in behavior as a result of their experiences. According to an assessment in the Kurdistan region, behavior changes were reported in 76 percent of children. Grave violations of children's rights are widespread, with one in five children being at serious risk of death, injury, sexual violence, or recruitment into armed groups. Violence against women and girls, particularly sexual violence, has been a widely used tactic of terror in the armed conflict. The conflict has increased the level of threat, both real and perceived, to women and girls, and families are increasingly seeing marriage as a way to protect women and girls and to increase household resources. Already high rates of forced and child marriage are increasing, and the once banned practice of temporary marriages for dowry is in resurgence. As of 2016, UNICEF monitoring data show that around 975,000 girls in Iraq were married before the age of 15, twice as many as in 1990.

... As displacement is protracted and people exhaust their income and assets, the need to provide them with assistance and access to basic services rises. The government's capacity to meet these needs is very limited, and this situation has been compounded by severe resource constraints as a result of the drop in the price of

oil. Nearly one-fifth of IDPs live in critical shelter arrangements, including unfinished or abandoned building, schools, religious sites, and informal settlements (IOM, 2016). Disease outbreaks, including cholera, are frequent. Within camps, only 50 percent of displaced children attend school; outside camps the numbers are worse, with only 30 percent of displaced children attending school. Nearly one-fifth of displaced families have lost key identity documents that are essential for access to education, medical, and social services as well as to Iraq's main social safety net, the Public Distribution System (PDS). Returnees face all of these risks, compounded by security breakdown, a widespread militia presence, and the targeting of people of specific ethnicities (UNOCHA, 2015). The Iraqis who remain in the Daesh-controlled areas of Anbar, Ninewa, and Kirkuk are yet another group dealing with particularly arduous living conditions. Micro simulations suggest that this group has suffered some of the greatest adverse repercussions of the economic, social, and security disruptions (World Bank, 2015).

Current Pressures on Iraq's Displaced Persons and Ethnic and Sectarian Challenge

The World Bank also notes that war and civil sectarian and ethnic tension have further complicated these problems.³²

- The 2006-7 civil war and more recently the Daesh insurgency have compounded the humanitarian crisis by creating a massive population of internally displaced persons (IDPs).
- The years of protracted violence have produced changes in family structure and a deterioration of child welfare
- As displacement is protracted and people exhaust their income and assets, the need to provide them with assistance and access to basic services rises.
- Massive economic and social dislocation and poor governance have also given rise to a web of organized crime, which sustains many of the parties involved in today's conflicts.

Many of these effects have been concentrated in Arab Sunni and minority areas shown earlier in **Figure Seven**, and have been heavily driven by the post-2012 fighting in the West, particularly in the heavily populated areas around Mosul during 2017. As of July 2017, the UN Office for the Coordination of Humanitarian Affairs (UNOCHA) estimated that,³³

The surge in violence between armed groups and government forces has resulted to over 3 million internally displaced persons (IDPs) across Iraq and left more than 11 million in need of humanitarian assistance...Of the over 4.8 million people who had been displaced in Iraq since early 2014, about 3 million Iraqis remain displaced, living in 3,700 locations across the country. More than 1.8 million have returned to their homes since late 2014 to cities and districts retaken by Iraqi Security Forces. Most people have returned to Anbar, Salah-al Din, Ninewa and Diyala.

The humanitarian crisis in Iraq remains complex with multiple, unpredictable and volatile dynamics impacting civilians. The pace of displacement, and return, is one of the fastest on recent record. Since military operations began in Mosul in October 2016, about 780,000 people have been displaced from their homes, including over 600,000 people who have been forced to flee from the western neighborhoods of Mosul city alone. More than 322,000 people are currently sheltering in emergency sites and camps around Mosul while an estimated 288,000 people are staying with families, friends or being hosted by local communities. Humanitarian partners are working to expand camps and ensure people receive emergency supplies and are assisted as they move and settle in safer areas. Fighting also continues in other hotspots, including Telafar in Ninewa, Hawiga in Kirkuk and western Anbar with people fleeing violence in search of safety."

The total number of refugees and IDPs at the end of 2017 is shown in **Figure Twelve**. It is all too clear that war has displaced millions of Sunnis in the river cities in the West, particularly in cities which had received major subsidies under Saddam Hussein, but lost such support after the U.S.-led invasion in 2003. It is not clear how Iraq's post-ISIS War economy will adapt, but it is far from

clear that natural economic forces will rebuild the economies of these Sunni river cities, and particularly the role Mosul played in Iraq's economy.

Displaced Sunni Arabs have faced problems and tensions in moving into Shi'ite areas and Kurdish controlled areas. This has been true even in Baghdad—which was the most mixed city in Iraq before 2003. There does not seem to have been any attempt at a sectarian census in Baghdad since 2009, but that census indicated a major shift had taken place in terms of sectarian segregation and dividing the city along sectarian lines.³⁴ As a result, the extent to which postwar recovery will allow Sunnis and Arabs to mix, and bring economic recovery to Sunni areas in the West is a critical uncertainty in shaping Iraq's post-conflict stability, recovery, and development.

Figure Twelve: Iraqi IDPs and Refugees: Late 2017

As of September 2017

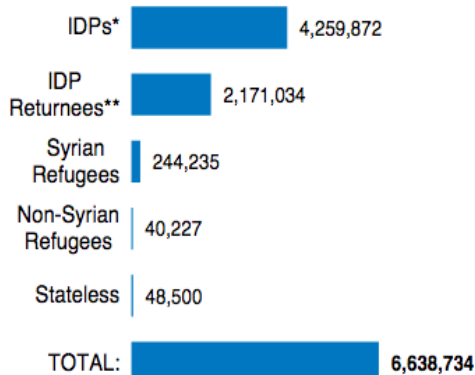


* Currently in transition phase of data compilation method.

As of September 2017

As of December 2017

POPULATION OF CONCERN



*IDPs: ~3.3 M since 2014**+~1 M since 2006/7.

**IOM Displacement Tracking Matrix (DTM) from January 2014 to 30 August 2017.

Source: UNHCR, *Iraq* September 2017, <http://reporting.unhcr.org/sites/default/files/UNHCR%20Iraq%20Factsheet%20-%20September%202017.pdf>, and

- *People in need: 11 million*
- *People targeted for assistance: 6.2m*
- *Internally displaced persons (IDPs): 3.2m*
- *IDPs who live outside camps: 2.5m*
- *Affected People within host communities: 3.2m*
- *Returnees: 2.3m*

The Public Sector as a Key Center of Iraq's Mismanagement of Human Resources

The negative impact of population pressure has also been compounded by poor governance and state control of the economy. Iraq has many well-educated and competent people, but a mixture of conflict, over-reliance on the state, and political manipulation of every aspect of government hiring and performance for the self-advantage of senior leaders and officials has created a national nightmare. The World Bank diagnostic tracks closely with previously cited work by the IMF, and notes that,³⁵

Iraq's public sector institutions have not been successful in equitably allocating resources across the country and its population because for decades they have been captured by sectarian interests and decimated by corruption. The politicization of state institutions and the pillaging of state resources have undermined the effective and equitable delivery of services, thus exacerbating the crisis of legitimacy, the challenges to state authority, and, ultimately, the spiral of violence that we see in Iraq today. As noted in the 2011 World Development Report, weak institutions and a lack of legitimacy undermine states' ability to provide basic security, justice, and economic opportunities for their citizens and can therefore be a key cause of conflict (World Bank, 2011a). This holds true in Iraq, where the fragility of key public institutions and processes is reflected most starkly in the chronically weakness of its civil service, public financial management, state-owned enterprises, public investment management, and judicial system.

...The public sector has been the predominant formal employer in the country since the beginning of the Republic, as, with few exceptions, private sector firms were and continue to be small and informal. De-Baathification and the exodus of tens of thousands of the most qualified employees due to conflict and violence intensified the disintegration of the public sector, which was already severely weakened by wars and sanctions in the 1980s and 1990s.

Employment and promotion in the civil service have become increasingly non-meritocratic, and the sector has come to be viewed as a *de facto* social safety net. Iraqis queue for a secure job in the public sector, often for months or years, because of the job security, higher salaries, and benefits as well as one of the most generous pension systems in the world⁴² (World Bank, 2015c). However, this degree of employment generation by a large public sector is unsustainable. In the long term, sustainable jobs will only be created in an attractive investment climate and a predictable, low-cost business environment that enables the growth of a robust and productive private sector.

...In addition to undermining the quality of the civil service, the dramatic rise in clientelistic hiring since 2003 has contributed to a ballooning of public sector employment and of the wage bill. Between 2003 and 2015, the core public sector (i.e. excluding SOEs) expanded from 0.9 million to over 3 million employees, making it the country's largest single employer, providing approximately 42 percent of all jobs in Iraq (Figure 50). Adding in SOE employees would bring total employment in the public sector to 3.5 million, close to one half of all of the jobs in the country.

The core public sector wage bill, estimated at approximately US\$30.5 billion (ID 36.1 trillion) in 2016, has become both the single largest and fastest-growing expense item in the government budget. Between 2004 and 2016, expenditure on core public sector wages and salaries expanded by almost 940 percent, while the share of the wage bill in the overall government budget grew six-fold from 7 to over 44 percent, representing 18 percent of GDP in 2016... This is extremely high by global standards, even when compared to oil exporters and other MENA countries.

... Because of a lack of effective human resource information systems and oversight in the relevant ministries, there has been a rampant use of favoritism in hiring and promotions. Audits have uncovered thousands of ghost workers and workers illegally receiving two salaries. While some agencies have tried to introduce competitive recruitment procedures, in many instances recruitment is used to further political and sectarian agendas. This dynamic is reflected in indices of meritocracy and favoritism in public sector hiring. In Iraq merit matters far less for promotion and social mobility than in OECD countries, in UMIC, and even in other MENA countries on average, while networks and favoritism matter far more

...Meanwhile, the government's strategy of using expanded hiring and generous *ad hoc* wage hikes to gain popular support in the context of an ailing economy has compounded the country's problems over the medium and long term. Not only is the bloated public sector fiscally unsustainable, particularly in the wake of falling oil prices, but it has also provided workers with a disincentive to consider private sector employment, which is already depressed due its lower average wages,⁴⁴ job security, and benefits.

Salaries in the public sector are significantly higher than in the private sector for people with equivalent education levels. The gap increases with education level. Public sector employees who have completed a secondary school or higher earn salaries that are over 40 percent larger than they would in the private sector, while public sector workers with lower educational attainment earn salaries that are 20 percent higher than their private sector equivalents. Also, allowances and bonuses in the public sector are particularly large, complex, and frequently regressive and account for 60 percent of total personnel compensation costs (World Bank, 2015c).

...Repeated and ongoing conflict and fragility in Iraq have significantly constrained the options available to policymakers to solve the problems of the civil service in the near term. Although pay scale reforms and elimination of ghost workers would yield some much-needed fiscal savings and would signal a shake-up of the status quo, these measures would not by themselves significantly alter the character of the civil service in the short term. More extreme measures such as outright layoffs do not appear to be feasible because, despite its distortionary effects, the public wage bill is essential to sustaining economic activity and maintaining social peace given the dearth of private sector jobs, thus giving the government little room to maneuver. In the medium term, a complete (gross) freeze on hiring is not optimal as some flexibility is needed to meet shifting public sector employment needs.

However, reducing the net wage bill by attrition (in other words, filling only a small portion of the public sector positions vacated by the 60,000 to 80,000 employees who retire every year) (could represent a significant reduction in the wage bill each year. For this to be feasible, an agreement would need to be reached among Iraq's ministries who currently have loyalties to different ethnic and sectarian political stakeholders. Politicians need to stop using civil service jobs as distributive spoils and to turn the administration into a leaner, more professional machine focused on the effective provision of public services.

...The government has identified the civil service as a core area for reform. It has tried to trim the wage bill by pledging to implement a hiring freeze except for the security, health, and education sectors (which constitute more than 60 percent of total public sector employment). However, so far the ministries in question have refused to carry out the central government's orders. In 2015, the government also attempted to introduce a new salary scale that would cut the pay for highest grade civil servants, although this was partly rolled back in the face of public protests (World Bank, 2015c).

The most promising initiative is the recent steps taken by ministries to introduce the biometric identification of employees and new direct deposit payroll systems as these have the potential to reduce numerous forms of payroll fraud, including a variety of "ghost" workers, double dippers, and absentee employees, which are estimated by the Federal Board of Supreme Audit (FBSA) to number in the tens of thousands. The FBSA is currently carrying out a comprehensive government-wide audit of wage and pension payrolls to identify these fraudulent payees.

There are several critical observations that need to be made about these problems: First, as the World Bank and IMF data in **Figure Thirteen** shows, the gross overemployment of Iraqis within government and SOEs creates a set of interests that affects a large part of Iraq's working and professional population. Second, they inevitably make Iraq's internal politics and political factions reluctant to support real reform, while their cost is so high that it is difficult for the government to buy its way out of the problem.

Third, as the IMF notes, this excessive spending does not create effective public services spending:³⁶

The growth of oil production financed a large expansion of public expenditure and civil service employment, which tripled between 2003 and 2014 (Figure 2). The composition of public expenditure is heavily tilted

towards wages, pensions and transfers. Despite an oversized public sector, even relative to other oil-exporting countries, the quality of public services particularly health, education and electricity, where power outages are frequent, is sub-par. Violence and a very difficult business environment have stifled private sector and financial sector development... The lack of electricity, political instability, corruption, and the lack of access to finance were identified as the most significant constraints by the World Bank's latest Investment Climate Assessment.

This, in turn has led the IMF to call for major reforms although it is obvious that major reforms will trigger serious protests and violence unless other reforms have previously created a massive new demand for more productive jobs, especially in the private sector.³⁷

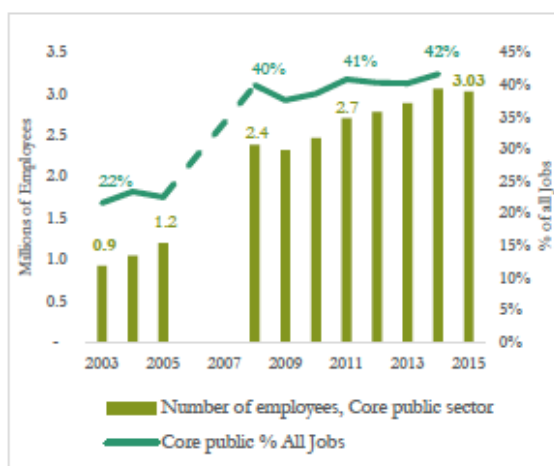
... Non-financial SOEs in Iraq include a large variety of public entities, including ministries' directorates/departments, and bodies. There are 176 SOEs in Iraq, with over 550,000 employees, of whom 30 to 50 percent are estimated to represent excess labor. Many of these SOEs have limited rationale beyond providing public employment. Thus, they are structurally loss-making and a large burden for public finances. The exact scope and scale of the economic, financial and fiscal cost that SOEs represent in Iraq is, however, unknown due to poor reporting on key financial and economic statistics of the SOEs. With the assistance of the World Bank, the government has started to set up a database to monitor the fiscal risks of non-financial SOEs. Out of 136 SOEs for which some information is available, only 15 seemed to have made profit in 2015. Building on this information, the government will elaborate measures to restructure the non-financial SOEs during future reviews of the SBA.

Accordingly, Iraq will have to address these problems slowly and focus on job creation, rather than simply the downsizing of the government and SOEs.

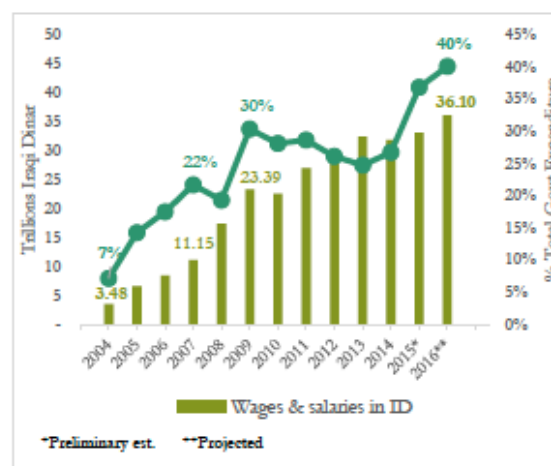
Figure Thirteen – Part One: Iraq's Bloated, Costly Public Sector

Core Public Employment 2003-2015

Government Wage Bill



Source: Iraq Ministry of Finance and World Development Indicators

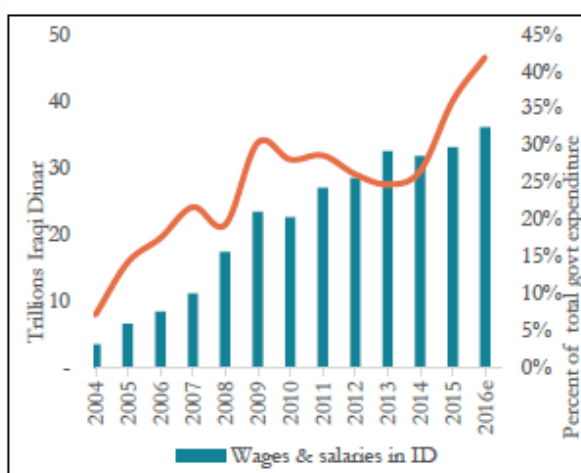


Source: Iraq Ministry of Finance and the IMF

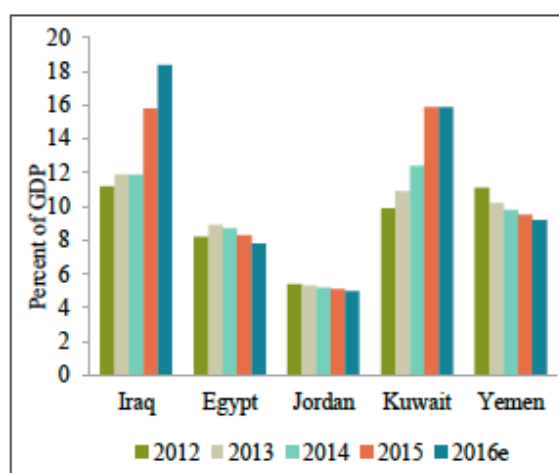
Growth of Public Sector Wages

Comparison of Public Sector Wages in

MENA Countries



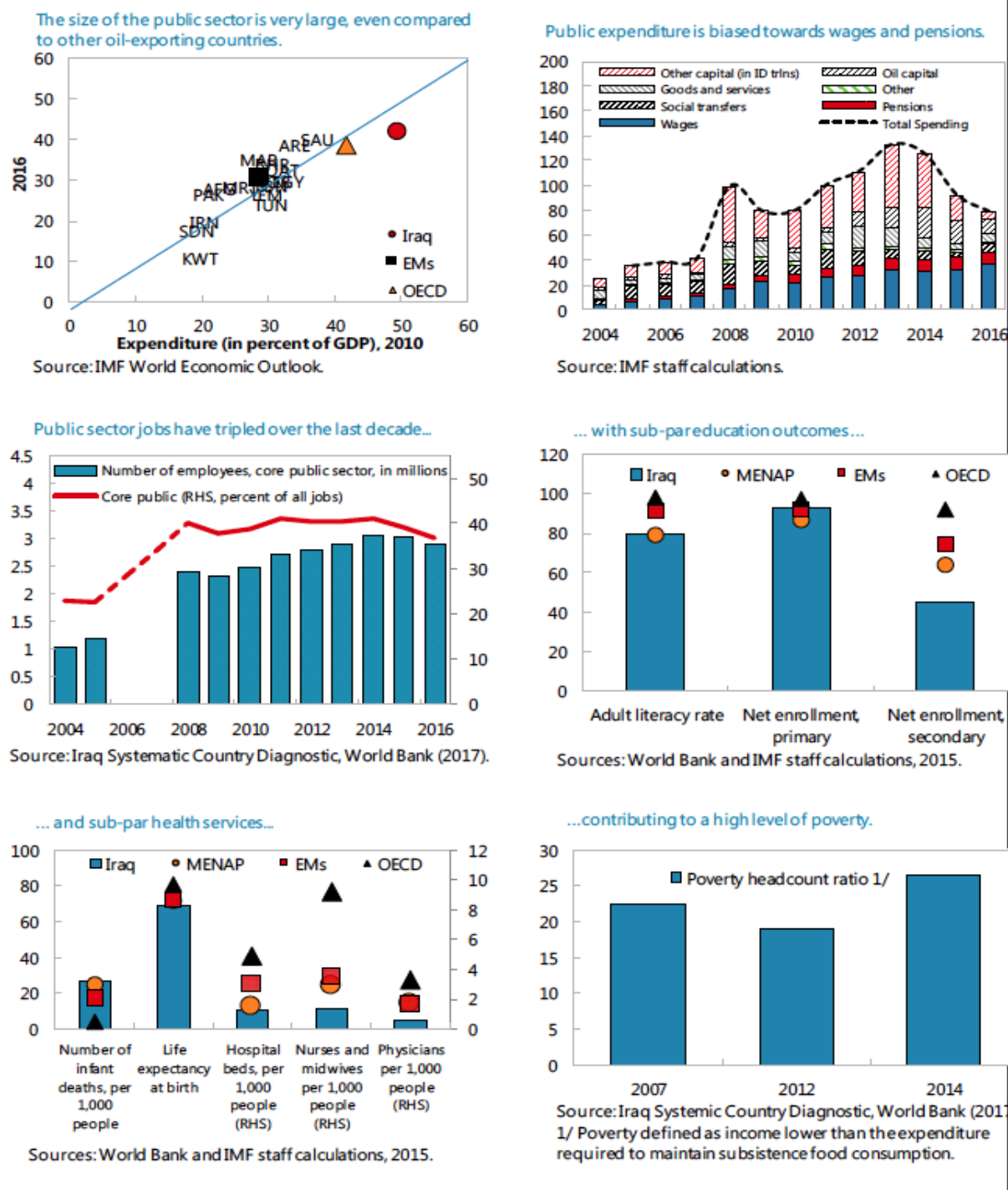
Sources: Ministry of Finance, Iraq, and IMF staff estimates and projections.



Sources: Iraqi authorities and IMF staff estimates

World Bank, Iraq - Systematic Country Diagnostic (English), February 3, 2017, <http://documents.worldbank.org/curated/en/54281148727729890/Iraq-Systematic-Country-Diagnostic>, pp. 52, 65.

Figure Thirteen – Part Two: Iraq's Bloated, Costly Public Sector



IMF, IRAQ, STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE THREE-YEAR STAND-BY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA— PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR IRAQ, IMF Country Report 17/251, August 1917, p. 6

Governance Challenges

The quality of Iraqi governance presents equal challenges. Iraq has long been rated by the World Bank as setting low standards in the efficiency and capability of every key element of government. **Figure Fourteen** shows the World Bank rating of six key measures of Iraqi governance from 1996 to 2015. They have consistently been some of the worst ratings for any country in the world, and – as **Figure Fifteen** shows – especially in terms of "Political Stability and the Absence of Violence."

These dismal rankings have also been all too fair in showing little improvement as a result of past U.S. aid efforts following the fall of Saddam Hussein. As many elements of the reporting on such U.S. efforts by the Special Inspector General for Iraqi Reconstruction (SIGIR) show, the U.S. never succeeded in achieving the key goals it set for the civil side of aid, and often grossly exaggerated its success and progress.

In contrast, the World Bank notes the degree to which the human, governance, and economic challenges in Iraq all still interact to create major problems for stability, recovery, and development,³⁸

The rebuilding of state institutions that have been destroyed or severely weakened over decades of conflict and sanctions – and, in many cases, their creation – is one of the key challenges for Iraq. Iraq ranks unfavorably on many key indicators of good governance compared to the averages for other MENA countries, to upper-middle-income countries (UMIC), and OECD countries. Although little accurate and detailed data can be collected on the state of governance on the ground,⁴ existing indicators paint a picture of persistent governance challenges, as will be illustrated in this section.

The public sector's institutional effectiveness and capacity is weak. In 2015, the Fragile States Index ranked Iraq as one of its high alert states, meaning that it lacks many of the basic administrative capacities required for effective governance. The latest Bertelsmann Transformation Index, World Governance Indicators, and Institutional Profile Database show Iraq performing poorly in relation to the OECD, UMIC, and MENA on standard measures of institutional capacity and effectiveness, including administrative capacity and efficiency and the capacity for implementation.

There have long been serious problems in basic administration, economic planning, budget planning and execution, in the functioning of the Iraqi parliament, and the willingness to accept responsibility. The World Bank *Systematic Country Diagnostic* notes that Iraqi governance still presents serious problems at every level.

It also warns that these failures in governance have been driven by the ambitions of the leaders of each faction, the pursuit of factional interest and rivalries rather than a concern with national interests, and by critical failures in the weak and divided parliamentary system the U.S. helped establish after invading Iraq in 2003:³⁹

... Efforts to tackle Iraq's fundamental challenges and to appease competing interest groups have included the drafting of a new constitution, the holding of national and regional elections, and the approval of numerous laws. To date, these efforts have yielded only limited success in terms of resolving the country's governance and security challenges. A key question facing Iraq today is whether a new governance structure can be peaceably built that has a better chance of distributing power and resources more equitably. A new social contract is needed, one which places a high value on the sustainability of social and political systems as well as on environmental and fiscal sustainability. Wealth analysis indicates that the country is not accumulating any wealth but is depleting it rapidly as oil wealth is consumed without the parallel creation of human or physical assets. The costs of environmental degradation, particularly the degradation of water resources, are huge, amounting to over 6 percent of GDP in some recent years.

...Efforts to resolve Iraq's many development challenges are severely hampered by insecurity and poor governance. Economic decision-making today is dominated by short-term needs and rent-seeking. The government is prioritizing the rapid expansion of oil production in order to finance a bloated public sector and current spending needs – mainly wages – that are detached from any long-term diversification strategy. Fiscal institutions are weak and unequipped to deal with the complexities of an oil-dominated budget, which has made the Iraqi economy extremely vulnerable to a sudden decline in oil prices, as has been evident since 2014. Even though it has been unable to ensure the country's security or to provide basic services, the public sector dominates the economy. It is by far the largest formal employer in the country, and its wage bill has become the single largest and fastest-growing expenditure item in the government budget. State-owned enterprises (SOEs) dominate the financial and non-financial sectors and enjoy significant privileges, thus crowding out private firms and impeding factor reallocation. Yet only one quarter of all SOEs are profitable. A substantial number are seriously decapitalized, inefficient, and in a state of physical degradation, and many appear to have a limited rationale for existing apart from providing public employment. The weak and stagnant private sector is incapable of generating significant employment opportunities for the tens of thousands of young Iraqis who swell the ranks of the unemployed each year. Consultations with the private sector around this report noted that politically connected firms capture public sector contracts, further reducing the opportunities available to other entrepreneurs. Iraq has neglected its non-oil infrastructure, and poor quality services are aggravated by inadequate infrastructure and low levels of public investment. With few exceptions, the private sector is not yet in a position to play a major role in the non-oil economy.

... Decentralization is frequently discussed as a potential way to ensure political and social sustainability, to reduce Iraq's ethnic and sectarian struggles, and to reverse the decline in service delivery and accountability. Absolute central control of resources no longer appears to be a viable alternative. Solutions that recognize differential conditions and capacities across Iraq – the semi-autonomous Kurdistan region is a case in point – may be a possibility. It is essential, however, to recognize that, while some are concerned about the government of Iraq being over-centralized, others are worried about fragmentation. Some have recommended the devolution of power to Shia and Sunni Arab, and Kurdish communities, but these proposals raise serious concerns. For example, Iraq's oil reserves are concentrated geographically rather than being distributed evenly. Decentralization would make it difficult for the federal government to enforce the equitable distribution of wealth. Iraq's three major communities are not as geographically contiguous as is often assumed, giving rise to potential discrimination or worse against large groups of minorities. Moreover, the premise of political legitimacy based on sectarian identity ignores many other cross-cutting identities such as tribe, class, or rural/urban dwellers. Strongly aligning Iraq's political institutions with its sectarian identities is likely to entrench the zero-sum nature of the competition for resources and power that has already generated so much instability in the country (Fitzsimmons, 2008).

... Iraqis have witnessed a dramatic deterioration in most basic services. As a result, the poor and near poor are greatly in need of well-targeted and effective social protection programs, to weather the current highly volatile economic and social conditions.

...The poor management of Iraq's immense oil wealth is one of the key constraints facing the country. The government has failed to equitably and sustainably exploit national resources to reduce poverty and ensure shared prosperity. Competition over the control of resources has exacerbated ethnic and sectarian divisions, with a consequent deterioration in governance, security, and state legitimacy. If the bulk of oil revenues continues to be allocated to public employment, wages, and transfers, this will perpetuate the current situation, which is characterized by short-term consumption, import dependence, a skewed labor market, and a crippled private sector. The role of the public sector, the prime beneficiary of mineral wealth today, needs to be redefined. Allocating more oil revenues to public capital investments would provide the broadest benefits in terms of diversification and economic transformation. However, Iraq has a poor record of public investment management (PIM) so it will be necessary to tackle this problem within the context of a medium-term fiscal framework, an explicit debt management strategy, and strengthened public financial management (PFM). To minimize losses due to poor PIM, a portion of oil revenues can be set aside in an overseas transitional saving fund while Iraq's investment management and associated systems are strengthened. In parallel, hiring freezes can be implemented and civil service payroll audits should be conducted to identify ghost workers, absenteeism, and workers receiving more than one salary. While these measures will only be the first moves towards restructuring the public sector, implementing them would signal a change to existing

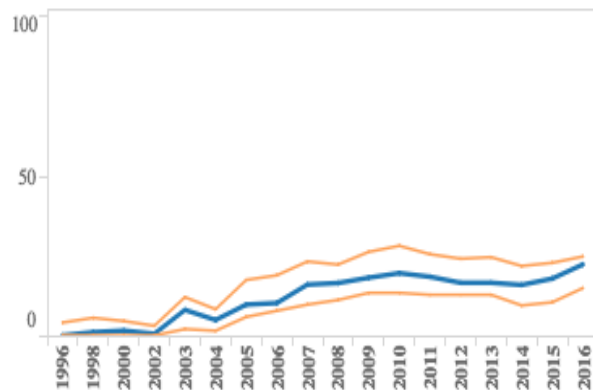
clientelistic hiring practices that have greatly reduced the civil service's capacity.

... The dominance of the public sector in the Iraqi economy has prevented the emergence of a vibrant private sector and the associated job creation necessary for enhancing the welfare of all Iraqis. A strong private sector is also a prerequisite for economic diversification and for sustainable growth. Yet outside the oil sector most non-oil private firms (beyond a few small and micro, informal, and service-oriented enterprises) have been crowded out by SOEs and by the maze of regulations that creates a hostile environment for market activity. SOE reform has been on the table for many years, but limited tangible progress has been achieved. In the medium term, it will be necessary, for the sake of fiscal transparency, to convert hidden subsidies into explicit budget expenditures; this may lead to increased public pressure for SOE reform. In the financial sector, a more level playing field between public and private banks will be required before the banking sector will be able to fulfill its role in financing the private sector. In the near term, internal restructuring of viable SOEs to improve their ability to carry out their mandates is likely to be a more politically and socially feasible strategy than closure or privatization.

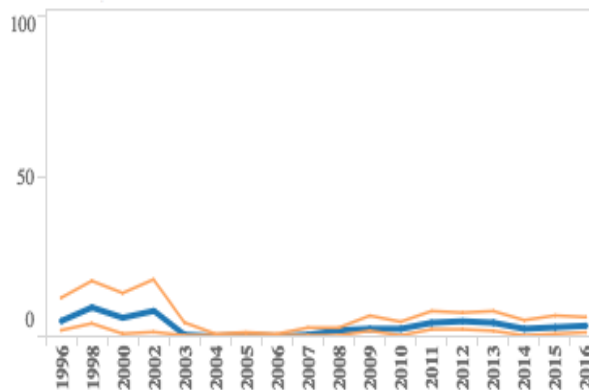
... The consequences of failing to tackle Iraq's weak governance, conflict, and fragility are not difficult to imagine. The country has unfortunately already witnessed some of them during the sectarian violence that racked the country between 2005 and 2007 and in the more recent rise of Daesh. Beyond the loss of life and displacement that a deterioration in governance and security would entail, the impact would affect all aspects of economy and society. What progress has been achieved in terms of the provision of social services and safety nets would be reversed, the losses in the accumulation of human capital would deepen, and hard-won advances in attracting investment would be undone. Trust among citizens and between citizens and the state would be further reduced. The slow process of constructing governance and the legitimacy of the state would receive a further blow. It is not clear that the institutional capital exists for Iraq to recover from more crises.

Figure Fourteen: World Bank Governance Ratings for Iraq: 1996-2016

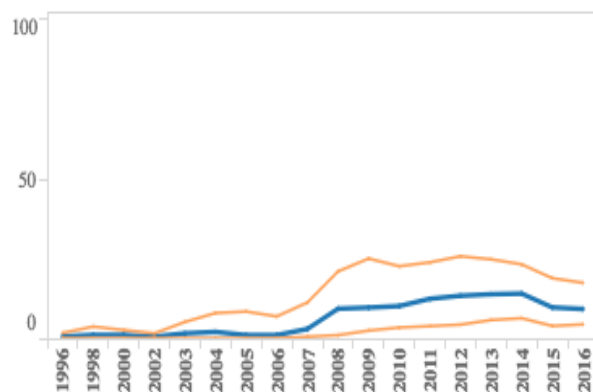
Voice and Accountability



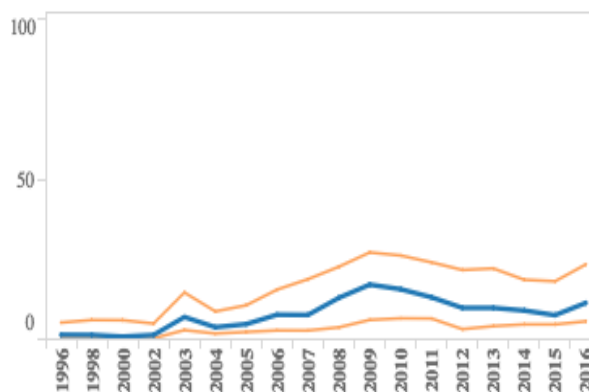
Political Stability and Absence of



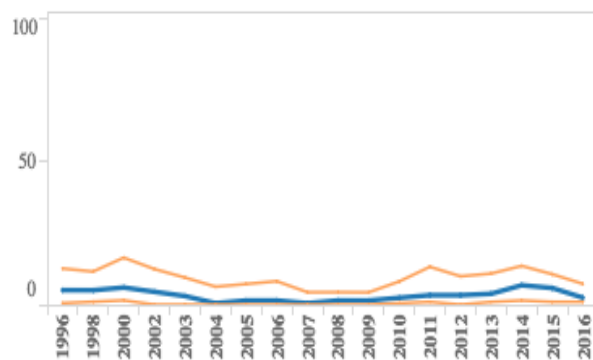
Government Effectiveness



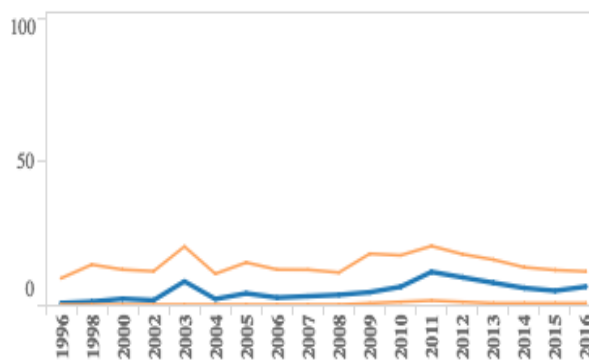
Regulatory Quality



Rule of Law



Control of Corruption

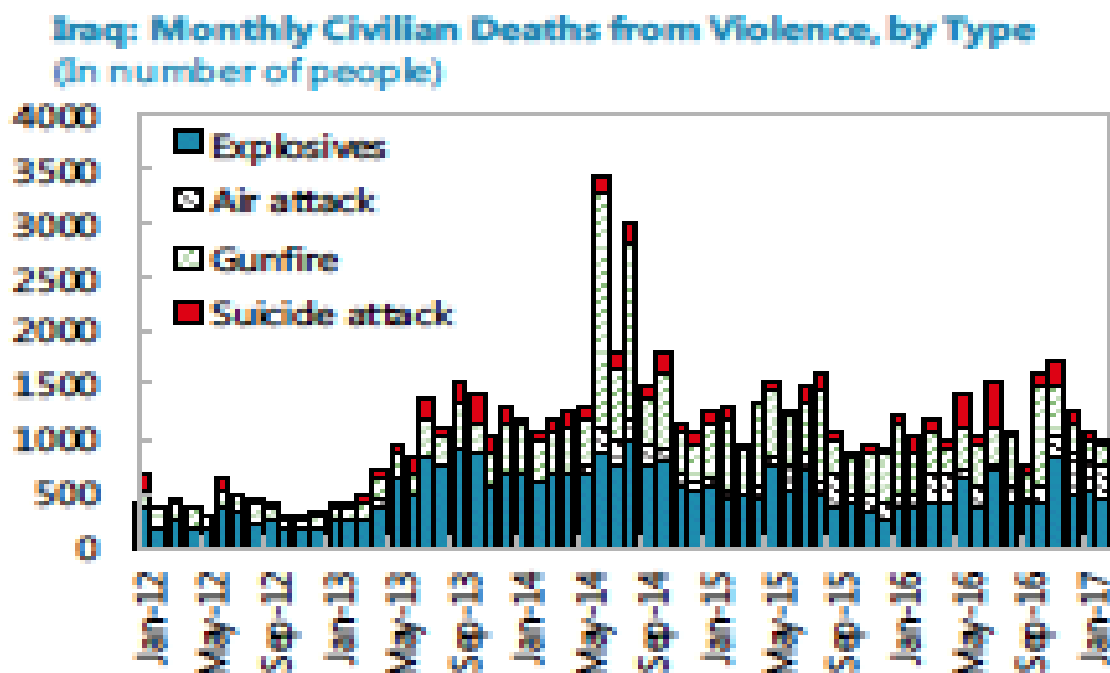


The inner, thicker blue line shows the selected country's percentile rank on each of the six aggregate governance indicators. The outer, thinner red lines show the indicate margins of error.

Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues*. The Worldwide Governance Indicators are available at: www.govindicators.org

<http://info.worldbank.org/governance/wgi/#reports>

Figure Fifteen: Violence in Iraq- 2012-2017



Source: Iraq Body Count.

IMF, *IRAQ, STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE THREE-YEAR STAND-BY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA— PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR IRAQ*, IMF Country Report 17/251, August 1917, p. 7

The Curse of Corruption

It is critical to note that outside aid in improving Iraq's system of governance per se is unlikely to have any more positive impact in the future than it has had in the past. Iraq's most serious problems are not driven by a lack of talent or training, failure to adopt the most modern management and accounting systems, or flawed institutions. They go far deeper. One critical problem is corruption—which many Iraqis cite as the single deepest reason they distrust the government.

Figure Fourteen has already shown that the World Bank's rating of Iraq's corruption has been consistently dismal for several decades. Its latest *Systematic Country Diagnostic* goes further:⁴⁰

identifies the three characteristics that underlie Iraq's predicaments: its poor governance, dependence on oil wealth, and ethnic and regional diversity. It posits that the combination of oil wealth and ethnic and religious fragmentation has led to conflict, violence, and fragility due to long-standing governance problems and the inability of institutions to ensure an equitable allocation of resources among the country's population and regions.

... The rebuilding of state institutions that have been destroyed or severely weakened over decades of conflict and sanctions – and, in many cases, their creation – is one of the key challenges for Iraq. Iraq ranks unfavorably on many key indicators of good governance compared to the averages for other MENA countries, to upper-middle-income countries (UMIC), and OECD countries. Although little accurate and detailed data can be collected on the state of governance on the ground, existing indicators paint a picture of

persistent governance challenges, as will be illustrated in this section. The public sector's institutional effectiveness and capacity is weak. In 2015, the Fragile States Index ranked Iraq as one of its high alert states, meaning that it lacks many of the basic administrative capacities required for effective governance. The latest Bertelsmann Transformation Index, World Governance Indicators, and Institutional Profile Database show Iraq performing poorly in relation to the OECD, UMIC, and MENA on standard measures of institutional capacity and effectiveness, including administrative capacity and efficiency and the capacity for implementation.

.... Corruption is a key symptom of poor governance, and bureaucratic corruption, bribery, and nepotism are all major problems in Iraq. At the central government level, the combination of a weak yet resource-rich rentier state has allowed competing groups to capture state resources and contracts, decimate institutions, and undermine the development of a competitive private sector. The various power groups (such as sectarian and ethnic groups and militias) regard governance structures simply as means to capture rents and thus vie for control over them. When governance is weak at the state level, the leaders of non-state power groups derive their legitimacy from the degree to which they are able to capture resources and reallocate them to their constituencies. The informal sectarian quota system, which since 2003 has guided the distribution of ministerial positions as well as minor government posts, is a prime example of this and is one of the principal causes of the bloated public sector, which severely constrains government effectiveness and service delivery... The lack of confidence in public institutions that has arisen because of corruption is profound.

...The massive influx of reconstruction resources that followed the 2003 invasion and the previous decade of sanctions and deprivation overwhelmed the spending, management, and oversight capacities of the shattered Iraqi public sector. Underscoring the magnitude of the problem, recent polls have found that Iraqi citizens and business owners believe that corruption is the most important policy challenge facing the country, ahead of economic and even security concerns..., as well as the biggest constraint on business)...Also, corruption in Iraq often leads to or entails violence, which is not always characteristic of corruption elsewhere (Williams, 2009).

Ratings by Transparency International provide additional insights. **Figure Sixteen** shows that Transparency International ranks show that Iraq is substantially more corrupt than other states. It also rated Iraq as the 10th most corrupt nation in the world out of the 176 countries that it rated in 2016.⁴¹

The more detailed Transparency International country report now dates back to May 2015, but few Iraqis would argue that its analysis of the character of Iraq's government is not correct in spite of some important, but limited, anti-corruption efforts by Prime Minister Abadi.⁴²

Since the overthrow of Saddam Hussein's regime, Iraq has faced significant corruption challenges. The country continues to score among the worst countries on corruption and governance indicators. Corruption risks are exacerbated by the historical legacy of the previous authoritarian regime, lack of experience in the public administration, weak capacity to absorb the influx of aid money, sectarian issues and lack of political will for anti-corruption efforts. While Iraq has introduced a number of anti-corruption initiatives, these fail to provide a sufficiently strong integrity framework. Political interference, lack of political will, a weak civil society, a confusing penal code, and a lack of resources limit the effectiveness of anti-corruption measures. Corruption in the military and security services and oil smuggling has contributed to the major security challenge that the country now faces with the militant group Isis.

...After a difficult beginning marked by institutional instability, Iraq's new regime has in recent years become increasingly aware of the enormous corruption challenges it faces. Massive embezzlement, procurement scams, money laundering, oil smuggling and widespread bureaucratic bribery have led the country to the bottom of international corruption rankings, fueled political violence and hampered effective state building and service delivery.

The full Transparency International report on Iraqi corruption, issued in May 2015, has received far too little attention in U.S. and other policy circles – particularly its sections on the security forces. As a result, it is worth quoting in depth.⁴³

1. BACKGROUND

Violence has marred Iraq's recent history. Saddam Hussein came to power in Iraq in 1968 in a coup, and he used his regime to suppress the Shia and Kurdish population and used chemical weapons against his own people.

After Iraq was defeated in its invasion of Kuwait in 1991, the UN imposed sanctions on the country to pressure Hussein to de-militarize. The sanctions failed to achieve their goals and devastated the national economy causing widespread poverty for over a decade (Independent 2013b). Hussein remained dictator of the country until 2003 when his regime was toppled by the US-led coalition forces.

The first elections for a full-term parliament were held in Iraq in December 2005 and the United Iraqi Alliance won the most seats. Ibrahim al-Jaafari was nominated as prime minister, but was forced from office due to sectarian favoritism. Subsequently, Nouri Al Maliki was asked to form a government in 2006 to end the deadlock in parliament. Sectarian tensions continued between Sunnis and Shias, and the country suffered numerous attacks from Al Qaeda militants (Freedom House 2015).

US troops ended their military operations in Iraq in 2011, and since then social unrest has grown. Despite this, Iraq was generally perceived to be progressing in the process of state building, albeit slowly and inconsistently (ICG 2014), and Al Maliki achieved his best result to date in the March 2014 elections

The spread of the Islamic militant group Islamic State (Isis) in 2014, quickly undermined Al Maliki's support and drew attention to government failings, which allowed the militant group to advance. The group quickly surged through Iraq, taking control of approximately one third of the country, including the second-largest city, Mosul. Tens of thousands of people are estimated to have been displaced after fleeing from atrocities (BBC 2015).

International Crisis Group (2014) and Freedom House (2015) report that Al Maliki concentrated powers around the prime minister's office, failed to address concerns of the Sunni minority, and did not do enough to stamp out high level systemic corruption.

Despite initially refusing to resign, causing paralysis in parliament, Al Maliki eventually conceded. In September 2014, the parliament approved a new government with Al Abadi as prime minister (World Affairs Journal 2014).

Al Abadi has so far received mixed reviews and has been criticized for not stemming the sectarian violence. While a US-led coalition has achieved some successes against Isis, large parts of Iraq remain under occupation.

According to the World Bank (2014c), approximately one in five people in Iraq live below the poverty line. Despite Iraq experiencing high economic growth between 2008 and 2012 (averaging annual GDP growth of 7 percentage points), poverty fell by only 4 percentage points. The country is economically very reliant on oil, with 90% of government revenue coming from oil revenue (UNDP 2015). The falling price of oil over the past year is likely to further destabilize the country.

2. EXTENT OF CORRUPTION

Iraq suffers from extensive, pervasive corruption across all levels of government and sectors (BTI 2014).

Iraq continually scores among the worst countries in the world in various governance and corruption indicators. The extent of public and private sector corruption has eroded public institutions, prevented effective basic service delivery and undermined state security (BTI 2014; ICG 2014).

In Transparency International's 2014 Corruption Perception Index, Iraq ranked 170 out of 175 countries. It scored just 16 on a scale where 0 indicates that a country is perceived to be highly corrupt and 100 is where a country is perceived to be very clean. Only Afghanistan, North Korea, South Sudan, Somalia and Sudan scored worse. From 2012 to 2013, Iraq's score declined slightly from 18 to 16 (Transparency International 2014).

According to the World Bank's governance indicators, from 2003 until 2013, Iraq has consistently scored in the bottom 10 percentile for control of corruption, rule of law and political stability. It has scored slightly

better on the other indicators of voice and accountability, government effectiveness and regulatory quality (World Bank 2014a).

Petty and bureaucratic corruption

Citizens also report being routinely exposed to corruption. The 2013 Transparency International Global Corruption Barometer (a public opinion survey which asks about experiences and perceptions of corruption) found that 29% of Iraqi adults reported having paid a bribe to at least one of eight services in the past 12 months. The majority of people also said that they thought corruption in Iraq was on the rise, with 60% saying it had either increased a lot or a little over the past two years. Only 16% said that they thought corruption had decreased, and a further 25% said that they thought the level of corruption had stayed the same (Transparency International 2013).

A survey of residents of Baghdad by the Iraqi Commission of Integrity found that, on average, for each month in 2014, approximately 7% of users said they had paid a bribe to a public official there. The most common reason given was that the office intended to delay or constrain the service (CoI 2015).

The bribery rate in a 2011 Iraqi Knowledge Network Survey for the UNODC was lower. It estimated that approximately 12% of the adult population, aged 18-64, had paid a bribe in the past 12 months. However, the survey did find large geographical differences in the bribery rate, ranging from 29% in Baghdad to just 4% in Kurdistan. Across the other governorates the figure was around 10% (UNODC 2013).

Businesses also report being asked to pay bribes. In the World Bank's Business Enterprise survey (2011), 758 firms were surveyed and said that in just over a third (34%) of public transactions a gift or informal payment was requested, compared to an average of 22% of transactions across the Middle East and North Africa (MENA) region. Also, nearly seven out of ten (69%) of the firms surveyed said that they were expected to give gifts to secure government contracts, compared to an average of 43% in the MENA region generally.

Grand corruption

Corruption in Iraq exists even at the highest levels. The Commission for Integrity (CoI) revealed that, from 2008 until 2012, 89 arrest orders related to alleged corruption offences were issued against high ranking individuals of director general level or higher. In 2012 alone, 12 ministers, 97 heads of department or higher, 7 parliamentary candidates, and 11 governorate council candidates were summoned to court to be tried for allegations of corruption (CoI 2012).

Recently, there have been a number of high profile arrest warrants and convictions against high level public officials. The former head of the Commission for Integrity, Raheem al-Aqaili, was issued with four judicial warrants (Iraqi News 2014a) and a treasurer in the Ministry of Trade was recently sentenced to life imprisonment in absentia for embezzling over one billion dinars (CoI 2015).

3. Nature of corruption challenges

In Iraq, the historical legacy of authoritarian regimes, sectarian, ethnic and religious differences, existence of militant groups, influx of international aid money and weak governance structures are factors that influence the nature of corruption in Iraq.

The legacy of the previous regime

The legacy of President Saddam Hussein's authoritarian regime is a contributing factor to the high level of corruption in the country. Hussein's authoritarian regime was inherently clientelistic redistributing resources to its supporters while repressing its opponents (BTI 2014). The regime also prevented the development of accountable, democratic public sector institutions which contribute to the weak public administration today (Independent 2013).

Decisions taken by the coalition forces after the overthrow of Hussein's regime are also said to have contributed to the weak public administration in Iraq. It was decided that any previous Ba'ath Party public officials should be prevented from taking office. This contributed to a lack of experience within the newly formed government with ministries lacking the technical expertise to respond to the challenges (Independent 2013c).

Fragility and corruption

Iraq is referred to as a fragile state: “unable to meet [their] population’s expectations or manage changes in expectations and capacity through the political process” (OECD 2008). According to the 2014 Fragile States Index from the Fund for Peace, Iraq was at “high alert” in position 13 (where the country in 1st place is deemed at very high alert and the country in 178th place is deemed very sustainable) (Fund for Peace 2014). The threat from Isis, sectarianism and weak governance institutions further contribute to Iraq’s fragility.

As with other fragile states, Iraq is characterized by weak governance structures, lack of capacity, leadership and infrastructure, which exacerbate corruption risks. Large amounts of aid, channeled through weak institutions, often lack adequate oversight of how the money is spent, creating additional opportunities for corruption (OECD 2009) (See this Helpdesk answer for further literature on fragile states).

Sectarianism, nepotism and clientelism

According to the Bertelsmann Foundation, clientelism has undermined the efficiency of the public sector in Iraq with recruitment and disciplinary procedures (including for corruption related offences) being used for political gain (BTI 2014).

Al Maliki’s government faced numerous allegations of nepotism, clientelism and consolidation of power around his office. It is alleged that he filled senior government positions based not on merit but on sectarian and political allegiances to benefit his supporters and the Shia population who had previously been excluded from power under Hussein’s regime (Independent 2013b, c).

The Central Bank of Iraq governor, Sinan al-Shabibi, was controversially convicted, and recently acquitted, for corruption related charges. He had previously advised the government to separate Central Bank and Ministry of Finance resources. After his conviction he was replaced by a supporter of Al Maliki, further consolidating the government’s influence over this institution (BTI 2014).

According to James Jeffrey, US ambassador to Iraq from 2010 to 2012, nepotism is also partially blamed for the weakness of the Iraqi army when Isis advanced into Mosul in 2014. Al Maliki is alleged to have chosen army generals based on their political support for his leadership rather than their skills (Politico 2014).

Weak public administration

Bureaucratic corruption in Iraq is driven by weak institutions, a lack of experienced staff, high insecurity, confusing legal framework and weak oversight, which provide incentives and opportunities for corruption (BTI 2014, ICG 2013).

Payroll corruption such as ‘ghost employees’ and skimming of salaries is rife, and hiring and disciplinary decisions are affected by nepotism, clientelism and bribery. Efficient and transparent public procurement processes are often undermined by bribery and kickbacks, use of shell companies and nepotism (DoS 2013, Independent; 2013a, b).

According to the 2013 Transparency International Global Corruption Barometer survey, users of public services were most likely to have paid a bribe when coming into contact with public officials for land services (39%), the police (35%), and registry and permit services (27%). Furthermore, of 12 institutions, political parties were seen to be the most corrupt, with 47% rating them as either fairly corrupt or extremely corrupt.

The 2011 Iraqi Knowledge Network Survey for the UNODC found that public health clinic nurses, public utilities officers and the police account for the largest share of bribes paid by citizens in Iraq (19%, 15% and 14% respectively) (UNODC 2013).

International development spending

The large inflows of international aid and reconstruction funds to the country following the toppling of Saddam Hussein have also contributed to corruption in the country. According to World Bank data, Iraq received more than US\$32bn1 of bilateral aid from OECD countries between 2003 and 2012 (World Bank 2014b).

Large flows of aid, combined with the country’s weak absorption capacity, may provide opportunities for mismanagement and encourage rent-seeking behavior (Tiri 2007). The Special Inspector General for Iraq Reconstruction (SIGIR) was tasked with assessing how Iraqi and US funds were being spent in Iraq. In their

final estimation, they calculated that at least \$8bn of the \$60bn US reconstruction budget was lost to corruption and waste (SIGIR 2013).

For example, it was discovered that US\$43.8 million was spent on a residential camp for police training personnel which remained unused, and US\$36.4 million spent on weapons that were not accounted for (Associated Press 2007).

Corruption was also committed by the US forces. In 2012, Army Sergeant Richard Evick and his co-conspirators were convicted of bribery and money laundering for influencing the award of US\$24 million worth of contracts towards certain contractors in exchange for US\$170,000 in bribes (DoJ 2012). In 2009, Major John Lee Cockerham was jailed for 17 years for bribery and money laundering for Iraq war contracts (FBI 2010).

In general, it is recognized that the reconstruction effort in Iraq suffered from waste and corruption. Inspector General Stuart W. Bowen of SIGIR reported that the reconstruction funds underperformed overall, with infrastructure development being severely challenged by the security situation. SIGIR did deem spending on security forces as being successful at achieving some stability until 2013 (SIGIR 2013), however, recent corruption cases involving the security forces highlight that there were still weaknesses.

The same Transparency International report focused on corruption in the security forces,⁴⁴

... insecurity due to the threat of Isis has drawn attention to the pervasive corruption that affects Iraq's military and security services, including payroll corruption, nepotism and patronage.

Army

Corruption is said to be widespread in the Iraqi army and manifests itself in various forms, including bribery, nepotism and misuse of resources.

It has been assessed that corruption has contributed to the advance of Isis in Iraq and its ability to take major cities, such as Mosul, in various ways. Firstly, nepotism allowed inexperienced generals to be given prominent roles (Politico 2014). Secondly, corrupt procurement processes resulted in poor quality or non-existent equipment (SIGIR 2014). Thirdly, payroll corruption and the employment of "ghost soldiers", soldiers who do not exist, meant the army had fewer soldiers than required (Fiscal Times 2014; ICG 2014). And finally, army generals sold military supplies on the black market which were then bought by militant groups such as Isis (New York Times 2014).

The weak public administration and lack of effective oversight of government spending has allowed senior army personnel to commit payroll corruption (DoS 2013). Recently, it was exposed that the Iraqi government has been paying the salaries of 50,000 ghost soldiers. This is estimated to have cost the Iraqi government US\$380 million per year (Fiscal Times 2014).

In response, the new prime minister, Al Abadi, fired 24 generals, and detained the Ministry of Interior director general, who was in charge of the payroll. Al Abadi has also fired or transferred 26 other army generals (Fiscal Times 2014).

There is also an indication that corruption exists at the lower levels of the military, with soldiers extorting bribes from citizens in conflict affected areas. Reports are emerging that people fleeing the Isis controlled area of Fallujah are forced to pay bribes to the army, police and government supported militias to be able to leave (Middle East Eye 2015).

Given the current security threats facing the country, the extent of corruption represents a major barrier to the national security forces' fight against Isis. While Al Abadi has taken steps to rid the military of corrupt key officials, institutional anti-corruption measures (such as payroll reform, and transparent accounting procedures) are needed to challenge the systemic corruption that exists in this institution.

Police

In the police force, petty bribery undermines the rule of law in the country. In the 2013 Transparency International Global Corruption Barometer survey, 35% of those who had come into contact with the police in the past year had reported paying a bribe to them. However, when the public were asked how corrupt the

police is in Iraq, the force scored slightly better than the global average (2.8 compared with a 3.7 global average, where 1 means not at all corrupt and 5 means extremely corrupt.)

Corruption or illegal acts committed by the police go unpunished, undermining the rule of law. According to the US Department of State, the police force in Iraq benefits from extensive impunity, and allegations of corruption rarely result in criminal or disciplinary proceedings (DoS 2012).

It is alleged that senior appointments in the police force were also influenced by nepotism and clientelism rather than based on merit. Under Al Maliki, senior commanders in the police force may have been appointed directly by the prime minister, rather than getting the required parliamentary approval (BTI 2014). The Bertelsmann Foundation (2012) also notes that militias have been able to infiltrate the police force, and may not uphold the rule of law for all people equally.

Proper policing standards and codes of conduct need to be enforced to build public trust in the police force and the rule of law.

Finally, the 2015 report addressed the history and causes of the failure of anti-corruption efforts. It provides a critical case history for all anti-corruption reports – far too much of which proposes the same measures that have failed for decades in country after country.⁴⁵

Overview

The adoption of the United Nations Convention against Corruption (UNCAC) and passing of the necessary legislation in 2007/2008 represented the first major anti-corruption move by the Iraqi government.

In March 2010, the Iraqi government published the national anti-corruption strategy for the period of 2010-2014.

The new prime minister, Al Abadi has stated that he wants to fight corruption, money laundering and waste. Anti-corruption measures featured strongly in Al Abadi's statement on the Government Program Portfolio, which he made to the parliament in September 2014. These included plans for institutional and administration reform, and the adoption of "e-government" measures to reduce corruption risk (Al Abadi 2014). At the time of writing, the Government Work Program for 2014-2018, including the National Strategy to Combat Corruption, is still being finalized.

The extent of corruption at all levels of government, in both the public and private sector, indicate the existing anti-corruption framework is ineffective. The anti-corruption initiatives in Iraq suffer from a fragmented institutional arrangement, a lack of clear understanding of the various roles, little enforcement of legislation, a lack of political will, and political influence and impunity in corruption cases (BTI 2014).

The public in Iraq also believes that the government's anti-corruption efforts have been ineffective. The 2013 Global Corruption Barometer survey found that only 22% of the public thought that the government's actions were either effective or very effective in the fight against corruption. Just over half (52%) said that they thought the government's actions were either ineffective or very ineffective.

LEGAL FRAMEWORK

National legislation

Iraq's legal framework has been deemed insufficient to effectively tackle corruption (BTI 2012). The penal code is confusing, with corruption deemed a criminal offence, but forms of corruption such as bribery, embezzlement, breach of trust and fraud defined as "dishonorable offences". Furthermore, the laws suffer from a lack of political will for enforcement, and institutions lack the necessary resources (BTI 2014; DoS 2013).

Iraq criminalizes many forms of corruption, including public sector bribery (Articles 15, 16, 18, 21, Law 111 of 1969), embezzlement (Article 315 of the criminal code) and obstructing justice (Article 229 of the criminal code). There is also mandatory disclosure of assets by top public officials (law 30 of 2011) and the courts have the power to freeze, seize and confiscate certain assets (Article 101 of the criminal code; UNODC 2013b).

The 2004 Anti-Money Laundering Act of 2004 criminalized money laundering, but it falls short of international standards (DOS 2014c). The Iraqi government is currently working on developing a new anti-money laundering bill.

While whistleblowers are protected under the law, Freedom House (2013) notes that, in practice, whistleblowers face substantial political pressure.

The Public Procurement Law (2004) attempted to reduce corruption risks in public procurement, and the Investment Law (2006) mandated competitive bidding, and allows unsuccessful bidders to raise concerns about corruption. The procurement laws have had some success, and competitive and transparent bidding rounds held in 2009 and 2010 for oil and gas contracts (DoS 2013). However, the culture of impunity and political pressure can make companies unwilling to report incidents of corruption (Independent 2013a).

A major improvement in the legislation framework was the repeal of Article 136b of the criminal code in 2011, which allowed ministers to protect their employees from corruption prosecution (DoS 2013). However, a culture of impunity continues to exist in Iraq and allows members of the government to avoid prosecution (DoS 2014).

International Conventions

As mentioned earlier, UNCAC was adopted in 2008. On the area of asset recovery procedures, Iraq joined Middle East North Africa Financial Action Task Force (MENAFATF) in 2005, and the UNODC/ World Bank Stolen Asset Recovery Initiative (StAR) in 2007 to recover stolen money sent abroad. UNDP and the Commission of Integrity are currently undertaking a joint partnership to fight corruption (UNODC 2013).

Institutional framework

Iraq has three main bodies responsible for fighting corruption.

Commission of Integrity (CoI)

This is the main anti-corruption body in Iraq. It is responsible for preventing and investigating government corruption, and enforcing legislation.

Even though the law declares this institution independent, it is subject to interference from the government, and a previous commissioner resigned in protest due to government pressure in corruption cases (Independent 2013a).

At the CoI's annual press conference, where it reported on its work in 2014, it was stated that they had investigated 17,616 cases of official corruption since 2004. The figure for 2014 alone was 9,147. The commission estimated that US\$330 billion of public money is missing or unaccounted for, and named three former ministers and 53 senior officials for alleged corruption (Rudaw 2015).

Inspector General's Offices (IGO) within the ministries

This body is under the jurisdiction of the Prime Minister's Office of Regulatory Affairs. It is responsible for providing oversight on potential corruption cases among the cabinet ministers and commissions (DoS 2013).

The Federal Board of the Supreme Audit

This is the supreme auditing authority, which was given authority in the Law of the Board of Supreme Audit (Law 31 of 2011). It oversees extractive contracts and is the only one of the three main anti-corruption bodies to have jurisdiction in the Kurdish Region (DoS 2013).

There are some other bodies in Iraq which also have responsibility for anti-corruption.

The Joint Anti-Corruption Council (JACC)

This council was created in the Prime Minister's Office, and its role is to coordinate the activities of the three main anti-corruption institutions for the Ministry of Interior and Higher Judicial Council. It is regarded to have had no impact due to the scale of high level corruption in the country (DOS 2013).

Office of the Ombudsman

This office has some anti-corruption responsibilities but it has been ineffective. Global Integrity (2008) reported that the ombudsman lacks the ability to follow up on cases, and is affected by political pressure, nepotism and clientelism. Its recommendations also get little attention from government.

Parliamentary Committee on Integrity

This committee provides monitoring and oversight of the anti-corruption bodies. It has been subject to substantial political pressure with a former chair of the committee, Judge Rahim al-Ugaili, resigning in 2011 saying that there was a lack of political support for anti-corruption initiatives (Iraqi Business News 2011).

Central Bank of Iraq's Monetary Laundering Reporting Office

This office exposes potential financial crimes, particularly in the area of money laundering (DoS 2013).

In 2010, MENAFATF found Iraq non-compliant in 35 of the 40 categories on its anti-money laundering regime (MENAFATF 2012). The US Department of State also describes Iraq's anti-money laundering regime as "completely inadequate" (DoS 2013).

Financial Intelligence Unit (FIU) under the Central Bank

The unit records and reports suspicious transactions to the Central Bank. MENAFATF recently declared that the FIU was not fully functioning, lacking both power and resources. Its ability to undertake its tasks is hampered by a lack of access to information (MENTATF 2015).

Judiciary

The judiciary in Iraq, like other institutions, suffers from nepotism and clientelism, too much red tape and a lack of experienced staff. However, civil courts are generally considered to be independent (BTI 2014).

The public in Iraq perceive the judiciary to be suffering from some corruption. Transparency International's 2013 Global Corruption Barometer survey found that people believe the judiciary is as corrupt as the police and the medical and health services, with all of these institutions scoring on average of 2.8 where 1 indicates the institution is not corrupt and 5 means it is extremely corrupt. The survey also found that 22% of those who had come into contact with the judicial system reported that they had paid a bribe.

While the independence of the judiciary is guaranteed by Article 87 of the 2005 constitution, in reality the executive, legislature and judiciary are not fully independent and judicial decisions are open to political manipulation (BTI 2014).

In corruption cases, the prime minister's approval was required on occasion before high profile corruption cases could proceed, which undermines the ability of the courts to convict some individuals (DOS 2012).

Also of concern is that a large amount of judicial power is concentrated in the hands of Chief Justice Judge Midhad Mahmud who heads the Iraqi Higher Judicial Council, the Federal Supreme Court and the Federal Court of Cassation (BTI 2014). The Iraqi Federal Supreme Court was increasingly seen as contributing to the concentration of powers in the hands of the previous prime minister, Al Maliki. While there were attempts to remove the chief justice from office in 2013 he was quickly reinstated (Iraq and Gulf Analysis 2013).

Transparency International reporting in 2017 made it all too clear that corruption remains a critical problem in the military, the police, and the justice system. Iraq experienced serious problems in terms of gross corruption in the Ministry of Defense in mid-war in 2015-2016 and this has been the norm rather than the exception. Transparency International noted that, in the period before the ISIS invasion, corruption had a massive impact on Iraq's overall economy, security efforts, and justice system,⁴⁶

...a study based on IMF & World Bank data conducted by Global Financial Integrity, an estimated US\$ 65

billion in illicit funds left Iraq (about twice its 2005 GDP, or 56% of its 2011 GDP) between 2001 and 2010, suggesting massive fraud, corruption, tax evasion and money laundering. (Global Financial Integrity, 2012). An audit by Iraq's Board of Supreme Audit gives an even higher figure, estimating in up to US\$ 40 billion the flows of funds that could be leaving the country annually – through money laundering schemes that use the Central Bank's activities - because of corruption (SIGIR, 2013).

... In the Global Corruption Barometer of 2011, 56% of respondents declared having paid a bribe in the 12 months preceding the survey. The Police, Customs and the Judiciary were the three institutions where the most bribes were paid.

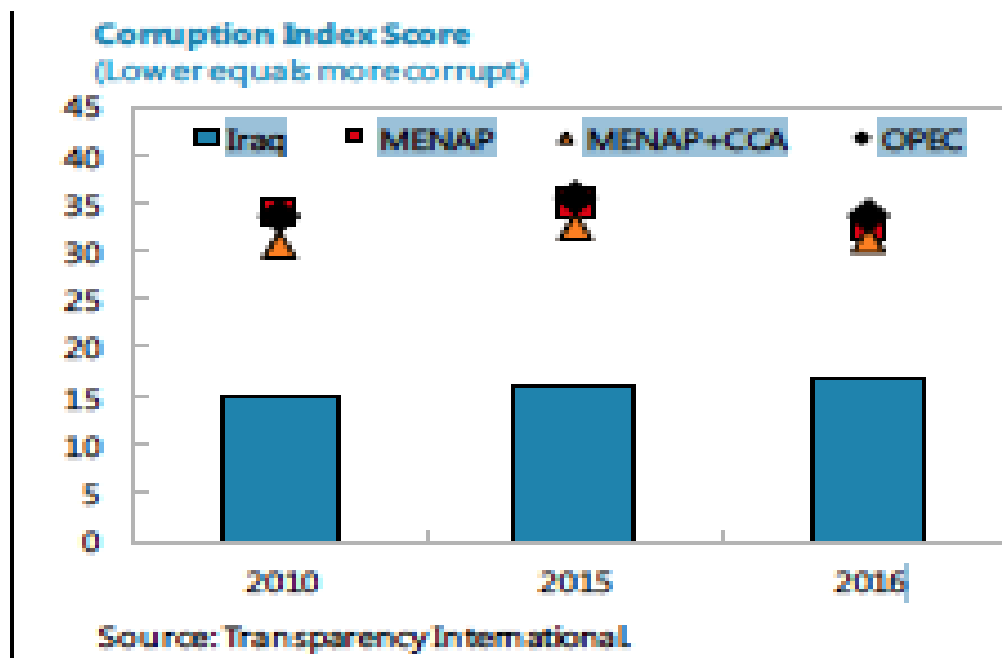
... Other reports reveal that securing a public job, notably in the security forces, is often impossible without paying hundreds, or even thousands of US dollars. (The Independent, 2013)...Nepotism and clientelism are often reported to be common practices.

... While Iraq produces a number of budget documents for internal government use, such as the proposed and enacted budgets, as well as in-year and audit reports, most of them are not publicly released. In addition, no public consultation mechanisms are in place during the budgetary process, leaving ordinary citizens no opportunity for participation. This means that the government cannot be held accountable by the public neither for its decisions on the allocation of public resources nor for its actual spending, leaving significant space for arbitrary decision making...Procurement in Iraq has also been known in the past as a hot spot for corruption.

One has to be careful about criticizing corruption by individual actors – regardless of their position and rank --when corruption has become a normal part of professional life, rather than an exception. Few who are actually working in an unstable government where job security is a constant issue feel secure enough not to take advantage of the opportunity. Moreover, the failure to join the common process of corruption, and participating in anti-corruption efforts, can single out a given individual and lead to reprisals or isolation. Anti-corruption efforts become corrupt or are sidelined. Those that are charged are often political victims or scapegoats, and those who are charged that have real influence escape serious punishment and/or are recycled into new positions.

As has been the case in virtually every developing nation with high levels of corruption, anti-corruption measures have also been largely punitive, and have not been tied to broader reforms in career management and stability, wages, and proper fiscal controls. They have had little positive effect, have become political weapons, and have sidelined or threatened those who tried to make them effective.

Figure Sixteen: Iraq's Comparative Corruption Score



Note: MENAP = Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Saudi Arabia, Syria, Tunisia, United Arab Emirates, West Bank and Gaza, and Yemen.

UMIC = upper middle income countries = Albania, Algeria, Angola, Belarus, Belize, Bosnia, Botswana, Brazil, Bulgaria, China, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, Equatorial Guinea, Fiji, Gabon, Georgia, Grenada, Guyana, Iran, Iraq, Jamaica, Jordan, Kazakhstan, Lebanon, Libya, Macedonia, Malaysia, Maldives, Marshall Islands, Mauritius, Mexico, Montenegro, Namibia, Palau, Panama, Paraguay, Peru, Romania, Russia, Serbia, South Africa, St. Lucia, St. Vincent and the Grenadines, Suriname, Thailand, Turkey, and Venezuela.

IMF, *IRAQ, STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE THREE-YEAR STAND-BY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR IRAQ*, IMF Country Report 17/251, August 1917, p. 7

Failing to Plan, Program, Budget, Account, Measure Effectiveness and Provide Transparency

Iraq's budget has limited transparency and it is hard to estimate the way Iraq resources and manages the funding of its arms and other military purchases, handles its loans, and how well actual civil and military expenditures track with its budget. However, its cuts in oil revenues, and the cost of a war which **Figure Two** has shown consumed some 9% to 13% of Iraq's GDP, and led to a crisis in Iraq's efforts to also balance its budget and fund the civil programs it needed for internal stability during 2015 and 2016.

As is discussed later, the IMF and the CIA World Factbook estimate that Iraq had a budget deficit of 14.7% in 2016—one of the highest in the world (212th out of 220). It estimates that Iraq's revenues were \$52.43 billion, and its expenditures were \$77.87 billion in 2016, and that its public debt increased from 63.9% of GDP in 2015 to 79% in 2016.⁴⁷

Figure Seventeen shows that Trading Economics estimates a smaller deficit in 2016, and that Iraq was able to develop a small surplus in 2017.⁴⁸

Iraq recorded a government budget surplus of 4046487 IQD Million in September of 2017. Government Budget Value in Iraq averaged 9686946.16 IQD Million from 2004 until 2017, reaching an all-time high of 61244368 IQD Million in August of 2015 and a record low of -13581445 IQD Million in September of 2012.

The IMF does note that Iraq has made progress in its August 2017 Article IV reports, but reported a 0.4% drop in the GDP in 2017, and has commented that,⁴⁹

Iraq's three-year Stand-By Arrangement (SBA), which is designed to support Iraq's economic reform program and restore fiscal balance over the medium term. The completion of the second review allows the authorities to draw the equivalent of SDR 584.2 million (about US\$ 824.8 million), bringing total disbursements to SDR 1494.2 million about US\$ 2109.7 million. The SDR 3.831 billion arrangement (about US\$5.34 billion at the time of approval of the arrangement) was approved in July, 2016... and the first review was completed on December 5, 2016

As part of the completion of the second review, the Board also approved Iraq's request for waivers of non-observance and applicability of performance criteria, and modification of performance criteria. Further fiscal consolidation was achieved in 2016, but at a slower pace than programmed because of weak control of investment expenditure and humanitarian needs. To move the program forward, the authorities are implementing strong corrective measures as prior actions and are committed to further fiscal measures in 2018 to ensure external and debt sustainability.

The economic policies implemented by the Iraqi authorities to deal with the shocks facing Iraq—the armed conflict with ISIS and the ensuing humanitarian crisis and the collapse in oil prices—are appropriate. In the fiscal area, the authorities are implementing a sizable fiscal adjustment, mostly through retrenchment of inefficient capital expenditure while protecting social spending. The authorities are appropriately maintaining the peg of the Iraqi dinar to the U.S. dollar, which provides a key anchor to the economy. Performance under the Stand-By Arrangement has been weak in some key areas, but understandings have been reached on sufficient corrective actions to keep the program on track. Resolute implementation of the authorities' program, together with strong international financial support, will be key. Further fiscal consolidation measures are needed in 2017-18 to keep the program on track.

The composition of the fiscal adjustment should be improved over time by increasing non-oil revenue and reducing current expenditure. In addition, reforming the electricity sector and state-owned enterprises will make room for larger and more effective investment expenditure that supports growth and job creation.

Significantly improving public financial management will be important. Arrears need to be assessed and paid following verification, and expenditure commitment and cash management should be strengthened to prevent the accumulation of new arrears.

Measures to bolster financial sector stability include strengthening the legal framework of the Central Bank of Iraq, restructuring state-owned banks, and eliminating an exchange restriction and a multi-currency practice. Measures to prevent money-laundering, counter the financing of terrorism, and strengthen the anti-corruption legislation also need to be implemented.

Implementation of the budget-sharing agreement with the Kurdistan Regional Government would put both the federal government and the Kurdistan Regional Government in a better position to address the shocks to the Iraqi economy.

... Iraq is facing a double shock arising from the conflict with ISIS and the plunge in oil prices. In 2016, real GDP increased by 11 percent owing to a 25 percent increase in oil production, which was little affected by the conflict with ISIS. This year, economic activity is expected to remain muted due to a 1.5 percent contraction in oil production owing to the OPEC + agreement to reduce oil production and only a modest recovery of the non-oil sector. The decline in oil prices has driven the decline of Iraq's international reserves from \$54 billion at end-2015 to \$45 billion at end-2016. Fiscal pressures are ongoing, with the government deficit increasing from 12 percent of GDP in 2015 to 14 percent in 2016 despite the ongoing fiscal consolidation, due to weaker oil prices and rising humanitarian and security spending.

Directors noted the fiscal adjustment achieved in 2016, albeit at a slower pace than programmed because of weak control of investment expenditure and spending pressures stemming from the military campaign against

ISIS and assistance to internally displaced people and refugees. They welcomed that this adjustment was achieved mostly through retrenchment of inefficient capital expenditure while protecting social spending. Directors welcomed passage of a 2017 supplementary budget and the authorities' commitment to implement further consolidation measures in 2017-18 to keep the program on track and ensure external and debt sustainability. They stressed that fiscal space needs to be found to enhance human capital and rebuild the physical capital of the country. Tackling the low level of non-oil tax revenue and very high level of public consumption would help create the fiscal room to finance growth-enhancing investment.

Directors stressed the importance of implementing structural reforms to improve the investment climate, diversify the economy, and achieve sustainable growth. They urged the authorities to overhaul public financial management, including by completing a regular inventory and paying down any arrears, and strengthening expenditure commitment and cash management to prevent the accumulation of new arrears.

The IMF's July 25, 2017 *Staff Report on the Article IV 2017 Consultation* noted that,

With the current outlook for oil prices, and assuming that the authorities implement the programmed fiscal consolidation, the budget deficit of 14 percent of GDP in 2016 can be eliminated by 2021, the public debt-to-GDP ratio stabilized by 2018, and the balance of payments brought back into surplus by 2021. But risks remain very high, arising primarily from a further fall in oil prices, setbacks in security, political tensions ahead of elections in 2018, and weak administrative capacity.

... Despite volatile security conditions, oil production has tripled since 2003, but little progress has been made to diversify the economy as the non-oil sector was adversely affected by the lack of security and a difficult business environment. The growth of oil production financed a large expansion of public expenditure and civil service employment, which tripled between 2003 and 2014. The composition of public expenditure is heavily tilted towards wages, pensions and transfers. Despite an oversized public sector, even relative to other oil-exporting countries, the quality of public services particularly health, education and electricity, where power outages are frequent, is sub-par. Violence and a very difficult business environment have stifled private sector and financial sector development). The lack of electricity, political instability, corruption, and the lack of access to finance were identified as the most significant constraints by the World Bank's latest Investment Climate Assessment.

The conflict with ISIS has caused the destruction of infrastructure and assets and boosted the number of internally displaced persons to 3.0 million and the number of people in need of humanitarian assistance to 11 million (29 percent of the population), including over 241,000 Syrian refugees. The oil price decline has resulted in a massive reduction in fiscal and export revenue, pushing the fiscal and balance of payments deficits to unsustainable levels). The authorities are responding to the crisis with large but necessary fiscal adjustment, which is being supported by significant official financing, including a Stand-By Arrangement (SBA) with the Fund,¹ of which the Board completed the first review in December 2016.

Iraq cannot ignore the fiscal issues that the IMF raises. They are critical to the function of any modern economy, its ability to attract outside investment and aid, and ability to do international business, as well as ensure domestic stability. At the same time, Iraq's budget problems are also shaped by its poor overall level of governance, its lack of stability and its lack of core competence, corruption, and divisive politics.

Iraq's entire process of budget allocation and spending is affected by gross corruption, political fragmentation, and the sheer size of an inflated government and state sector. Iraq has shown in case after case that its budget, reform, and development plans are more political than real, and most never survive the political process that review them. As a result, Iraq has long had chronic budget deficits and needs for outside loans—a need sharply reinforced by the more than 50% drop in oil prices and petroleum export revenues per barrel in 2014.

Moreover, balancing Iraq's budget is a less serious problem in terms of post conflict stability than funding internal sectarian and ethnic stability, providing security, allocating the money properly,

exerting adequate financial controls, and improving the effectiveness of government spending. Once again, the World Bank warns that Iraq's problems in moving towards stability, recovery, and development face additional challenges. Its *Systematic Country Diagnostic* report notes that,⁵⁰

Effective public financial management (PFM) is a critical foundation for basic economic governance and for ensuring the performance, legitimacy, and accountability of the state. PFM interventions tend to focus on increasing aggregate fiscal discipline, allocating resources according to national priorities, and encouraging accountability in public spending. For fragile states, PFM reform can be an important part of state-building that is particularly significant when it is associated with efforts to increase transparency and accountability, to develop sustainable capacity and to support service delivery (Gill, 2015).

... In Iraq, enhancing PFM will be crucial for rebuilding the legitimacy of the state, in addition to ensuring accountability and efficiency in the management of public resources. Weaknesses in the PFM system increase the risk of waste, abuse, and corruption. The most recent comprehensive assessment of the Iraqi PFM system using the Public Expenditure and Financial Accountability (PEFA) methodology took place in 2007.⁴⁵ It awarded Iraq the lowest possible score (D) on a large number of performance indicators, indicating that there was substantial scope for improvement.⁴⁶

...In Iraq, however, as is the case in many fragile and conflict-affected countries, the formal channels by which public finance and procurement are managed mask the actual processes through which resources are raised and spent. These parallel processes are obscure and difficult to influence or change, especially as they shift power from the state to other actors, thus ensuring that formal PFM systems remain weak, unreliable, and corrupted. In Iraq, as elsewhere, the main challenge is often providing incentives to governing elites and other interests to support the legitimate formal system rather than the shadow arrangements (Porter et al, 2010). The difficulty in Iraq is that the volume of resources that can thus be seized – oil revenues, aid resources, and other state income – is vast, making it harder to develop the necessary incentives. More concerted global interdiction efforts – such as the Extractive Industries Transparency Initiative (EITI) – are needed to target illicit resource flows, particularly trans-border flows through money laundering, corruption, or criminal enterprises.

...Fragile states are particularly weak in the implementation phase of PFM, in other words, budget transparency and execution, including crucial downstream processes like cash management, procurement, payroll control, and internal control. This is also the case in Iraq (Porter et al, 2010). These transactions tend to involve multiple agencies and individuals acting at some remove from the center where it is possible to exercise considerable discretion with no supervision or control (Fukuyama, 2004). Focusing on improving these processes is more important than upstream processes such as budget preparation, multi-year frameworks, or program budgeting and is more likely to bear fruit in terms of improving results and accountability in government spending. Similarly, rather than passing laws and regulations at the center, it may be more effective to strengthen central-local links through revenue sharing agreements with governorates and municipalities that are linked to performance and supported by strengthened PFM. In Iraq, it is likely to be necessary to strengthen PFM in the oil and security sectors and to move away from using cash-based transactions. While this is a highly contentious area, progress is possible. One of the first actions undertaken by the current government when it took office was to identify 50,000 ghost workers on the payrolls of the Ministries of Defense and of the Interior.

.... Iraq's PFM processes and systems are typical of fragile states with the same sorts of challenges in numerous areas. A key challenge for the government is to track spending across the various stages of the budget cycle. Line ministries and affiliated agencies often lack reliable data on the availability of funds and cannot commit expenditures in a timely fashion. Cash management is weak, and the government often has insufficient cash available to meet its financial obligations as they fall due. The IMF estimated that the accumulation of domestic arrears in Iraq was 2.5 percent of GDP at the end of April 2015, and while procedures for authorizing government purchase orders are designed *inter alia* to help to control arrears, they are not effective in the absence of a sound commitment control system. There are additional weaknesses in the government's ability to allocate resources in accordance with its sectoral strategies...

Iraq's efforts to draft a "post-ISIS" budget for 2018 have led the government to examine a number of issues. According to media reports, these issues have included the crisis over a Kurdish

referendum on independence and a possible cut in the KRG's share of the budget from 17% to 12.8%, cutting off funds for the Peshmerga, its need to raise the value of its bond sales, and debates over how many Popular Mobilization Forces to fund, how large a deficit to fund, the size of the defense budget, limits on taxes, and the funding of agriculture. So far, however, the government has not addressed the cost of dealing with many of the key issues Iraq must deal with in the post-ISIS issue – or shown that Iraq's leaders recognize the need for budget and governance reform.

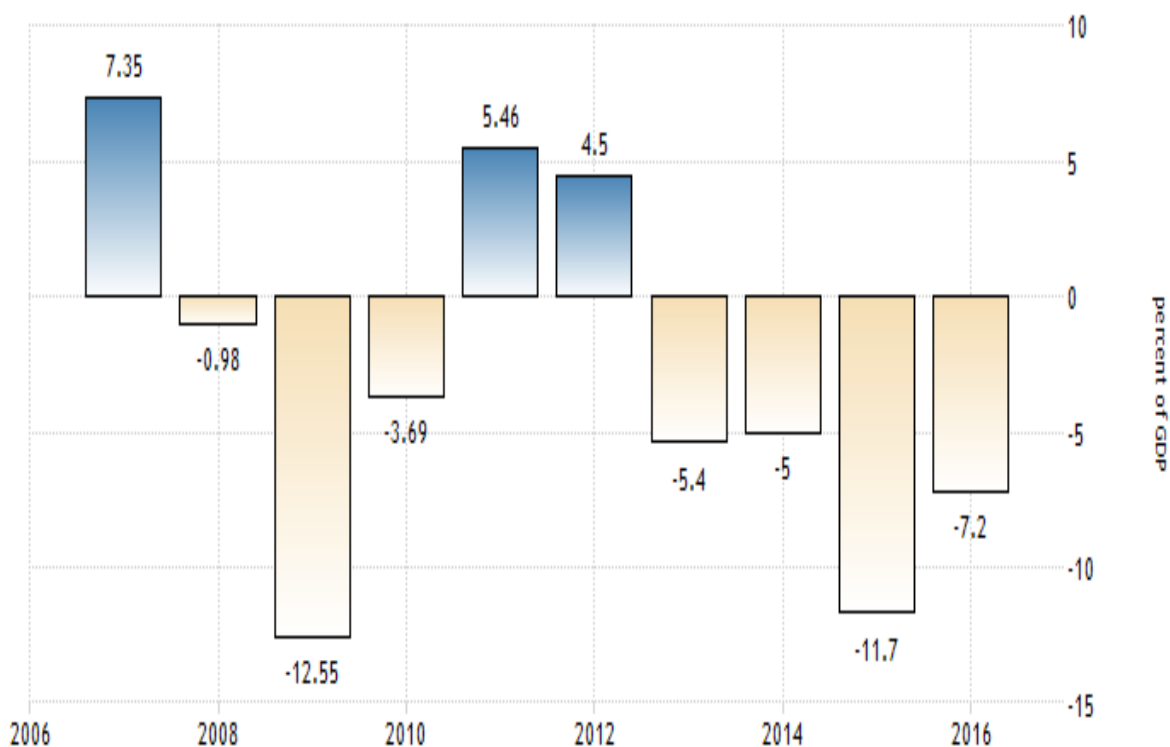
Both Iraqis and outside states need to recognize that the full range of Iraq's challenges to its budget approach “mission impossible” as it now begins to shape its post ISIS war budgets. There are a host of critical uncertainties and competing demands that will require constant adjustment of government plans, revenue collection, and expenditures – most of which will present serious internal political challenges and present serious problems in adjust current expenditures, current annual plans, and every interactive aspect of future plans.

These factors include:

- Meeting the classic requirements for a stable budget set by the IMF: the need to preserve GNP growth, keeping revenues and expenditures in balance, and preserving a stable balance of payments and currency, limiting inflation, and controlling debt
- Maintaining and creating jobs and move towards high levels of employment.
- Reforming and restructuring an economy that is highly inefficient and over-dependent on the state sector, and damaged by past decades of conflict, and crisis
- Dealing with a major budget crisis caused by the radical drop in oil prices and export revenues discussed in the next session of this report, and the inability to predict future petroleum export earnings.
- The poor development of the private sector, and failure to modernize and reform the agricultural sectors over past decades.
- A weak financial sector outside government.
- Meeting the need to deal with the unpredictable and often competing demands of different ethnic, sectarian interests and reducing (or dealing with) the risk of internal crises and conflicts – particular Sunni vs. Shi'ite and Arab versus Kurd.
- Coping with the cumulative impact of paying for humanitarian relief, recovery, and development – immediate, near-term, and longer-term needs that all compete for resources, and are sharply affected by the different impact of combat in given regions. These activities and costs are hard to plan and estimate, and can change in mid-effort if additional combat takes place.
- The continuing threat posed by the aftermath of the war against ISIS: the surviving extremists and ISIS fighters, other extremist movements, the spillover from instability and conflict in Syria, pressure from other neighbors
- A major military and security burden equal to 9% - 11% of the GDP in recent years whose further nature – and “peace dividend,” if any --is unpredictable.

- The need to reduce dependence on outside aid and competing powers, including Iran, Russia, the Hezbollah, Turkey,

Figure Seventeen: Iraq's Uncertain Budget Deficits – Part One



SOURCE: TRADINGECONOMICS.COM | CENTRAL BANK OF IRAQ

Iraq Government	Last	Previous	Highest	Lowest	Unit	
Government Debt to GDP	63.70	55.00	342.70	31.20	percent	[+]
Government Budget	-7.20	-11.70	10.72	-34.91	percent of GDP	[+]
Government Budget Value	-3927263.00	-1427548.00	61244368.00	-13581445.00	IQD Million	[+]
Government Revenues	66470252.00	54048032.00	119817224.00	2450635.00	IQD Million	[+]
Fiscal Expenditure	70397515.00	55475580.00	106873027.00	1010030.00	IQD Million	[+]
Credit Rating	25.00					[+]
Military Expenditure	6187.60	9604.20	9604.20	2051.90	USD Million	[+]

Source: Trading Economics, <https://tradingeconomics.com/iraq/government-budget>.

Figure Seventeen: Iraq's Uncertain Budget Deficits – Part Two



Iraq Government	Last	Previous	Highest	Lowest	Unit	
Government Debt to GDP	63.70	55.00	342.70	31.20	percent	[+]
Government Budget	-7.20	-11.70	10.72	-34.91	percent of GDP	[+]
Government Budget Value	4046487.00	1645448.00	61244368.00	-13581445.00	IQD Million	[+]
Government Revenues	56272905.00	46730823.00	119466403.00	1119448.00	IQD Million	[+]
Fiscal Expenditure	35226042.00	27924908.00	106873027.00	468749.00	IQD Million	[+]
Military Expenditure	6187.60	9604.20	9604.20	2051.90	USD Million	[+]
Credit Rating	25.00					[+]

Source: Trading Economics, <https://tradingeconomics.com/iraq/government-budget>.

Government Barriers to the Ease of Doing Business

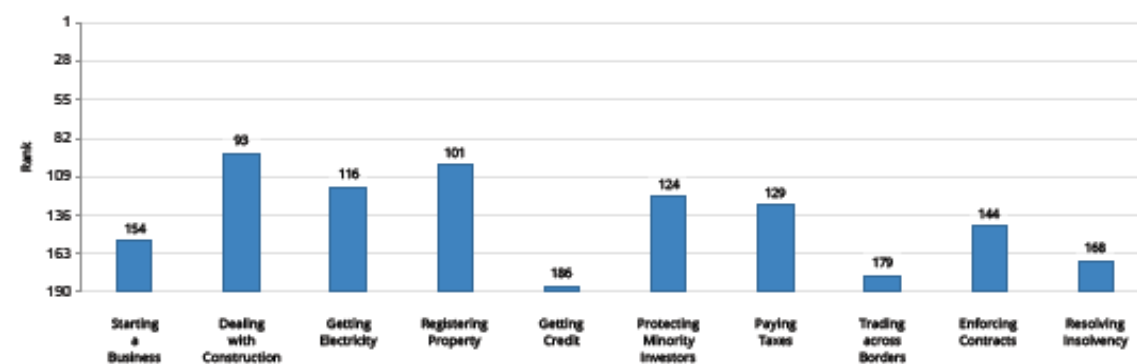
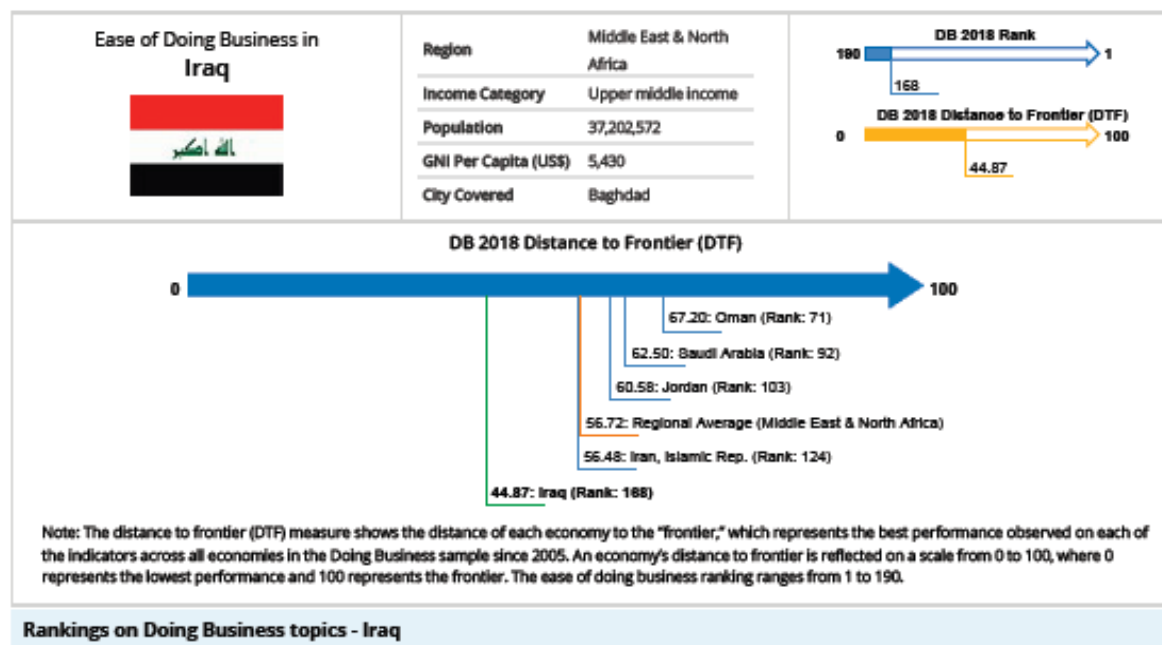
Iraqi governance has interacted with a business and financial community whose development has been crippled by war, crisis, and excessive state interference to create a range of problems that sharply reduce the ease of doing business. A separate World Bank effort has long assessed a wide range of indicators of the number of barriers a given government creates to doing business or creating new businesses. In 2016, Iraq's performance was so bad that it ranked 165th out of 195 countries, and it was clear that Iraq was making no substantive progress in spite of years of talk about reform.⁵¹ In 2017, it ranked 168th -- negative progress.

Figure Eighteen and **Figure Nineteen** provide a comparison of Iraq's performance in easing the barriers to doing business with that of many of its neighbors. It also scores Iraq's performance ranking among 190 countries by key parameter. All too often, Iraq's performance is dismal compared to that of neighbors which much the same history and culture.⁵²

The government is only one source of Iraq's barriers to creating new businesses, attracting investment, and creating jobs, but the current state of Iraq's fiscal sector and business skills and development has to be kept in perspective. Iraq was scarcely free of corruption and cronyism under its monarchy. The monarchy fell in July 1968, however, and everything that has followed has been worse. A longer series of military dictatorships, gross overexpansion of the state sector, Saddam Hussein, wars and sanctions, growing state interference in the agricultural sector, far greater levels of corruption, the 2003 invasion, and political instability and civil war.

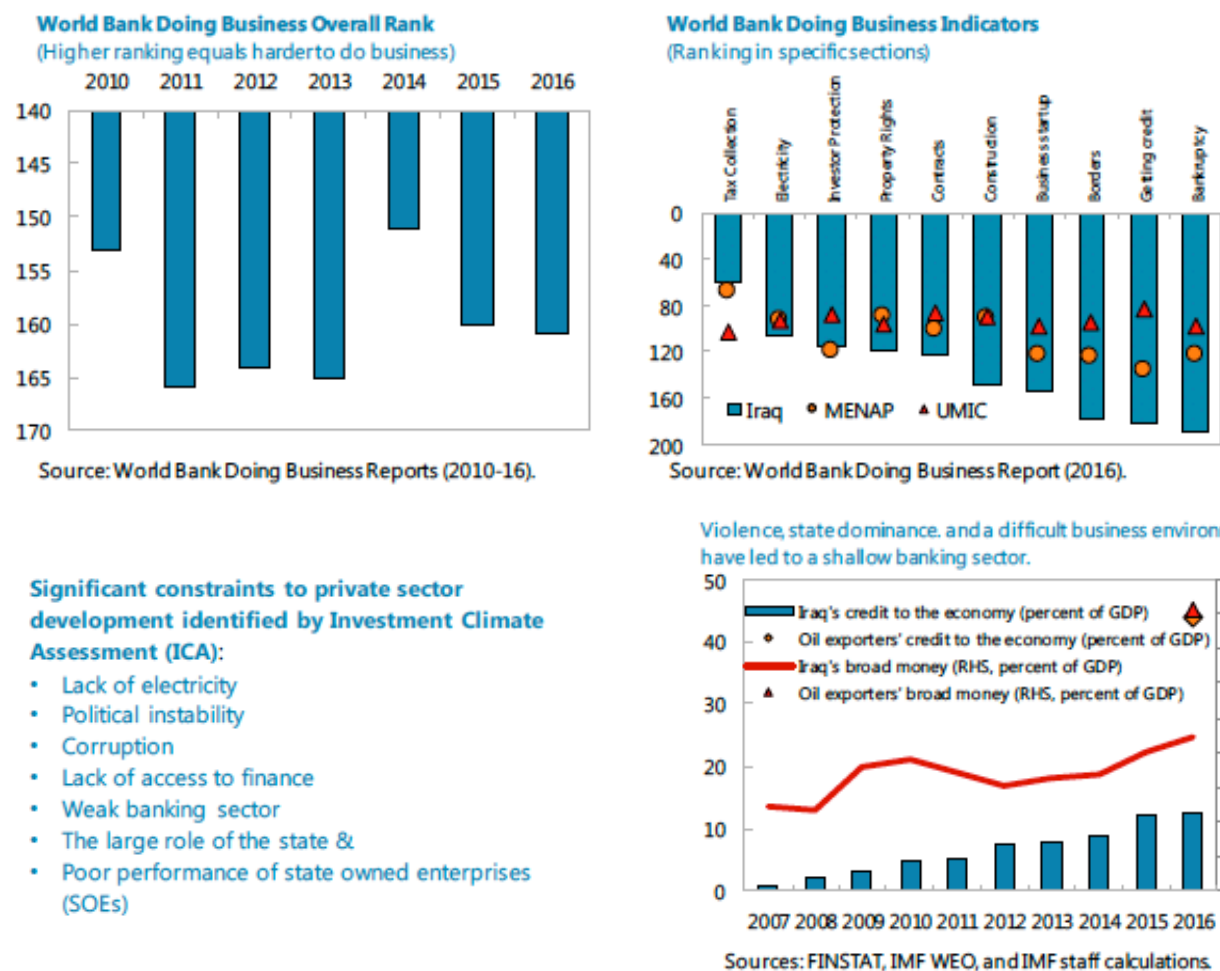
Every aspect of Iraq's business sectors -- services, industry, and agriculture -- need to be modernized, but those who govern have been far more to blame than the governed.

Figure Eighteen - Part One: Iraq's Barriers to Doing Business



Source: World Bank, *Doing Business 2018, Reforming to Create Jobs*, <http://www.doingbusiness.org/reports/global-reports/doing-business-2018>, p. 4. Also see World Bank Flagship Group Report: *Doing Business 2017: Iraq*, <http://www.doingbusiness.org/data/exploreeconomies/iraq>, accessed July 5, 2017, pp. 8-9.

Figure Eighteen - Part Two: Iraq's Barriers to Doing Business



Source: Adapted from IMF, IRAQ, STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE THREE-YEAR STAND-BY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA, July 25, 2017, p. 7

From Governance to Economics: Iraq's Petroleum Sector and "OPEC Disease"

As the previous sections of this report have shown, there is no clear line that separate "governance" from "economics" and this is particularly true in the case of a petro state like Iraq. The EIA makes the following comments about role of governance in shaping Iraq's petroleum sector:⁵³

Iraq is re-developing its oil and natural gas reserves after years of sanctions and wars. Iraq's crude oil production grew by almost 1.5 million barrels per day (b/d) over the past five years, increasing from 2.6 million b/d in 2011 to almost 4.1 million b/d in 2015. These production estimates include oil produced in the Iraqi Kurdistan Region, the semiautonomous northeast region in Iraq governed by the Kurdistan Regional Government (KRG). The country's production grew at a slower rate than the Iraqi government had expected over the past decade because of infrastructure bottlenecks in the south, supply disruptions in the north, and delays in awarding contracts. However, Iraq's production boomed in 2015, increasing by almost 700,000 b/d compared with the level in 2014 and representing the largest year-over-year increase since Iraq's production recovery in 2004, following the start of the Iraq war.

Despite the near-record level production growth in 2015, the Iraqi government lowered its future oil production targets and slashed investment plans. Iraq has been struggling to keep up its share of payments to the international oil companies (IOCs) operating its oil fields. The drop in crude oil prices, coupled with the war against the Islamic State of Iraq and the Levant (ISIL) in northern Iraq that began in mid-2014, caused Iraq's budget deficit to grow substantially in 2015.

Iraq's economy is heavily dependent on oil revenues. In 2014, crude oil export revenue accounted for 93% of Iraq's total government revenues, according to the International Monetary Fund (IMF)² In 2015, Iraq (excluding KRG) earned slightly more than \$49 billion dollars in crude oil export revenue, \$35 billion less than in 2014, despite a substantial increase in export volumes.

...Iraq continues to lower its ambitious oil production targets. When the TSCs were signed, Iraq and the IOCs had set ambitious initial production plateau targets for the dozen oil fields, totaling more than 12 million b/d to be completed by 2017. However, the contracts have been re-negotiated to more modest levels and Iraq may have to lower the targets again. After lowering the target to about 9.0 million b/d by 2020¹⁵, Iraq may lower the target down to 6.0 million b/d if oil prices continue to be low.

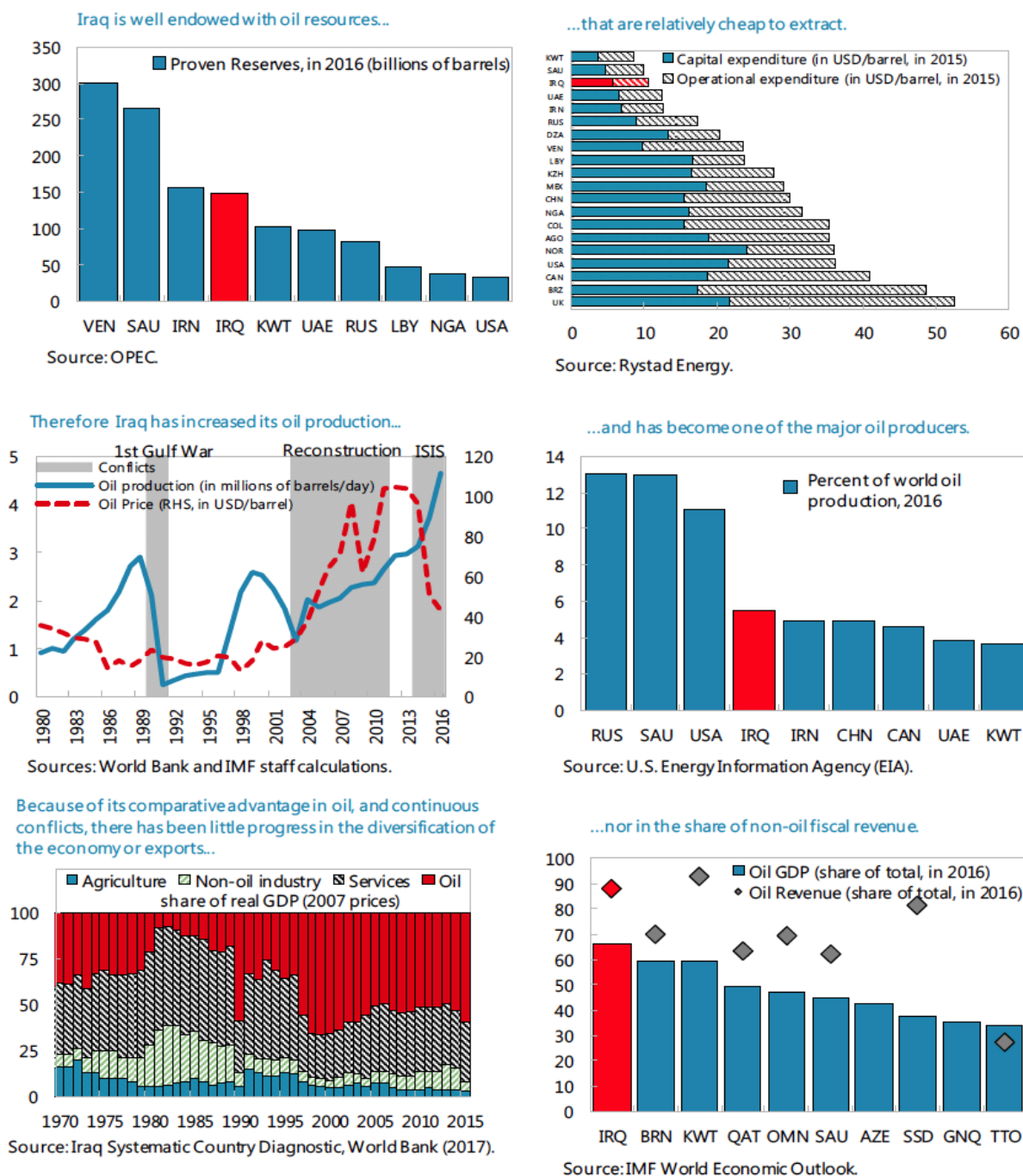
In the Iraqi Kurdistan Region, the KRG has also lowered its ambitious production targets. Previously, it planned to increase production and pipeline capacity to 1.0 million b/d by the end of 2015 or early 2016. However, the KRG is now targeting that amount for the end of 2016. Project delays caused by the ISIL offensive and past non-payment of IOCs for work performed make it unlikely this goal will be achieved.

The IMF provides the data show in **Figure Nineteen**, and notes that,⁵⁴

Despite volatile security conditions, oil production has tripled since 2003, but little progress has been made to diversify the economy as the non-oil sector was adversely affected by the lack of security and a difficult business environment. The growth of oil production financed a large expansion of public expenditure and civil service employment, which tripled between 2003 and 2014...The composition of public expenditure is heavily tilted towards wages, pensions and transfers. Despite an oversized public sector, even relative to other oil-exporting countries, the quality of public services particularly health, education and electricity, where power outages are frequent, is sub-par. Violence and a very difficult business environment have stifled private sector and financial sector development...The lack of electricity, political instability, corruption, and the lack of access to finance were identified as the most significant constraints by the World Bank's latest Investment Climate Assessment.

...The oil price decline has resulted in a massive reduction in fiscal and export revenue, pushing the fiscal and balance of payments deficits to unsustainable levels...The authorities are responding to the crisis with large but necessary fiscal adjustment, which is being supported by significant official financing, including a Stand-By Arrangement (SBA) with the Fund

Figure Nineteen: Iraq's Over-Dependence on Oil Exports



Note: AGO = Angola, AZE = Azerbaijan, BRN = Brunei Darussalam, BRZ = Brazil, CAN = Canada, CHN = China, COL = Colombia, DZA = Algeria, GNQ = Equatorial Guinea, IRN = Iran, IRQ = Iraq, KWT = Kuwait, KZH = Kazakhstan, LBY = Libya, MEX = Mexico, NGA = Nigeria, NOR = Norway, OMN = Oman, QAT = Qatar, RUS = Russia, SAU = Saudi Arabia, SSD = South Sudan, TTO = Trinidad and Tobago, UAE = United Arab Emirates, UK = United Kingdom, USA = United States of America, and VEN = Venezuela.

Source: Adapted from IMF, *Staff Report on the Article IV 2017 Consultation*, July 25, 2017, p. 5

Corruption in the Petroleum Sector

As noted earlier, the full Transparency International report on Iraqi corruption now dates back to work done in May 2015, but there is little reason to assume that the grim sections on the scale of corruption in the petroleum industry are not still valid in spite of the efforts of Prime Minister Abadi and others:⁵⁵

The extractives industry dominates the Iraqi economy, with oil accounting for 90% of government revenue, 99% of Iraq's exports, and 60% of the country's GDP (UNDP 2015). In recent years, Iraq has successfully increased the amount of oil it produces. Currently, the country produces 2,980,000 barrels of oil per day, and petroleum exports value US\$89,402 million. Iraq also has 3,158 billion standard cubic meters of natural gas reserves (OPEC 2014).

The substantial fall in the price of oil is likely to have a significant impact on the Iraq economy. In June 2014, oil was trading at US\$115 a barrel, but is currently trading at under US\$50 a barrel. The Iraqi government had to revise down its budget as a result (Reuters 2015b).

Oil has had a role in destabilizing the country by providing a source of finance to criminal gangs and militants like Isis, and has been a cause of tensions between the oil rich Kurdish Region and the central government in Baghdad (BTI 2014).

Oil production is handled by both state-owned and privately-owned international oil companies. State-owned companies produce the oil in the areas where Baghdad has control, but in the semi-autonomous region of Kurdistan, the oil is produced by international companies (EITI 2015).

The following areas are particular corruption challenges for this sector.

Oil smuggling

Preventing oil smuggling remains a challenge for Iraq, with government revenue being lost through this practice. Oil smuggling has had a massive destabilizing effect on Iraq, producing corrupt networks involving criminal gangs, political and religious leaders (BTI 2014).

Procurement and oil revenue management

While improvements in the procurement process for oil and gas sector have resulted in fewer opportunities for corruption, incidents of bribery still exist (DoS 2013). Since 2009, the government has held three rounds of bidding where over 40 companies competed for development contracts for Iraq's oil and gas fields. The first two rounds in 2009 and 2010 were considered transparent and competitive, but the 2011 round suffered from a lack of bidders (DoS 2013).

Democratic accountability for the oil sector would be improved if parliament were to play a large role in monitoring procurement. Currently, parliament does not provide much oversight of procurement contracts. This would provide a further check on the extractives sector (NRGI 2013).

Information on the reserves, production volumes, prices, exports, companies operating in the country and production stream values is made publically available by the Oil Ministry. However, the Oil Ministry does not publish information about how contracts change after the bidding process, which undermines transparency and is an area of major corruption risk (NRGI 2013).

Iraq has been found to be compliant with the Extractive Industries Transparency Initiative (EITI), which encourages transparent natural resource management (EITI 2015).

Iraq has introduced a multi-stakeholder group to oversee compliance with EITI. This group, Iraq Revenue for Transparency, involves government representatives, oil representatives from both international and national oil companies, civil society groups, trade unions and monitoring agencies. The next EITI report is due at the end of 2015 which will shed more light on the effectiveness of this group (NRGI 2011).

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Use of oil revenues

Oil revenue in Iraq is predominantly distributed by the central government to the provinces based on population size. Some information on how oil revenues are distributed is made publically available (NRGI 2013).

Concerns still remain about whether the oil revenue is used transparently and to the benefit of all Iraqis. Between 2007 and 2012, the government tried to redistribute oil revenues through public transfers and public sector employment, but these have had mixed effect on reducing poverty in the country (World Bank 2014c).

Furthermore, state-owned oil companies (North Oil, South Oil, Midland Oil and Missan Oil) do not make their audited financial reports publically available (NRGI 2013) which increases the corruption risk.

Transparency International reporting in 2017 indicated that little had changed between 2015 and 2017,⁵⁶

... ensuring that Iraq's massive oil and gas income is used for the benefit of all Iraqis is probably one of the biggest anti-corruption challenges of the coming years. Two major corruption risks threaten the good use of hydrocarbon resources:

... **Oil smuggling.** There are converging reports denouncing oil smuggling on various scales, from local pipeline drilling to large-scale organized fraud. These illicit activities have been used to finance major political & religious groups and personalities, criminals, militias and other violent groups.

... **Oil revenue management** is another wider challenge for Iraq. Oil and gas, as extractives industries, are deemed to carry inherent high corruption risks due to the high volumes of revenue involved and the high incentives for rent seeking they provide...

Dealing with a "Crash" in Oil Revenues

Figure Twenty summarizes Iraq's oil revenues relative to those of other Gulf and OPEC states. As the EIA notes, there is some good news in these figures,

Iraq...has seen a substantial increase in oil output since 2010, with its revenues accounting for 12% of the OPEC total in 2016. During the early 1990s, Iraq's revenues had fallen to less than 1% of OPEC's total as Iraqi oil production was largely shut-in following its August 1990 invasion of Kuwait and the subsequent United Nations oil embargo that lasted until May 2003. Iraqi oil export revenues increased after 1996 under the United Nations' oil-for-food program, which permitted revenue from Iraqi oil exports to purchase only food and medicine for war reparations and for other specific authorized purposes.

The bad news is that Iraq's decades of war, turmoil, and sanctions have sharply restricted its ability to develop its oil and gas reserves, produce and export them efficiently and securely, and create a mix of refinery and product industries that takes advantage of Iraq's resources. There are major problems in defining terms and estimating key numbers in comparing international data on petroleum reserves and income, but it seems clear that Iraq has only developed a limited part of its potential earning capacity, and has suffered massive cuts in its export revenues since 2014, in spite of some increases in production.

The EIA estimates that Iraq has some 140 to 144 billion barrels of proven reserves: This is 18% of proved reserves in the Middle East and almost 9% of global reserves, ranking fifth in the world after Venezuela, Saudi Arabia, Canada, and Iran. Iraq's reserves compare with 0.1 billion barrels for Bahrain, 3 billion for Yemen, 25 billion for Qatar, 80 billion for Russia, 98 billion for the UAE, 102 billion for Kuwait, 157-158 billion barrels of reserves for Iran, and 266-267 billion barrels for Saudi Arabia.⁵⁷

The two most comparable cases of Gulf states that have developed their reserves with relative efficiency and without internal civil conflict and prolonged external wars are Saudi Arabia -- which **Figure Seventeen** shows had 2.5 times the earnings in 2016, but only 1.5 times the reserves, and the UAE which had 87% of the earnings in 2016, but only 60% of the reserves.

Put differently, if one examines the impact of long periods of diversification and development of crude oil and gas exports, petroleum products, and other exports in the same countries, the CIA estimates that Iraq had a total of \$23.36 billion in exports of all kinds in 2016 versus \$183.6 billion for Saudi Arabia, and \$298.6 billion for the UAE.⁵⁸ The CIA export data obviously disagree sharply with the EIA data, but still illustrate impact that governance can have on economics.

The additional bad news is that Iraq's crude oil production grew by almost 1.5 million barrels during 2001 to 2015, increasing from 2.6 million b/d in 2011 to almost 4.1 million b/d in 2015. However, Iraq's crude oil export earnings in constant 2016 U.S. dollars dropped from a peak of \$91.2 billion in 2012 to \$88.4 billion in 2013 and \$87.6 billion in 2014, and then crashed to \$57.9 billion in 2015 and \$53.5 billion in 2016 because of a massive drop in world oil prices.

The size of these revenues is also only part of the story. It is impossible to make any clear determination about how well, and how honestly, the Iraqi government manages the development and use of its key source of income -- a petroleum sector where the CIA estimates that, "the oil sector, which provides more than 90% of government revenue and 80% of foreign exchange earnings."⁵⁹

Furthermore, **Figure Twenty** illustrates the fact that estimates of even Iraq's past crude oil export revenues can differ significantly from source-to-source, and there has never been any reliable way to project future oil revenues. **Figure Twenty** shows that the IMF projects that they will remain relatively low – compared to peak levels -- in spite of projected increase in production, but a war or crisis that affected a major oil producer inside or outside the Gulf, or major global recession of the kind the world experiences in 2008, could radically change such estimates overnight

What is clear is that the corrupt and divided Central government (and to some degree the equally corrupt and divided KRG government) control how fields and facilities are contracted out for management and development to foreign oil companies; how development affects given regions, sects, and ethnic groups; the domestic price and supply of product, changes in investment and development of upstream and downstream operations, and control over virtually all of the nation's petroleum export income.

The Iraqi version of the "OPEC Disease"

Iraq may be an oil state, but it is anything but oil "wealthy." **Figure Twenty** also shows Iraq's per capita income from crude oil exports -- which make up almost all of its export earnings. These earnings too have dropped sharply as a result of the crash in world oil prices. The EIA estimates that their value in constant 2016 U.S. dollars has dropped from a peak of \$2,767 in 2012 to \$2,592 in 2013 and \$2,486 in 2014, and then crashed to \$1,590 billion in 2015 and \$1,423 in 2016. Iraq was in a better position than Iran in 2016: \$1,423 versus \$453. However, Kuwait was \$9,343, Saudi Arabia was \$4,132, Qatar was \$10,458, and the UAE was \$5,043.

The need for far more efficient, effective, and honest Iraq governance is also clear from the total size of Iraq's GDP per capita in PPP terms. Iraq's per capita income in 2016 was \$16,500. This was lower than a more diversified Iran's \$18,100. It was far lower than Oman (\$43,700), Bahrain (\$50,300), Saudi Arabia (\$54,100), the UAE (\$67,700) and Qatar (\$129,700). Iraq has a clear need to use its revenues more wisely and more honestly.

Like far too many other OPEC states, Iraq has misused its petroleum export income to the point where they have done critical damage to their economies.⁶⁰ The World Bank report described Iraq's "petroleum disease" as follows:⁶¹

Oil dominates Iraq's economic and political framework. Iraq is the world's fourth largest oil exporter (exporting about 3.7 million barrels per day of the estimated 4.2 million barrel per day that it produced in 2015), being responsible for 6 percent of today's global oil exports and 9 percent of total global reserves. It also holds the world's fifth largest proven reserves of petroleum, although Iraq remains greatly under-explored compared with other major oil producing countries. The cost of oil production in Iraq is one of the lowest in the world because of its relatively uncomplicated geology and its multiple, onshore super giant oilfields located close to coastal ports. Iraq is today also the country most dependent on oil in the world, with the hydrocarbon sector accounting for 58 percent of the country's GDP, 99 percent of exports, and more than 90 percent of central government revenue in 2015 (Figure 3. Oil Exports as a Percentage of Total Exports, OPEC Members

...The economic wreckage of wars and sanctions, combined with the dissolution of the country's key institutions, meant that growing oil revenues in the post-2003 period reinforced the status quo rather than becoming an impetus for reform. The central government alone has expanded to 44 percent of GDP today, and the public sector is by far the largest formal sector employer. Public sector jobs were one of the few reliable instruments for distributing oil wealth that the post-2003 government had at its disposal, and public sector jobs as well as wages have continued to grow over the past 13 years. Likewise, the dominance of SOEs was strengthened as the state had no incentives to restructure them. Aside from their value as means of economic control, they provided jobs for many Iraqis. State dominance of the financial sector continued as

the insolvency of the system made reform difficult, and banks expanded as their government business grew (World Bank, 2014).

Iraq's current reliance on oil is not a viable source of broad-based economic development. Two key aspects underlie this. First, unlike its oil-rich neighbors in the Gulf Cooperation Council (GCC) – and even they have grave concerns about economic sustainability – Iraq has a significantly larger and rapidly growing population, estimated at 35.7 million today.¹ Even under optimistic scenarios for oil production, continuing to rely on oil alone would not generate sufficient jobs. Second, the current economic institutions in Iraq are unable to generate productive spillovers from oil sector growth or from government spending, particularly as there are no incentives for the private sector to invest in the economy. These constraints are exacerbated by limited government effectiveness and policy uncertainty as well as the legacy of conflict and violence (World Bank, 2012a). This raises the question of whether there are any prospects for diversifying the economy, which will be touched upon in Section IV. In the absence of greater security and changes in the role of the public sector, diversification is likely to remain elusive.

... Under the status quo, the economy will remain dominated by an oil-financed public sector, with its attendant shortcomings in terms of weak service delivery and its bloated civil service. Public sector spending as currently allocated and managed is not delivering the results that Iraqis expect (Figure 4). There is a significant tension between the enormous need for the state to improve the delivery of basic services and the overwhelming role that the state plays in the economy. And while the oil economy represents well over half of GDP, it produces only about 1 percent of total employment and has few links to non-oil activities. Rather, oil revenues have enabled the rapid expansion of the public sector

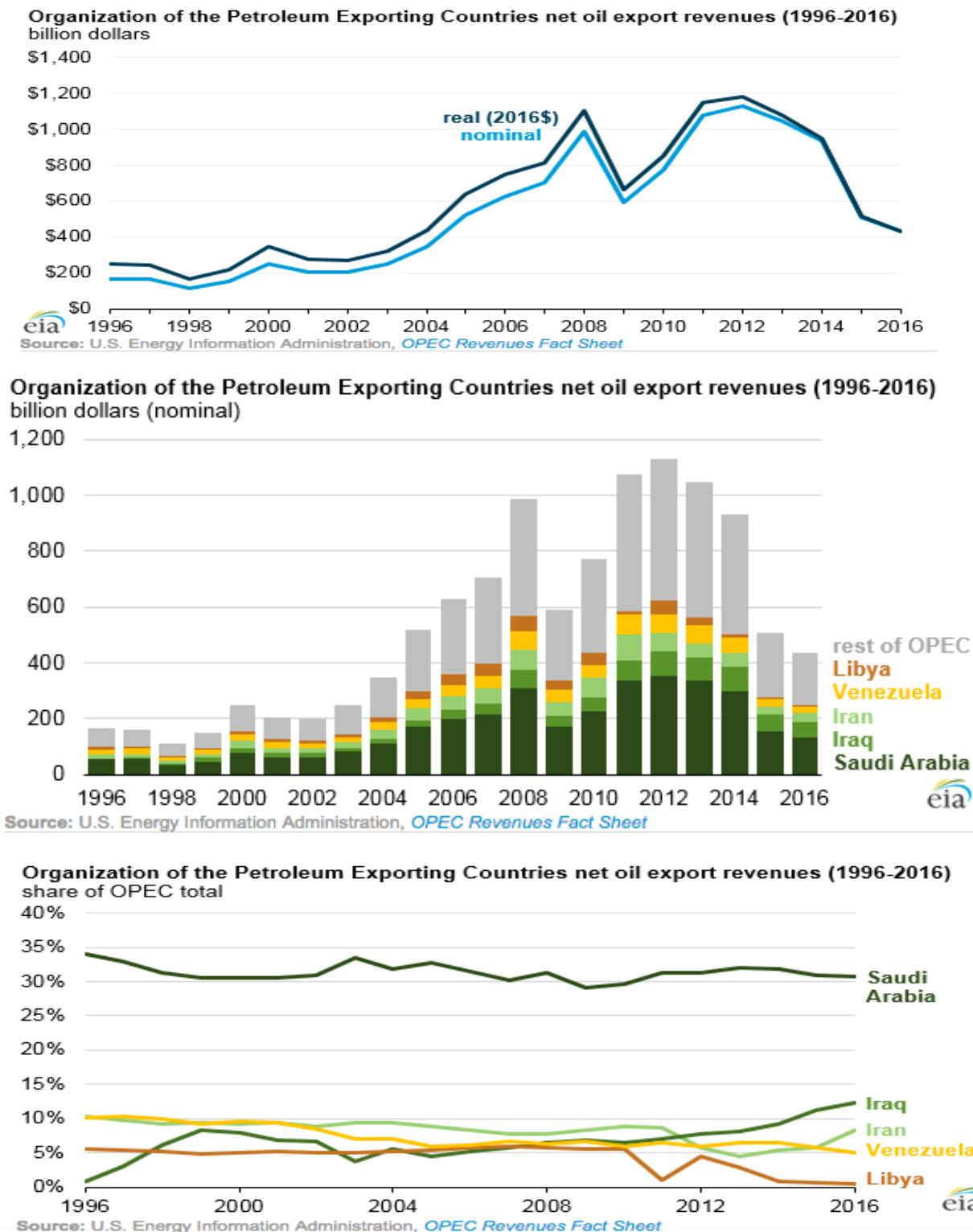
In addition to its impact on jobs, Iraq's oil wealth has reduced the need for taxation and weakened the accountability link between citizens and the state. Compounding this, policy makers have not incorporated the implications of oil depletion and the need to save for the future, leading to a bias towards current consumption and subsidies, harming fiscal sustainability (World Bank, 2012a). Fuel and electricity subsidies in Iraq are estimated to amount to between 7 and 13 percent of GDP and are reflected in very low prices as seen in Figure 5 (IMF, 2015). The availability of oil rents reinforces the reluctance of the Iraqi government to foster the development of an autonomous private sector, transforming the private sector into an opportunity for political influence rather than as a potentially transformative force (World Bank, 2015a).

The World Bank also flags the fact that the ethnic and sectarian geography and division of Iraq's petroleum resources presents critical problems,⁶²

Iraq is spatially diverse in many ways, but most importantly its oil wealth is differentially distributed across the country...The bulk of the country's proven reserves are located in the south, with most of the remainder in the north – including 6 percent in the present Kurdistan region and 15 percent in Kirkuk. The Sunni-dominated west has no proven oil revenues (although it does possess gas). Oil wealth and its distribution is at the center of the dispute between the central government and the Kurdistan Regional Government (KRG). According to their existing agreement, the KRG was to export 550,000 bpd through Ceyhan, Turkey (250,000 bpd from its own fields and 300,000 bpd from federal fields) for the central government's State Oil Marketing Organization (SOMO). In return, the central government would resume making agreed-upon budgetary transfers to the KRG. However, this agreement has not been fully implemented and, since June 2015, the central government has suspended the transfers and the KRG's oil deliveries to SOMO have stopped. Because of the differential geographic distribution of oil resources, any decentralization or federalism reform would need to ensure a stable and equitable resolution to resource sharing to ensure that there were no "losers" who had little choice but to continue the conflict.

If Iraq is to move towards stability and recovery, its politics and governance must deal with the ethnic and sectarian challenges of developing and using its petroleum resources. If it is to move towards balanced development that meets the broad needs of its people, it must both deal with the critical burden imposed by its underproductive and costly SOEs described earlier and create a far more diversified economy. At present, most of its people suffer more from something closer to petroleum poverty than benefit from what could be called oil wealth.

Figure Twenty - Part One: Iraq's True Level of Oil Wealth



Source: EIA, [OPEC net oil revenues in 2016 were the lowest since 2004](https://www.eia.gov/todayinenergy/detail.php?id=31292), May 19, 2017, <https://www.eia.gov/todayinenergy/detail.php?id=31292>.

Figure Twenty - Part Two: Iraq's True Level of Oil Wealth

OPEC net oil export revenues

Country	Nominal (billion \$)					Real (billion 2016\$)				
	2015	2016	2017	2018	Jan-Apr 2017	2015	2016	2017	2018	Jan-Apr 2017
Algeria	\$26	\$19	--	--	\$7	\$26	\$19	--	--	\$7
Angola	\$33	\$26	--	--	\$10	\$33	\$26	--	--	\$10
Ecuador	\$5	\$4	--	--	\$2	\$5	\$4	--	--	\$2
Gabon	\$4	\$3	--	--	\$1	\$4	\$3	--	--	\$1
Iran	\$29	\$36	--	--	\$18	\$29	\$36	--	--	\$18
Iraq	\$57	\$54	--	--	\$23	\$58	\$54	--	--	\$22
Kuwait	\$44	\$37	--	--	\$15	\$44	\$37	--	--	\$15
Libya	\$3	\$2	--	--	\$2	\$3	\$2	--	--	\$2
Nigeria	\$37	\$26	--	--	\$10	\$37	\$26	--	--	\$10
Qatar	\$30	\$24	--	--	\$10	\$30	\$24	--	--	\$9
Saudi Arabia	\$157	\$133	--	--	\$54	\$159	\$133	--	--	\$53
UAE	\$56	\$47	--	--	\$18	\$56	\$47	--	--	\$18
Venezuela	\$29	\$22	--	--	\$9	\$30	\$22	--	--	\$9
OPEC	\$509	\$433	\$539	\$595	\$179	\$515	\$433	\$527	\$570	\$175

View [nominal](#) or [real data](#) (1994-2018)

Note: Iranian net oil export revenues do not account for any discounts Iran may have offered its oil customers between end-2011 and January 2016.

Source: U.S. Energy Information Administration, derived from EIA's May 2017 Short-Term Energy Outlook.

OPEC per capita net oil export revenues

Country	Nominal (\$)					Real (2016\$)				
	2015	2016	2017	2018	Jan-Apr 2017	2015	2016	2017	2018	Jan-Apr 2017
Algeria	\$645	\$476	--	--	\$177	\$653	\$476	--	--	\$173
Angola	\$1,305	\$1,011	--	--	\$375	\$1,322	\$1,011	--	--	\$366
Ecuador	\$310	\$265	--	--	\$100	\$314	\$265	--	--	\$97
Gabon	\$2,103	\$1,692	--	--	\$627	\$2,130	\$1,692	--	--	\$613
Iran	\$367	\$453	--	--	\$223	\$372	\$453	--	--	\$218
Iraq	\$1,570	\$1,423	--	--	\$589	\$1,590	\$1,423	--	--	\$575
Kuwait	\$11,248	\$9,344	--	--	\$3,665	\$11,392	\$9,344	--	--	\$3,582
Libya	\$501	\$362	--	--	\$358	\$508	\$362	--	--	\$350
Nigeria	\$201	\$137	--	--	\$53	\$204	\$137	--	--	\$51
Qatar	\$13,439	\$10,458	--	--	\$4,135	\$13,611	\$10,458	--	--	\$4,040
Saudi Arabia	\$4,991	\$4,132	--	--	\$1,667	\$5,055	\$4,132	--	--	\$1,628
UAE	\$6,084	\$5,043	--	--	\$1,937	\$6,161	\$5,043	--	--	\$1,893
Venezuela	\$940	\$690	--	--	\$285	\$952	\$690	--	--	\$278
OPEC	\$1,096	\$912	\$1,112	\$1,204	\$371	\$1,110	\$912	\$1,087	\$1,152	\$363

Uncertainty in Crude Oil Export Earnings in U.S. Current Billions

Estimate	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
EIA	49.2	74.9	87.3	85.8	86.4	57.2	53.5	-	-	-	-	-	-
IMF plan.	-	-	-	-	-	-	-	49.2	50.0	-	-	-	-
IMF rev.	-	-	-	89.4	92.5	56.1	49.7	62.4	64.9	65.1	66.5	68.3	71.2

Source: EIA, *OPEC Revenues Fact Sheet*, May 15, 2017, <https://www.eia.gov/beta/international/regions-topics.cfm?RegionTopicID=OPEC>; IMF, Iraq: Staff Report for 2017 Article IV Consultation, Table 6, August 2017, p. 38

Economic Challenges

The analysis of Iraq's human and governance problems has shown all too clearly that neither can be separated from the other, and that both are closely tied to Iraq's economic problems. They have that systematic misrule can do almost as much damage to popular welfare as war, and that when petroleum revenues are steadily misused over a period of decades, they can do as much to bring poverty as wealth.

It has also shown that Iraq faces serious problems in bringing its finances into order, and balancing its budgets. It faces all of the normal problems financial problems that affect poorly governed and crisis-driven states. At the same time, Iraq needs to do far more than simply recover from the fighting since 2013, or meet proper domestic and international financial standards.

If Iraq is to achieve any lasting stability, it must deal with other challenges which cumulatively create the most critical economic problems that it will have to address. It must *find ways to fund and manage* near-term and long-term efforts to meet the following additional needs in the post-ISIS era:

- Deal with the lingering effects of war and provide recovery in war damaged areas like Mosul and Western Iraq while simultaneously beginning to modernize, develop, and increase productivity the national economy.
- Share the nation's wealth and economic growth in ways that will promote unity and stability among its divided Sunnis and Shiites, Arabs and Kurds, and an acceptable level of equity across different regions and between urban and rural areas.
- Cope with the cumulative impact of decades of crisis, conflict, and neglect in modernize Iraq's financial sectors, industries, and agriculture.
- Reduce direct and disguise unemployment and create meaningful productive jobs to deal with Iraq's growing population and "youth bulge."
- Reintegrate large numbers of IDPs and refugees into a functional economy.
- Build on a crude oil petro-economy in ways that maximize new revenues, share revenues with reasonable equity, and help create a more diversified and stable economy.
- Diversify away from an inflated government sector, and expensive and low productivity state owned enterprises, to create a larger, productive, and profitable private sector.
- Modernize the agricultural sector, its financing and productivity, its regulation and the role of government; and adjust to growing limits in the supply of water and cuts in rainfall.
- Rebuild, modernize, and improve the educational and medical sectors.
- Modernize and improve social services.
- Modernize and expand communications, transport, power, water and other services to meet population growth and the impact of crisis and conflict.
- Develop a national water plan and system to cope with the joint impact of population growth; restrictions on river flows by Turkey, Syria, and Iraq; and sustained changes in annual rainfall.
- Modernize urban planning and services, and seek to reduce sectarian and ethnic tensions in key cities.
- Reduce or eliminate subsidies and funding of unproductive state activities and businesses, charge market prices for all goods and services, and expand revenues to sharply reduce the present 90% dependence on crude oil exports to finance the government.
- Create effective and more modern policing and justice systems.

- Find affordable ways to both fund and modernize the armed forces so they can both maintain the ability to suppress and defeat extremists, and deter outside military and security threats.

These are not issues that the Iraqi government has yet shown it has the capability to deal with. They also involve many areas of activity where Iraq cannot make quick progress, and will have to make very hard choices in using scarce funds. This will require both far more competent planning and governance than Iraq has exhibited to date, and the kind of transparency that will give the key factions in Iraq's politics and population confidence that the government is making real progress, that there is reason for patience and hope in the future, that corruption is kept to more reasonable limits, and the government is acting in ways that offer broad equity to all Iraqis.

The CIA Overview of Iraq's Economy

The CIA addresses these needs largely in traditional macro-economic terms, rather than in terms of critical needs for reform to deal with decades of crisis and conflict, and the need to treat economics as a critical tool in building national unity. They do not properly address many of the key economic issues that Iraq faces in a post-ISIS world, the impact of wars and crises, or the key needs for modernization.

As noted earlier, the CIA's public analysis of the conventional aspects of Iraq's economy has some positive elements, but many are simply the result of a marginal increase in oil exports between 2015 and 2016. The CIA analysis shows that overall performance is anything but reassuring, and some aspects highlight the impact of the ethnic differences between Kurd and Arab:⁶³

Iraq's largely state-run economy is dominated by the oil sector, which provides more than 90% of government revenue and 80% of foreign exchange earnings. Oil exports in 2016 averaged 3.3 million barrels per day from southern Iraq, up from 2015. Moreover, the slow recovery of global oil prices improved export revenues throughout 2016, although monthly revenue remained below 2015 levels. Iraq's contracts with major oil companies have the potential to further expand oil exports and revenues, but Iraq will need to make significant upgrades to its oil processing, pipeline, and export infrastructure to enable these deals to reach their economic potential.

Iraqi oil exports from northern fields are hampered by fundamental disagreements between the Iraqi Government and autonomous Kurdistan Regional Government (KRG) in Iraq's Kurdistan region (IKR) on the roles of federal and regional authorities in the development and export of natural resources. In 2007, the KRG passed an oil law to develop IKR oil and gas reserves independent of the federal government. The KRG has signed about 50 contracts with foreign energy companies to develop its reserves, some of which lie in territories whose status is in dispute between Baghdad and Erbil. Some of the companies have left or returned blocks, citing lack of commercial prospects. In 2014, the KRG began exporting its oil unilaterally through its own pipeline to Turkey, which Baghdad claims is illegal. In the absence of a national hydrocarbons law, the two sides have entered into four provisional oil- and revenue-sharing deals since 2009, all of which collapsed. In September 2016, the two sides began implementing a fifth ad hoc agreement to split oil exports from Baghdad-controlled fields in Kirkuk.

Iraq is making slow progress enacting laws and developing the institutions needed to implement economic policy, and political reforms are still needed to assuage investors' concerns regarding the uncertain business climate. 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.

The IMF Overview of Iraq's Economy

The IMF has examined a wider range of Iraq's problems, although it has concentrated on its fiscal mission. As has been discussed in the previous section on the budget, the IMF has found that Iraq has had mixed performance in meeting its broad international fiscal targets, but still reached staff level agreements with the Iraqi government.⁶⁴

An IMF review in March 2017 noted that,⁶⁵

Iraq has been hard hit by the conflict with ISIS and the plunge in global oil prices since 2014. The government has responded to the fiscal and balance of payments crisis with a large but necessary fiscal adjustment supported by financial assistance from the international community. In 2016, real GDP growth was sustained at 11 percent supported by a large increase in oil output that benefitted from past oil investments. Nevertheless, the non-oil economy experienced an 8 percent contraction due to the conflict and the fiscal consolidation. In 2017, economic activity is expected to remain muted due to a 1.5 percent contraction in oil production under the agreement reached by the Organization for Petroleum Exporting Countries, and only a tepid recovery of the non-oil sector.

The plunge in oil prices has driven the decline of Iraq's gross international reserves from \$53.7 billion at end 2015 to the still comfortable level of \$46.5 billion at the end of December, 2016. Fiscal pressures remain significant with the government deficit remaining at 12 percent of GDP in 2016, due to continuing weak oil prices and rising humanitarian and security spending. Total public debt increased from 32 to 64 percent of GDP during 2014-16. Credit growth decelerated and non-performing loans in state-owned and private banks increased significantly in 2016.

...Medium term growth prospects remain modest driven by projected flat oil production and investments in the face of the revenue constraint and modest pickup in non-oil growth supported by the expected improvement in security and implementation of structural reform. Further reforms to create fiscal space for inclusive growth, strengthen the business environment, reduce corruption and repair the banking sector are needed to support private sector-led growth and diversification of the economy once post- ISIS reconstruction is underway. Risks remain high, arising primarily from uncertainty in the oil price outlook, security and political uncertainties, and administrative weaknesses.

The IMF Article IV report in August 2017 focused on the need to restore the country's fiscal balances. The IMF noted the fact that Iraq faced major security challenges and had critical needs for economic reform. It also provided some useful estimates (and "guesstimates") of the overall trends in Iraq's economy. These are summarized in **Figure Twenty-One**.

The summary assessment by the IMF noted that:⁶⁶

The economic policies implemented by the Iraqi authorities to deal with the shocks facing Iraq—the armed conflict with ISIS and the ensuing humanitarian crisis and the collapse in oil prices—are appropriate. In the fiscal area, the authorities are implementing a sizable fiscal adjustment, mostly through retrenchment of inefficient capital expenditure while protecting social spending. The authorities are appropriately maintaining the peg of the Iraqi dinar to the U.S. dollar, which provides a key anchor to the economy. Performance under the Stand-By Arrangement has been weak in some key areas, but understandings have been reached on sufficient corrective actions to keep the program on track. Resolute implementation of the authorities' program, together with strong international financial support, will be key.

Further fiscal consolidation measures are needed in 2017-18 to keep the program on track. The composition of the fiscal adjustment should be improved over time by increasing non-oil revenue and reducing current expenditure. In addition, reforming the electricity sector and state-owned enterprises will make room for larger and more effective investment expenditure that supports growth and job creation.

Significantly improving public financial management will be important. Arrears need to be assessed and paid following verification, and expenditure commitment and cash management should be strengthened to prevent the accumulation of new arrears...Measures to bolster financial sector stability include strengthening the legal framework of the Central Bank of Iraq, restructuring state-owned banks, and eliminating an exchange restriction and a multi-currency practice. Measures to prevent money-laundering, counter the financing of terrorism, and strengthen the anti-corruption legislation also need to be implemented.

Implementation of the budget-sharing agreement with the Kurdistan Regional Government would put both the federal government and the Kurdistan Regional Government in a better position to address the shocks to the Iraqi economy

The Key Issues section of the Article IV Report provided a much broader-based look at Iraq's economic problems and raised the following points:⁶⁷

1. *Iraq is an oil-dependent and state-dominated fragile economy.* Iraq is very well endowed with oil resources: it holds the fourth largest oil reserves in the world with among the lowest extraction costs (Figure 1). Despite volatile security conditions, oil production has tripled since 2003, but little progress has been made to diversify the economy as the non-oil sector was adversely affected by the lack of security and a difficult business environment. The growth of oil production financed a large expansion of public expenditure and civil service employment, which tripled between 2003 and 2014...The composition of public expenditure is heavily tilted towards wages, pensions and transfers. Despite an oversized public sector, even relative to other oil-exporting countries, the quality of public services particularly health, education and electricity, where power outages are frequent, is sub-par. Violence and a very difficult business environment have stifled private sector and financial sector development...The lack of electricity, political instability, corruption, and the lack of access to finance were identified as the most significant constraints by the World Bank's latest Investment Climate Assessment.

2. *Since 2014, Iraq has been hit hard by the conflict with ISIS and the fall in oil prices.* The conflict with ISIS has caused the destruction of infrastructure and assets and boosted the number of internally displaced persons to 3.0 million and the number of people in need of humanitarian assistance to 11 million (29 percent of the population), including over 241,000 Syrian refugees. The oil price decline has resulted in a massive reduction in fiscal and export revenue pushing the fiscal and balance of payments deficits to unsustainable levels). The authorities are responding to the crisis with large but necessary fiscal adjustment, which is being supported by significant official financing, including a Stand-By Arrangement (SBA) with the Fund,¹ of which the Board completed the first review in December 2016.²

3. *The Iraqi security forces, with the help of international partners, have made notable progress in the fight against ISIS.* They have recently liberated Mosul, Iraq's second largest city and ISIS's last stronghold in Iraq.

4. *The political situation remains challenging.* Since the SBA approval, the Interior Minister resigned in the aftermath of a terrorist attack that claimed the lives of more than 300 people and Parliament withdrew its confidence in the Defense and Finance Ministers. The Prime Minister is the acting Minister of Finance. In 2016, the federal government and the Kurdistan Regional Government (KRG) did not implement their budget sharing agreement under which the KRG transfers the revenue from the oil extracted in KRG and the federal government makes transfers to the KRG equivalent to 17 percent of non-sovereign spending in the federal budget,³ which was implemented for two months in 2014 and five months in 2015. The KRG is planning a referendum on independence in September. Parliamentary elections are scheduled in April 2018.

5. *Real GDP increased by 11 percent in 2016 owing to a 25 percent increase in oil production, which was little affected by the conflict with ISIS. Non-oil real GDP contracted by 8 percent because of the ongoing fiscal consolidation and combat in the ISIS-occupied territories.* Average consumer price inflation was only 0.4 percent in 2016 in the areas not occupied by ISIS (where 80 percent of the population lived before the ISIS occupation) and 1.0 percent in April 2017, year-on-year.

6. *Further fiscal consolidation was achieved in 2016, but at a slower pace than programmed mainly because of the inability of the Ministry of Finance to reduce investment expenditure by as much as envisaged but also due to spending pressure stemming from the military campaign against ISIS* (Tables 3–5). The non-oil primary balance, on an accrual basis, excluding KRG, contracted by 1 percent in nominal terms in 2016, reflecting 2 percent real spending growth (following a 25 percent contraction the previous year) and tripling of non-oil revenue (albeit from a very low base). However, this contraction was less than programmed (ID 8.7 trillion, excluding KRG) because of spending overruns in mostly non-oil investment (ID 6.1 trillion), transfers (ID 2.6 trillion) and wages (ID 0.7 trillion), partly because the campaign against ISIS and partly because of weak control by the Ministry of Finance over investment expenditure by line ministries. In addition, the authorities paid about \$2.5 billion less external arrears to international oil companies (IOCs) and other external creditors than programmed because of cash constraints. The overall budget deficit increased to 14 percent of GDP in 2016 mainly because of the 22 percent fall in oil prices. The budget deficit was mostly financed by indirect monetary financing from the Central Bank of Iraq (CBI) and donor support catalyzed by the SBA, but also by the accumulation of arrears, of which the total stock amounted to 5.5 percent of GDP at the end of 2016, out of which 68 percent were domestic). Indirect monetary financing from the CBI could not be avoided as the liquidity position of the state-dominated banking sector is uncertain in the absence of audited financial statements of the main state-owned banks).

7. *Total public debt increased to 67 percent of GDP in 2016*). The sharp fall in oil prices since 2013, when Iraq exported oil for \$103 per barrel, has also prompted a sharp increase in the public debt, from 31 percent of GDP in 2013 to 67 percent in 2016. The issuance of debt guarantees, mostly for electricity sector projects, accounted for 2.3 percent of GDP at the end of 2016). The yield on Iraqi dollar bonds maturing in 2028 has declined from about 14 percent in February 2016 to 8.5 percent in early July 2017, supported by the implementation of fiscal adjustment under the SBA and the moderate recovery in oil prices.

8. The fall in oil prices prompted an increase in the balance of payments' deficit. Despite the ongoing fiscal consolidation, the current account deficit widened to 8.7 percent of GDP in 2016 because of the 22 percent drop in oil prices. The current account deficit was financed by external official loans and the use of official foreign exchange reserves, which declined from \$53.7 billion at end-2015 to \$45.2 billion (6.7 months of imports of goods and services) at end-2016. Donor support committed by the G7 in Japan in May 2016 is on track. In December, the World Bank Board approved a \$1.44 billion budget support loan, of which \$0.37 billion was guaranteed by the U.K. and \$0.07 billion by Canada. In January, the authorities issued a \$1 billion bond guaranteed by the U.S. government yielding 2.15 percent. Japan disbursed a \$0.27 billion budget support loan in March. The authorities are negotiating a \$0.45 billion budget support loan with France, project loan disbursements with Germany and Italy, and a grant for humanitarian assistance with the European Union.

9. *Iraq's external position in 2016 was substantially weaker than suggested by fundamentals and desirable medium-term policies* (The real and nominal effective exchange rates for Iraq appreciated by about 8 percent in 2016. This is a continuation of the real appreciation trend that the Iraqi Dinar has experienced since 2013 and mirrors the appreciation of the U.S. dollar to which the dinar is pegged. The current account deficit was about 8 percent of GDP weaker than warranted by fundamentals and desirable policy settings; the gap is projected to close over the medium term as the programmed fiscal adjustment is implemented (Annex II). The spread between the official and parallel exchange rates for US\$ decreased from 11 percent in December to about 6 percent in June 2017 as the Central Bank of Iraq (CBI) simplified the documentation requirements for access to its foreign exchange window

10. *Broad money grew by 7.2 percent during 2016 reflecting the pickup of overall economic activity on the back of increased oil production and continued borrowing by the government, mostly from the central bank, while credit to the economy grew by 1.9 percent*

11. *The banking sector needs repair*. As with the rest of the economy, state dominance and inefficiency of the banking sector is evident as the two largest banks, Rafidain and Rasheed (R&R), which together hold about 71 percent of banks' deposits (86 percent held by the seven state-owned banks) and extend 54 percent of credit (80 percent extended by the seven state-owned banks) and for which recent accounts audited per international standards are lacking, are most likely severely undercapitalized. State-owned banks, which dominate the banking sector, are capital deficient and weaknesses remain in their loan portfolio. Non-

performing loans are high across public and private sector banks and on the rise...The current fiscal and balance of payment crisis is increasing the exposure of R&R to sovereign risk. Financial depth remains much lower than in other economies Iraq is still monitored by the Financial Action Task Force (FATF) due to serious shortcomings in its AML/CFT regime, and is at risk of being blacklisted absent sufficient progress, which would affect correspondent banking relationships.

The IMF has not followed the World Bank's lead in conducting a detailed review of the internal human, governance, development and potential conflict problems in Iraq. It has focused largely on financial stability, and made recommendations for reform that tacitly assume a smooth end to conflict and broad and efficient Iraqi government implementation of the reforms regardless of all of the competing forces that destabilize Iraq.

The end result is that the projections for 2017-2022 that are shown in **Figure Twenty-One** are an IMF expert "guesstimate." All of the list of additional challenges at the start of this section are potential reasons why even the best such estimate has a limited chance of being more than roughly accurate -- *if no further major crisis or fighting takes place and if the government does not face the need for major changes in spending*.⁶⁸

As has been discussed previously, it is also important to understand that the earlier IMF comments on the rise in petroleum export income in 2016, and the resulting rise in GDP, need to be kept in careful historical perspective. A projection by the United States Energy Information Administration (EIA) shows that Iraqi export revenues peaked in 2012 at \$91.2 billion in 2016 dollars. They dropped to \$88.4 billion in 2013, \$87.6 billion in 2014, \$57.9 billion in 2015, and \$53.5 billion in 2016.

Similarly, the EIA estimates that Iraqi petroleum income per capita went from \$2,767 in 2012 in 2016 dollars to \$2,592 in 2013, \$2,486 in 2014, \$1,590 in 2015, and \$1,423 in 2016—driven down by both the decline in world oil prices and the increase in Iraq's population. The total 2016 revenues were only 59% of Iraq's peak, despite increases in the volume of Iraqi exports, and the revenues per capita were only 51%.⁶⁹

Figure Twenty-One - Part One: Iraq - IMF Estimate of Recent Economic Developments and Outlook, 2012–22

(Population: 37.5 million, 2016 est.)										
(Poverty rate: 23 percent, 2014)										
(Main export: Crude oil)										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Est.	Prog.	Prog.	Proj.	Proj.	Proj.	Proj.
Economic growth and prices										
Real GDP (percentage change)	7.6	0.7	4.8	11.0	-0.4	2.9	1.7	2.0	2.1	2.1
Non-oil real GDP (percentage change)	12.4	-3.9	-9.6	-8.1	1.5	2.0	3.0	3.9	4.0	4.1
GDP deflator (percentage change)	0.0	-0.7	-26.9	-12.9	12.9	2.3	2.9	3.8	4.4	4.7
GDP per capita (US\$)	7,021	6,517	4,869	4,533	4,958	5,091	5,194	5,362	5,569	5,806
GDP (in US\$ billion)	234.6	234.7	179.8	171.7	192.7	202.9	212.3	224.8	239.5	256.2
Oil production (mbpd)	3.0	3.1	3.7	4.6	4.6	4.7	4.8	4.8	4.9	4.9
Oil exports (mbpd)	2.4	2.6	3.4	3.8	3.8	3.9	3.9	4.0	4.0	4.1
Iraq oil export prices (US\$ pb)	102.9	96.5	45.9	35.6	45.3	45.4	44.9	45.2	45.9	47.1
Consumer price inflation (percentage change; average)	1.9	2.2	1.4	0.4	2.0	2.0	2.0	2.0	2.0	2.0
(In percent of GDP)										
National Accounts										
Gross domestic investment	26.9	25.7	24.4	20.6	19.1	18.8	18.3	17.9	17.9	17.8
Of which: public	17.4	18.0	15.1	11.4	10.5	10.1	9.5	8.9	8.8	8.6
Gross domestic consumption	69.5	69.9	81.6	87.8	87.0	85.4	85.6	84.6	83.6	82.4
Of which: public	21.0	18.3	22.3	22.9	23.7	22.2	21.1	19.7	18.3	16.9
Gross national savings	28.1	28.3	18.0	11.9	12.8	12.1	14.2	14.7	15.8	17.2
Of which: public	11.6	13.0	3.0	-2.3	6.0	5.9	8.5	8.7	9.7	10.9
Saving - Investment balance	1.1	2.6	-6.5	-8.7	-6.4	-6.7	-4.1	-3.2	-2.1	-0.6
(In percent of GDP, unless otherwise indicated)										
Public Finance										
Government revenue and grants	42.2	38.2	30.3	27.4	36.0	36.5	35.6	34.6	33.8	33.1
Government oil revenue	38.6	36.0	27.5	23.2	31.8	31.7	30.6	29.4	28.3	27.5
Government non-oil revenue	3.5	2.1	2.8	4.1	3.9	4.6	4.8	5.0	5.2	5.5
Grants	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Expenditure, of which:	48.0	43.5	42.6	41.5	41.0	41.2	37.3	35.0	33.1	31.1
Current expenditure	30.6	25.5	27.5	30.1	30.5	31.1	27.8	26.1	24.3	22.6
Capital expenditure	17.4	18.0	15.1	11.4	10.5	10.1	9.5	8.9	8.8	8.6
Primary fiscal balance	-5.4	-5.1	-11.7	-13.4	-3.8	-3.6	-0.4	0.8	1.8	3.1
Overall fiscal balance (including grants)	-5.8	-5.4	-12.3	-14.1	-5.0	-4.7	-1.6	-0.5	0.7	2.0
Non-oil primary fiscal balance (percent of non-oil GDP)	-67.6	-56.1	-45.1	-44.6	-47.8	-43.4	-39.6	-35.4	-32.0	-28.9

Source: IMF, *IMF Executive Board Concludes 2017 Article IV Consultation with Iraq*, Press Release No. 17/323, August 9, 2017

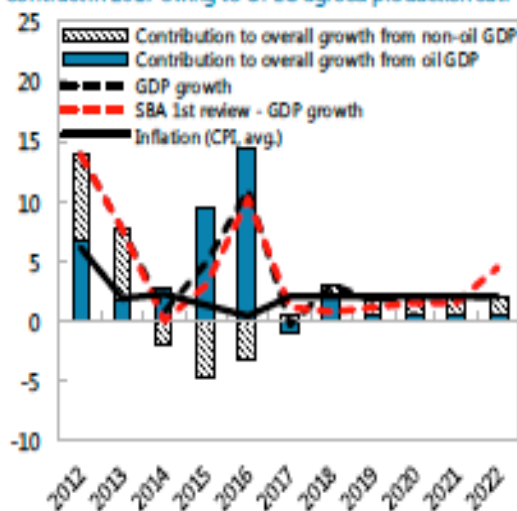
Figure Twenty-One - Part Two: Iraq - IMF Estimate of Recent Economic Developments and Outlook, 2012–22

(Population: 37.5 million, 2016 est.) (Poverty rate: 23 percent, 2014) (Main export: Crude oil)										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
				Est.	Prog.	Prog.	Proj.	Proj.	Proj.	Proj.
Memorandum items:										
Tax revenue/non-oil GDP (in percent)	1.9	1.7	1.0	3.9	4.6	5.5	5.6	5.6	5.7	5.8
Total government debt (in percent of GDP)	31.2	32.0	55.1	66.9	63.8	65.3	64.2	61.4	57.3	51.9
Total government debt (in US\$ billion)	73.1	75.2	98.0	114.6	122.9	132.4	136.2	138.0	137.1	132.9
External government debt (in percent of GDP)	25.3	24.8	36.8	39.3	38.1	40.7	40.2	36.7	32.6	27.7
External government debt (in US\$ billion)	59.3	58.1	66.1	67.5	73.4	82.6	85.3	82.5	78.1	71.0
(In percent, unless otherwise indicated)										
Monetary indicators										
Growth in reserve money	12.6	-9.6	-12.6	7.1	2.1	3.5	4.9	5.6	5.6	5.8
Growth in broad money	15.9	3.6	-9.0	7.2	4.9	4.9	4.9	6.3	7.0	8.2
Policy interest rate (end of period)	6.0	6.0	6.0	4.0	—	—	—	—	—	—
(In percent of GDP, unless otherwise indicated)										
External sector										
Current account	1.1	2.6	-6.5	-8.7	-6.4	-6.7	-4.1	-3.2	-2.1	-0.6
Trade balance	9.9	10.9	-0.1	-1.8	0.7	1.8	1.7	2.1	2.6	3.3
Exports of goods	38.3	39.6	31.4	29.1	32.4	32.0	30.7	29.6	28.5	27.8
Imports of goods	-28.4	-28.7	-31.5	-30.9	-31.7	-30.2	-29.0	-27.4	-26.0	-24.5
Overall external balance	-1.3	-10.0	-7.1	-3.6	-0.9	-2.7	-1.1	-0.6	0.2	0.8
Gross reserves (in US\$ billion)	77.8	66.7	53.7	45.2	41.4	40.8	39.7	37.1	36.0	36.5
In months of imports of goods and services	10.8	10.9	9.2	6.7	6.2	6.0	5.9	5.4	5.2	5.3
Exchange rate (dinar per US\$; period average)	1,166	1,166	1,167	1,180	—	—	—	—	—	—
Real effective exchange rate (percent change, end of period) ^{1/}	6.6	4.7	6.8	5.9	—	—	—	—	—	—
Sources: Iraq authorities, and IMF staff estimates and projections.										
1/ Positive means appreciation.										

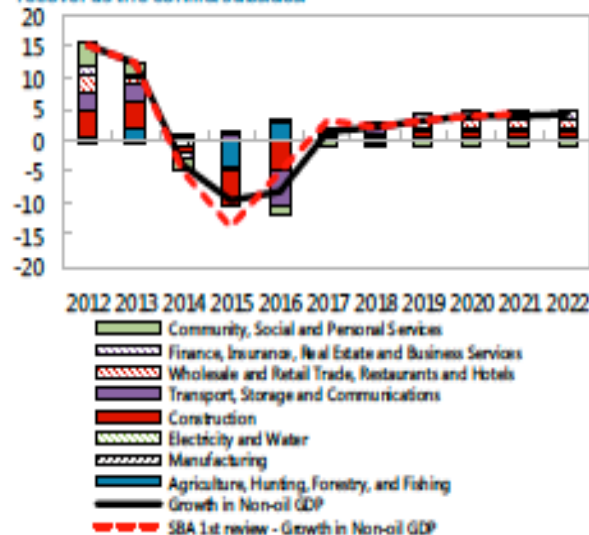
Source: IMF, *IMF Executive Board Concludes 2017 Article IV Consultation with Iraq*, Press Release No. 17/323, August 9, 2017

Figure Twenty-One - Part Three: Iraq - IMF Estimate of Recent Economic Developments and Outlook, 2012–22

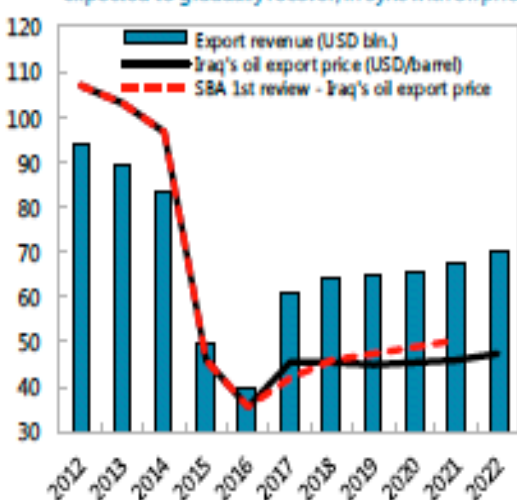
Real GDP growth was strong in 2015–16 owing to the increase in oil production fed by past oil investment. Oil production should contract in 2017 owing to OPEC-agreed production cut.



Non-oil GDP contracted over 2014–16, owing to fiscal consolidation and the conflict with ISIS. It should gradually recover as the conflict subsides.



Oil prices and exports dropped sharply but are expected to gradually recover, in sync with oil prices.



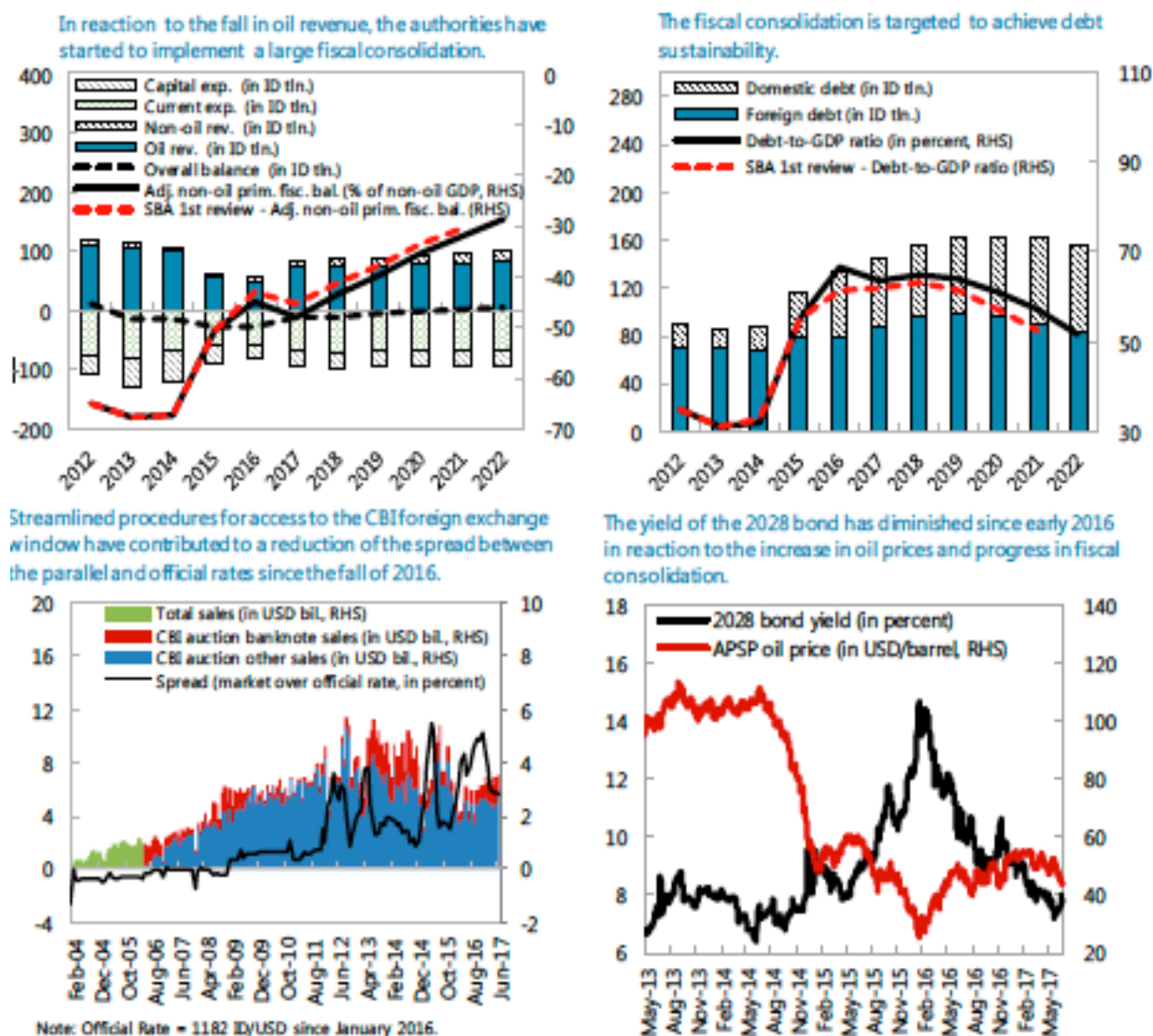
Therefore the balance of payments weakened leading to a drop of foreign exchange reserves, but is expected to strengthen in sync with oil prices and the fiscal adjustment.



Sources: Iraqi authorities; Bloomberg; and IMF staff calculations.

Source: IMF Team Reaches Staff-Level Agreement on 2nd Review of SBA with Iraq, June 5, 2017, <https://www.imf.org/en/News/Articles/2017/06/05/pr17207-imf-team-reaches-staff-level-agreement-on-second-review-of-stand-by-arrangement-with-iraq>. Also see IMF Country Report No. 16/379, IRAQ, FIRST REVIEW OF THE THREE-YEAR STAND-BY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND REPHASING OF THE ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR IRAQ, December 2016, p. 10.

Figure Twenty-One - Part Four: Iraq - IMF Estimate of Recent Economic Developments and Outlook, 2012–22



Sources: Iraqi authorities; Bloomberg; and IMF staff calculations.

Source: IMF Team Reaches Staff-Level Agreement on 2nd Review of SBA with Iraq, June 5, 2017, <https://www.imf.org/en/News/Articles/2017/06/05/pr17207-imf-team-reaches-staff-level-agreement-on-second-review-of-stand-by-arrangement-with-iraq>. Also see IMF Country Report No. 16/379, IRAQ, FIRST REVIEW OF THE THREE-YEAR STAND-BY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, MODIFICATION OF PERFORMANCE CRITERIA, AND REPHASING OF THE ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR IRAQ, December 2016, p. 11.

The World Bank Overview of Iraq's Economy

The World Bank assessment of the Iraqi economy is similar in a number of ways to the that of the IMF, but it is more explicit about the risk of that the human, governance, political, sectarian, and ethnic challenges that Iraq faces could lead to a new crisis or conflict or make the government make major changes in its spending and revenues.

The World Bank *Overview* of the Iraqi economy issued in April 2017 was not optimistic about the near-term future of the Iraqi economy.⁷⁰

The Iraqi economy is facing severe challenges. The decline in oil prices in 2015 and 2016 and the ISIS insurgency have contributed to a sharp deterioration of economic activity and has rapidly increased the fiscal and current account deficits. Macroeconomic risks remain elevated due to Iraq's exposure to a volatile oil market. But the medium-term outlook seems more favorable.

The double shock has severely dented growth, diverted resources away from productive investment, and increased poverty, vulnerability and unemployment. Private consumption and investment remain subdued due to an unstable security and political situation, and a poor business environment.

The non-oil economy contracted by almost 14 percent in 2015 following a 5 percent fall in 2014. After slowing at 0.1 percent in 2014, Iraq's economy grew by 2.9 percent in 2015 on the back of a 19 percent increase in oil production, as the vast majority of Iraq's oil fields are beyond ISIS' reach. Growth in 2016 is expected to rebound to 11.0 percent, sustained by a further increase in oil production, but non-oil GDP is expected to further contract by 8.1 percent, due to low demand driven by continued fiscal consolidation and remaining insecurity. Inflation rate is expected to remain low at 0.4 percent in 2016, with the government subsidizing electricity, food and fuel, but is likely underestimated in ISIS-occupied areas.

The shocks have also undermined fiscal and external balances in 2015 and 2016. Despite the government's efforts to prioritize expenditure, low oil revenue coupled with high humanitarian relief and security spending have rapidly widened the budget deficit, which reached 13.5 percent of GDP in 2015.

The current account marked a deficit of 6.1 percent of GDP in 2015, down from a surplus of 2.7 percent of GDP in 2014. Due to persistent low oil export prices in 2016, the fiscal deficit is estimated at 12 percent of GDP in 2016. Weak oil exports and large imports needed to develop the oil infrastructure further widened the current account deficit to 7 percent of GDP in 2016.

Given Iraq's severe challenges and substantial financing needs, the IMF approved a three year Stand-By Arrangement in July 2016, for US\$5.34 billion. In parallel, the World Bank launched a series of three Development Policy Financing programs to span three years, the first (US\$1.2 billion) delivered in December 2015, the second, amounting to US\$1.44 billion approved in December 2016, (including US\$443 million guaranteed by the governments of the U.K. And Canada) and the third is expected to be approved by December 2017. On July 20, 2016, a donor conference co-hosted by the US Government pledged a total of US\$2.1 billion for 2016-2018, with the aim of securing financial support for Iraq's humanitarian crisis.

Iraq continues facing severe security challenges. Casualty figures remain large, reaching 16,360 in 2016. The widespread insecurity since 2014 has created a major humanitarian crisis with 10 million people in need and over 3 million IDPs. The standard of living has deteriorated and a noticeable share of the population has fallen into poverty or is extremely vulnerable to falling into poverty. Poverty, as estimated by the Iraqi government, reached 22.5 percent in 2014 nationwide; and in the ISIS-affected governorates, the direct impact of economic, social and security disruptions are estimated to have doubled poverty rates to 41.2 percent.

The same was true, however, of the *Economic Outlook* that the IMF issued in October 2017,⁷¹

The ISIS insurgency and low oil prices have severely impacted Iraq's growth, which decelerated in 2014-15, with government non-oil investment declining by two-thirds and rapid contraction of agriculture, manufacturing and construction. Strong oil production sustained economic growth in 2016, while the OPEC agreement to cut production until March 2018 is expected to lead to a contraction in growth in 2017. Non-oil growth has been negative since 2014, but a better security situation and the benefits of an initial reconstruction effort are expected to sustain non-oil growth at 1.5 percent in 2017. The drivers are construction and services on the supply side, and pick-up in government consumption and investments on the demand side. Owing to the pegged exchange rate and subdued aggregate demand, inflation has averaged 0.4 percent in 2016 and is estimated at 2 percent in 2017.

The low oil prices and higher security and humanitarian outlays rapidly deteriorated the fiscal and external balances since 2014 in the Federal Government of Iraq (GOI) and the Kurdistan Regional Government. GOI's

overall fiscal deficit increased to 14 percent of GDP in 2016 mainly because of a 22 percent fall in oil prices in the previous year; in response, GOI is implementing a fiscal consolidation program to reduce the non-oil primary deficit. In 2017, the fiscal deficit is estimated to reach 5.1 percent of GDP owing to a small recovery in oil prices and measures to increase non-oil revenues and to contain salaries and pensions. The GOI is prioritizing its limited investment expenditure for reconstruction in areas liberated from ISIS, and to increase electricity. KRG is also implementing measures to contain expenditure and improve non-oil revenue. KRG fiscal deficit decreased by 80 percent from 2014 to 2016. Spending pressures remain high to assist IDPs and refugees.

The summary economic data in the World Bank's *Systematic Country Diagnostic* shown in **Figure Twenty-Two** are not grossly different from those issued by the IMF and shown in **Figure Twenty-One**, but they do illustrate the inevitable uncertainty in any such estimates.

The World Bank *Systematic Country Diagnostic* study also raises a long list of additional economic issues affected by Iraq's war, decades of Iraqi misgovernment, and Iraq's population growth. These include the need for broad sectoral reform, including agriculture, major road and transport development, expanding the availability of the Internet, Iraq's growing water problems and the possible impact of climate change, the impact of combat and political pressure on the productive role of women, overemphasis on the state sector and SOEs, the failure to expand trade beyond the petroleum sector, aging and inadequate infrastructure, lack of direct foreign investment (DFI), growing environmental problems, problems in medical care, problems in the education system, the impact of a prolonged "brain drain," etc, etc.

Figure Twenty-Two: World Bank Estimate of Iraq's Wartime Economy 2013-2019

	2013	2014	2015	2016	2017	2018	2019
				Est.		Proj.	
Economic growth and prices							
Real GDP (percentage change)	7.6	0.1	2.9	10.2	1.1	0.7	1.1
Non-oil real GDP (percentage change)	12.4	-5.1	-13.9	-5.0	3.0	2.0	3.0
GDP deflator (percentage change)	0.0	-2.6	-23.4	-11.5	9.7	6.4	4.7
GDP per capita (US\$)	7,021.0	6,672.0	5,127.0	4,818.0	5,200.0	5,434.0	5,608
GDP (in ID trillion)	273.6	266.7	210.2	205.1	227.4	243.8	258.0
Non-oil GDP (in ID trillion)	148.0	142.6	140.3	139.0	149.3	158.8	170.6
GDP (in US\$ billion)	234.6	228.7	180.3	173.8	192.4	206.2	218.3
Oil production (mbpd) 1/	3.0	3.1	3.7	4.5	4.5	4.5	4.5
Oil exports (mbpd) 2/	2.4	2.6	3.4	3.8	3.8	3.8	3.8
Iraq oil export prices (US\$ pb)	102.9	96.5	45.9	35.5	42.0	45.7	47.0
Consumer price inflation (percentage change; end of period)	3.1	1.6	2.3	2.0	2.0	2.0	2.0
Consumer price inflation (percentage change; average)	1.9	2.2	1.4	2.0	2.0	2.0	2.0
	(In percent of GDP)						
National Accounts							
Gross domestic investment	26.9	25.9	24.3	17.4	20.2	18.7	18.2
Of which: public	17.4	18.4	15.1	8.1	11.2	9.9	9.2
Gross domestic consumption	69.5	69.6	81.7	89.3	86.6	85.0	84.5
Of which: public	21.0	18.5	22.3	25.7	23.5	21.7	20.3
Gross national savings	28.1	28.6	18.2	10.6	13.4	12.5	15.3
Of which: public	11.2	13.1	2.8	-0.1	4.4	4.5	7.7
Saving - Investment balance	1.1	2.7	-6.1	-6.8	-6.8	-6.2	-2.9
	(In percent of GDP, unless otherwise indicated)						
Public Finance							
Government revenue and grants	42.2	39.1	30.2	32.2	34.8	35.1	34.3
Government oil revenue	38.6	36.9	27.4	28.3	30.1	30.6	29.7
Government non-oil revenue	3.5	2.2	2.8	3.9	4.6	4.5	4.6
Expenditure, of which:	48.0	44.9	42.5	40.4	41.8	40.5	36.0
Current expenditure	30.6	26.1	27.4	32.3	30.6	30.6	26.8
Capital expenditure	17.4	18.4	15.1	8.1	11.2	9.9	9.2
Overall fiscal balance (including grants)	-5.8	-5.4	-12.3	-8.2	-7.0	-5.4	-1.8
Non-oil primary fiscal balance (percent of non-oil GDP)	-67.6	-58.6	-45.0	-43.1	-45.4	-41.2	-37.6
Memorandum items:							
Total government debt (in percent of GDP) 3/	31.2	32.6	54.9	61.3	61.9	63.1	61.4
Total government debt (in US\$ billion) 3/	73.1	74.6	97.8	106.6	119.1	130.2	134.0
External government debt (in percent of GDP)	25.3	25.2	36.7	37.8	38.2	40.3	38.7
External government debt (in US\$ billion)	59.3	57.6	66.1	65.7	73.5	83.2	84.5
	(In percent, unless otherwise indicated)						
Monetary indicators							
Growth in reserve money	12.6	-9.6	-12.6	2.2	-2.0	8.5	8.5
Growth in broad money	15.9	3.6	-9.0	5.1	3.0	8.5	9.2
Policy interest rate (end of period)	6.0	6.0	6.0
	(In percent of GDP, unless otherwise indicated)						
External sector							
Current account	1.1	2.7	-6.1	-6.8	-6.8	-6.2	-2.9
Trade balance	9.9	11.2	-0.1	-0.8	-0.4	1.8	2.4
Exports of goods	38.3	40.6	31.3	28.3	30.1	30.5	29.7
Imports of goods	-28.4	-29.4	-31.5	-29.0	-30.5	-28.8	-27.3
Overall external balance	-1.3	-10.3	-7.1	-3.5	-2.3	-3.3	-0.3
Gross reserves (in US\$ billion)	77.8	66.7	53.7	43.0	38.5	38.1	37.3
In months of imports of goods and services	10.8	10.9	9.6	6.7	5.9	5.8	5.6
Exchange rate (dinar per US\$; period average)	1166.0	1166.0	1167.0
Financing gap (US\$ billion) 9/	0.0	0.0	0.0	0.0	0.0	6.5	0.6

Sources: Iraqi authorities; and IMF and World Bank staff estimates and projections.

1/ Does not reflect KRG production during 2013 and 2014.

2/ Reflects KRG exports through State Organization for Marketing Oil (SOMO).

3/ Includes arrears.

4/ Positive means appreciation.

Poverty

There are several other aspects of Iraqi economics that deserve special attention. One is poverty - a key potential source of political unrest and conflict. There is no simple way to characterize Iraqi poverty. Costs differ sharply between areas, and increasing urbanization and the impact of war mean that many Iraqis now suffer from the equivalent of poverty even if their incomes appear to be above the average poverty level for the entire country.

There also is no way to accurately count the number of people who have been effectively impoverished in the fighting since 2014, when the fighting against extremism began to have a far more serious impact on large elements of the population.

The World Bank also notes that the distribution of poverty has little to do with the presence of oil reserves and production,⁷²

Poverty and welfare are geographically differentiated as well, and conflict has led to more pronounced spatial differences not only in poverty rates but in the delivery of services. There are three levels of administration in Iraq – governorates, districts, and sub-districts. Each of Iraq's 18 governorates is subdivided into districts (*qadhas*) and sub-districts (*nahiyas*).

For the purposes of this poverty analysis, the country can also be divided into five divisions consisting of groups of governorates with approximately equal population sizes – Kurdistan, North, Baghdad, Central, and South...The sub-districts with the highest poverty rate are in the Southern governorates, despite their oil wealth. On the other hand, the sub-districts with the highest number of poor people are in urban centers with many residents (World Bank, 2015b).

Access to and the quality of services, including water, electricity, education, and health, also vary widely across the country. These differences result in spatial differences in many human development indicators, including early marriage and motherhood, child stunting, and educational outcomes. The labor market is fragmented spatially as a result of violence and insecurity.

While people are able to move to nearby governorates in order to increase returns to their human capital, moving across the country is much more difficult. People with similar characteristics can thus have different welfare levels depending on where in Iraq they live (World Bank, 2014).

When it comes to the assessment of poverty per se, the full World Bank analysis traces a complex pattern of issues which are hard to summarize. It is clear, however, that the problems involved interact with all of the other divisions in Iraqi society, and have been further complicated by the impact of the fighting, Iraq's problems in job creation, decades of inadequate economic development and reform, and the massive cut in petroleum revenues since 2014.⁷³

Persistent poverty is one of the symptoms of Iraq's predicament. There has been no overall movement towards reductions in either poverty or income equality in Iraq since 2007; what gains were made in early years were lost to violence and conflict soon after. Certain groups, including IDPs, youths and girls and women, are particularly vulnerable in situations of conflict and poor governance. This chapter focuses on the evolution of poverty and inequality in Iraq and on some of the issues faced by excluded groups.

... Conflict combined with economic constraints in recent years have reversed the gains in poverty reduction that were attained between 2007 and 2012.¹¹ Headcount poverty in Iraq had fallen to 18.9 percent by 2012... However, simulations suggest that this declining trend had been almost completely reversed by 2014, with headcount poverty estimated at 22.5 percent that year, close to the level recorded in 2007...These losses starkly illustrate how conflict and violence, as well as oil dependence, have increased poverty in Iraq. The significant regional differences in poverty dynamics and outcomes also reflect the differential impact of conflict and oil across Iraq and among its population.

...The modest declines in poverty in Iraq between 2007 and 2012 were driven by an increase in earnings among the employed rather than by an expansion in employment or by higher public transfers. In particular,

as will be discussed in other parts of this report, economic growth was not associated with job creation in the private sector where the majority of the poor work. Moreover, the oil sector, which represents almost half of Iraq's GDP and almost all its exports, accounts for only 1 percent of employment in the country, and growth in the sector does not directly create new jobs. Even in other sectors, job creation has not been sufficient to absorb the growing workforce. The exception is the public sector where oil revenues have enabled a significant expansion in jobs but where relatively few of the poor are employed.

... Estimates indicate that multidimensional poverty (MPI) in Iraq – poor health and education outcomes and limited access to essential services – is at 35 percent, which is higher than consumption poverty... Both the MPI and consumption poverty measures suggest similar spatial patterns in poverty, with Kurdistan enjoying the lowest levels of poverty on both indicators, whereas the South suffers from the highest MPI and consumption poverty rates.

... The gaps between the two indicators do suggest, however, that increases in consumption do not always go hand in hand with improved welfare in human development aspects. Of the various factors that contribute to the MPI, a lack of sanitation, inadequate electricity, and poor nutrition are among the most prevalent deprivations in the country... Moreover, the vast majority of households suffer multiple deprivations in human development, with 63 percent of households suffering from two or three simultaneous deprivations, while 11 percent experience four or more (World Bank, 2014).

... Poverty reduction has been spatially uneven across Iraq, with a more rapid decline in rural areas than in urban areas albeit from higher initial levels. Between 2007 and 2012, the poverty rate in rural areas dropped from a high of 39 percent to 30.7 percent. There was a smaller fall in absolute terms (2.2 percentage points) in urban areas but a significant one relative to the baseline (a 14 percent decline). The poverty gap was also somewhat smaller in rural areas than in urban areas in 2012, suggesting that not only did poverty fall in rural areas but that the depth of poverty did as well.

... Poverty also varies across governorates. Dividing the country into three main regions, Baghdad, Kurdistan, and Rest of Iraq... a significant share of each region's population is in the bottom 40 percent of the income distribution. Although the poor constitute a smaller proportion of the population of Kurdistan, they make up a larger proportion in the Rest of Iraq. The decline in poverty between 2007 and 2012 was concentrated almost exclusively in the central and northern governorates.

The poverty rate in central governorates fell by 16 percentage points, while the rate in the northern governorates fell by nearly 9 percentage points. The change in other areas was modest. In Kurdistan, poverty levels were relatively low to start with at 4.3 percent, and poverty did not fall significantly in Baghdad, the most populous governorate in the country. In contrast to the overall improving trend nationally, in the southern governorates the poverty rate increased by 1.8 percentage points. Historically, poverty has been concentrated in the center and the south of the country...

... The twin crises – namely the oil price declines and the Daesh insurgency – are estimated to have erased the reduction in poverty achieved between 2007 and 2012, raising the poverty headcount to 22.5 percent in 2014 and pushing an additional 3 million people into poverty.¹⁷ Poverty headcount rates are estimated to have increased by 7.5 percentage points between the non-crisis (business as usual, BaU) scenario and the crisis scenario. The twin crises are also estimated to have increased the poverty gap (by 3 percentage points) as well as causing the severity of poverty for the country as a whole to grow by 1.3 percentage points.

A reduction in employment and in income underlies the rise in poverty. Non-employment (which includes both the inactive and the unemployed) seems to have increased by over 800,000 compared to the non-crisis level as a result of the collapse of oil prices and the massive displacement resulting from the Daesh insurgency.

Moreover, a shift of workers from more productive or higher earning jobs to less productive jobs with lower earnings (from the manufacturing and construction sector to the agriculture and services sectors) is estimated to have led to an average 20 percent decline in total household labor income in 2014 (or a 14 percent decline in total household income).

The magnitude of these effects is higher in Daesh-affected regions and Kurdistan than in others. For instance, total income is estimated to have been nearly halved in Daesh-affected areas... The increase in unemployment

rates, combined with the reduction in both labor and non-labor income, translates into lower per capita consumption. Simulation results show a 10 percent reduction in average per capita consumption for Iraq as a whole. This is 4 percentage points lower than the estimated decline in total income, which seems reasonable given that households might have smoothed their consumption during difficult events and over time.

The World Bank highlights the impact of the war on those displaced by the fighting since 2014 as a key factor in creating what it calls the "new poor:" ⁷⁴

The per capita consumption of IDPs has shrunk by twice as much as that of the population at large. Per capita household consumption is estimated to have decreased by almost 22 percent as a result of the twin crises...(The impact of the crises on total per capita income was even more severe (a reduction of 61.6 percent) assuming that households smoothed their consumption during the most difficult times. The reduction in consumption was driven mainly by a massive reduction in labor income of 62.5 percent as a consequence of job losses. The unemployment rate rose to 27 percent among this population, almost three times higher than the rate for the population as a whole.

... The lack of employment and the massive reduction in labor income reinforced by the loss of assets and services associated with having a proper dwelling implies a significant increase in the incidence of poverty among IDPs. Simulation results show that the headcount poverty rate for IDPs grew by 15 percentage points from 23 to 38 percent, twice the rate for the population as whole. In other words, 4 out of 10 internal displaced individuals became poor as a consequence of the crises. Additionally, the poverty gap and its severity also increased by 5 and 2 percentage points for this population...

Overall, IDPs account for half a million of the total number of people who fell into poverty as a consequence of the twin crises... This represents almost 20 percent of the increase in the total number of poor (2.8 million poor). However, this effect varies significantly among regions. In Kurdistan, IDPs accounted for 62 percent of the increase in the number of poor, whereas in the South they only accounted for 2 percent. That being said, not all IDPs have become poor as consequence of the twin crises. Poor IDPs only comprise 6 percent of the estimated total number of 8 million poor people in Iraq following the twin crises, and only one-third of them have fallen into poverty as consequence of the crises.

A large number of displaced people will not be able to return to their homes because of destruction or continuing conflict. In addition, there appear to be *de facto* restrictions on the movement of IDPs (for example, of Sunni Arabs into the KRI and Baghdad and on their return to liberated areas), which may affect their ability to access critical services.

It will be necessary to facilitate their integration within their host communities by eliminating unequal access to housing, employment, and basic services... Supporting housing reconstruction and repair in conflict-affected areas would strengthen social and political stability and enable IDPs to return to their original locations, as well as providing local employment opportunities and helping to develop local small- and medium-sized contractors. It would also spur demand in a number of complementary sectors, such as construction materials and related services...

Youth Economics

As discussed earlier, Iraq's "youth bulge" creates a major economic challenge. The World Bank highlights the combined impact of population growth, economic mismanagement, and long periods of war on Iraq's youth,⁷⁵

... Over 3.4 million Iraqi youths are out of school, and fully 72 percent of women and 18 percent of men between the ages of 15 and 29 were neither in education nor in employment or training (UNDP, 2014). Among youths aged between 15 and 29 years old, 33.4 percent are illiterate or semi-illiterate, just one-third have completed primary school, 28 percent have finished middle or high school, and only 7 percent have completed post-secondary education.

Despite low enrollment and graduation rates, education is an important goal for Iraqi youths, but economic factors often prevent them from continuing their education. Youth unemployment is high at 34.6 percent, 57.7 percent for females and 30.8 percent for males. Young people are underrepresented in government jobs,

while the weakness and stagnation of the private sector prevents it from being an engine of employment for Iraqi youths

...Iraq's young people suffer disproportionately from exclusion and poor prospects, and rebuilding the legitimacy of the state will depend upon the productive incorporation of this group into society and the economy. About 50 percent of Iraq's population is under 19 years old. One-third of those between the ages of 15 and 29 are illiterate or only semi-literate...Rehabilitating schools in conflict areas, where one in five schools has closed, would help to encourage some of the 3.5 million children of school age who are currently not in school to return to the classroom.

Schools are the best place to provide psycho-emotional support to conflict-affected children and youths, and education can play a pivotal role in promoting resilience among conflict-affected populations and eventually social cohesion. For girls in particular, particularly those in conflict zones, school attendance can combat illiteracy and exclusion, which are the key underlying reasons for the high adolescent birth rates for Iraqi girls. In consultations with stakeholders during the preparation of this SCD, many emphasized the importance of rewriting the education curriculum to combat sectarianism, reduce conflict, and build support for the basic concepts of human rights and civic engagement.

... Iraq fails to provide jobs for the thousands of young people entering the work force each year. Between 2006 and 2014, Iraq's rate of youth unemployment never dropped below 28 percent, despite economic growth that averaged 6.3 percent annually. The benefits of growth did not accrue to young adults. Youths are underrepresented in government jobs, and the private sector is too weak to create enough employment to absorb the younger generation of Iraqis.

In the near term, implementing much-needed local investment programs would create jobs at the local level. Yet as has been noted in this report, local administrations find it very difficult to implement investment programs because of their limited capacity and the lack of reliable resource flows from the central government, among many other constraints. Therefore, it is essential to resolve these constraints to greater local investment, and one way to do this might be to explore the feasibility of devolving some spending authority not only to governorates but to the districts or municipalities as they are directly involved in delivering local services.

... A recent Arab Youth Survey (Burson-Marsteller, 2016) has highlighted the connection between youth unemployment and the potential for radicalization. Almost a quarter (24 percent) of surveyed youths listed the lack of jobs and other opportunities as the main reason for some youths joining Daesh...In countries such as Iraq where Daesh has a significant presence, young people have worse perceptions of the economy and of sectarian conflict...Milicias and extremist groups may fill the void left by the government by offering marginalized youths a sense of identity and opportunities for upward socioeconomic mobility. Low incomes and unemployment reduce the opportunity costs of rebellion...Most Iraqi youths who have joined militias or Daesh have few economic prospects and have failed to complete primary or secondary education.

As reported by the Iraq Crisis Group (ICG), young militants typically worked in precarious labor conditions and earned no more than ID 25,000 per week (US\$21.4), making it almost impossible to afford even basic rent at ID 200,000 (around US\$180)...In contrast, Daesh offers young combatants anywhere from US\$400 to US\$1,200 per month, in addition to the authority that youths gain within their communities.³⁸ Youths joining extremist groups circumvent traditional community hierarchies and ascend to positions of power that would be unreachable for them in state institutions. Shia youths have also flocked to join militias for non-financial reasons following the fatwa issued by Iraq's Shia spiritual leader, Ali al-Sistani, which summoned them to volunteer in the defense of the country and their holy shrines. Therefore, while youths have an economic incentive to join sectarian or extremist groups, they also tend to find a sense of purpose as members of these organizations.

Electricity, Fuel, and Water Subsidies

As is touched upon at the start of this section, Iraq has a long history of subsidies and failure to charge market prices that do more to damage its economy than help its people. The U.S. made the same mistake early in its occupation by leaving major subsidies in areas like electricity, and fuel, and water without taking any measures to limit consumption. In doing so, however, it built on a

model of past subsidies in many Arab states that was at best possible with much smaller populations and less sophisticated consumers.

The full nature of current Iraqi subsidies is unclear, but the past cost has been massive and did much to prevent efficient development as well as efficient billing, revenue collection, and investment.

The World Bank estimates that “Fuel and electricity subsidies in Iraq are estimated to amount to between 7 and 13 percent of GDP.” This is a massive burden on Iraq’s economy, and it consumes a growing part of Iraq’s oil production and encourages earlier depletion of reserves.⁷⁶ At the same time, subsidies encourage under-investment in areas like electric power—a subject of deep popular resentment in Iraq. It also encourages other forms of waste. Iraq now flares some 60% of its gas production, while it imports some 50% of the fuel it needs for power generation.⁷⁷

Agriculture

Iraq’s barriers to the private sector, and reliance on inefficient and unproductive SOEs create a set of problems that affects the majority of the working population. The CIA estimates that industry accounted for 45.1% of GDP in 2016, services accounted for 49.3%, and agriculture for only 5.7%. The labor force is more rural. The CIA estimate that Iraq’s labor force is 21.6% agriculture, 18.7 industry, and 59.8% services—although this estimate dates back to 2008.⁷⁸

The “land of two rivers” faces major challenges in agriculture as well as industry and services. Iraq has never functionally addressed the need for agricultural reform, and increase productivity and make more efficient use of water. The cycle of dictatorships, Saddam Hussein, sanctions, war and crisis that has now lasted half a century has made this steadily worse, and the central government has failed to make even the current system function effectively in recent years.

Both the Iraqi government and outside organizations like the FAO, World Bank, and USAID recognized the seriousness of Iraq’s agricultural problems during the period between the fall of Saddam Hussein and the rise of ISIS. They also recognized that state controls and food subsidies had a major negative impact, created critical water issues, and led to major food imports. The FAO has since maintained a detailed statistical data base on the trends in Iraqi agriculture, but it is difficult to find a clear picture of what levels of reform or further decline have taken place in terms of actual government activity since 2012, but it is clear that food imports have remained high and that the war has done serious damage to Iraqi agriculture.⁷⁹

An FAO study summarized the state of Iraq’s agriculture in 2012 as follows:⁸⁰

After years of war and social unrest, Iraq is facing a number of challenges that are common to all sectors of the economy: the deteriorated state of social and economic infrastructure, the disruption of the social fabric of the society and the increased dependence on oil which makes up for about two thirds of GDP and for almost all exports and fiscal revenues. Iraq is having some success in stabilizing its economy but much remains to be done to diversify its productive basis and improve the standards of living of its population.

The agricultural sector has fallen further behind in the post-war period and has suffered from substantial damage to the irrigation and drainage infrastructure, to rural communications, from the looting of many facilities and the substantial weakening of the institutional framework.

The agriculture sector is still a major source of livelihood for the poor and food insecure and is the largest source of rural employment. The sector contribution to GDP (agriculture is the second contributor after oil revenues), declined from about 9 percent in 2002 to 3.3 percent in 2008 and 3.6 percent in 2009, but it still provides 20 percent of employment. Population is about 32 million, of which one third resides in rural areas

and depends upon agriculture for their livelihoods. Population growth rate is about 3 percent at the national level.

The poor performance of the agricultural sector and lack of employment perspectives drive migration to the urban areas, generating pressure on service delivery and increasing urban poverty. The major cities are a destination both for people seeking economic opportunities and for displaced families

Of the total area of Iraq (43.7 million ha), 22 percent, i.e. 9.5 million ha is cultivable land, suitable for agriculture. Land actually under crops is about 5 million ha. Agriculture is mostly practiced on small farming units. More than 80 percent of the farms have a total size of less than 10 ha and even these 10 ha are on average scattered over several different locations.

The general stagnation in agricultural productivity which has been a characteristic of Iraq's agriculture over the last years, has steadily increased dependence on imports to meet domestic food needs and has made Iraq a major importer of agricultural products. Total value of agricultural imports was USD 1762 million in 1985 and USD 4638 million in 2008. Top import categories are wheat (about 3-4 million tons per year), cattle and chicken meat, rice, oils and fats, milk, tea, sugar. Value of main agricultural exports was USD 78 million in 1985 and USD 68 million in 2008. Top export categories were in 1985, dates, skins and other animal products and sugar. In 2008 the same, except that sugar exports were discontinued in the late 1990s.

Iraq is heavily dependent on imported food to satisfy local demand. FAO estimated the Import Dependency Ratio (IDR) for cereals in 2007 at 56 percent and at 76 percent in 2008 (in this year Iraqi wheat farmers experienced a 55 percent reduction in production due to severe drought).

The FAO also found that Iraq's agriculture sector was a source of poverty and food insecurity in a study issued in 2012 -- before the war with ISIS began,⁸¹

According to the most recent poverty assessment¹⁹, poverty rates are much higher in rural areas (39 percent) than urban areas (16 percent), and the poorest of the poor live in rural areas. Poverty at national level is about 23 percent. About 15 percent of the rural population earns below 1 dollar per person per day compared to 4.6 percent in the urban areas. Poverty rates widely differ among governorates²⁰, ranging from 49 percent in Muthana Governorate to 3 percent in Sulaymaniya Governorate.

... According to the 2007/2008 Comprehensive Food Security and Vulnerability Analysis (CFSVA) conducted by the World Food Programme (WFP) and the Government of Iraq, an estimated 930,000 Iraqis are food-insecure and an additional 6.4 million are on the threshold of food insecurity: these 6.4 million people would fall into food insecurity in the absence of the Public Distribution System (PDS), a nation-wide rationing system set up by the Government of Iraq in 1991.

A World Bank issued in February 2017 noted that,⁸²

...the importance of agricultural employment in Iraq has been on the wane, and the role of the sector has been undergoing significant changes. In 2012, about 30 percent of Iraq's rural poor in the labor force worked in agriculture, but only 12 percent of the heads of poor households worked in the sector. Interestingly, the composition of farm employment changed too – with the share of women in total farm employment increasing from about 36 percent in the early 1990s to 52 percent in 2012. It is important to discover whether this change is structural, but this will require more detailed analysis. If agricultural development can improve the allocation of resources within households, it will likely lead to better health and nutrition outcomes for children as well.

... The sector's low productivity and growth rates in Iraq are attributable to a variety of factors including the government's past policy of maintaining artificially low food prices through price and production controls and marketing restrictions. Nationwide subsidized food distribution through the PDS using imported food has had a negative impact on the local grain market with consequent depressing effects on producer prices and on agricultural sector investments. Government policies in the agricultural sector have been characterized by state control and subsidization of farm inputs (fertilizers, seeds, insecticides, farm equipment, and machinery) and of the prices of strategic crops. The most important crop, wheat, has been the most controlled and the most affected by the lack of open markets. In addition, years of insufficient maintenance and funding have degraded agricultural services and physical infrastructure, particularly the irrigation network. During

the recent conflicts, extensive looting damaged a range of government and private agricultural production and service facilities in central and southern Iraq. Climate change is another threat.

.. Problems in irrigation are severe. They range from widespread deterioration of irrigation infrastructure to the poor operation and maintenance of the systems, inefficient water use, soil salinity, weak institutional support, and the lack of a regulatory framework for the efficient use and pricing of irrigation water. Salinization is one of the most active land degradation phenomena in central and southern Iraq. The Food and Agriculture Organization estimates that approximately 60 percent of cultivated land has been seriously negatively affected by salinity, and 20 to 30 percent has been abandoned. Even on non-abandoned agricultural land, yields have declined by 30 to 60 percent as a consequence of salinization. The salinization of soil has the most negative impact on poor farmers and their livelihoods. The effects of climate change threaten further salinization. There will be more shortages of water resources in Iraq after Turkey and Syria develop their irrigation projects along the Euphrates, especially as no international water use agreement has so far been signed by the three countries.

There is a clear need for systematic agricultural reform, but this need has received little attention in stability planning in spite of its impact on food costs and imports, and on water use. It is particularly critical because arable land is limited and may well be declining, water seems to be a growing problem, population pressure is sharply increase food needs, and the economics of modern agriculture generally call for more investment in technology, farm equipment, and food processing, but require future actual workers. As yet, Iraq has not made efficient progress in adjusting to any of these needs.

UN reporting also flags the problems in Iraq's agriculture, both from war and from structural causes. The World Food Programme (WFP) noted that the fighting around Mosul had left, "almost one million people had been displaced during the nine-month operation, with the World Food Programme (WFP) providing assistance to 1.8 million people from Mosul and the surrounding areas. WFP is now preparing to assist people from western Anbar and Hawija, the remaining areas under ISIL control in Iraq."⁸³

The Food and Agricultural Organization (FAO) overview of Iraq for 2017 noted that,⁸⁴

Iraq is an agricultural country. Although a considerable portion of its agricultural lands are under irrigation, it still depends highly on rain fed agriculture for grain and sheep production. Rain fed agriculture is practiced in the northern parts where the mountains, foothills, and Jazeera desert are located. Land potentially suitable for agricultural production however is not more than 27 percent of the total area of the country. The rest includes deserts with extremely low rainfall and rocky/steep mountains which are the natural grazing grounds for the millions of head of sheep and goats in the country.

The total area which has been used for agricultural production is about 8 million hectares which is almost 67 percent of the cultivable area. However, due to certain limitations such as soil salinity, drought, shortage of irrigation water in summer, fallowing and the unstable political situation it is estimated that the average area actually cropped each year ranges from 3 to 4 million hectares.

After years of war and social unrest, Iraq is facing a number of challenges. The poor performance of the agricultural sector and lack of employment perspectives drive migration to the urban areas, generating pressure on service delivery and increasing urban poverty. Iraq's agricultural sector represents a small, but vital component of Iraq's economy. However, population growth combined with the need to produce more food from a limited and shrinking resource base of land and water have resulted in farming systems that tend to maximize short-term returns at the expense of long-term sustainability.

Water losses in irrigation schemes, all over Iraq, are substantial. By and large, water is conveyed to farmers' fields through very poorly maintained distribution systems made of earth canals and ditches which suffer significant water losses because of infiltration, seepage or leakage.

Overgrazing is a major problem. There are no coordinated efforts to bring about improved range management to increase livestock production while maintaining range resources.

The recent intensification of violence in Iraq coincides with wheat planting. If farmers are displaced, or unable to venture to their fields, this will have implications for medium-term food security. Food security conditions are likely to deteriorate with large number of IDPs putting strain on hosting communities, in particular as large share of IDPs have fled toward cities in the Kurdish region of Iraq. Lack of resources limit the coping capacities available to households and limit access to food.

Agriculture-based livelihoods face severe constraints across the value chain. Major constraints include: restricted access to land due to violence; internal population displacement; reduced availability and increased cost of farming inputs; physical damage to land, farming equipment and infrastructure including storage facilities; the disruption of markets; increased cost of and reduced access to animal feed sources; and reduced veterinary supplies and services.

A separate FAO study of the impact of the fighting with ISIS in 2017 conducted an agricultural damage and loss needs assessment in six of Iraq's 18 governorates – Anbar, Babil, Diyala, Ninewa, Salah al-Din and Wassit during December 2016-January 2017. It found that the fighting and civil tension had done great damage, and that farmers suffered serious losses as well as those in the urban areas where the fighting was most violent,⁸⁵

Overall, crop production has suffered significant damage and losses, mainly due to insufficient machinery; displacement of local populations, comprising mostly of farmers; insecurity; fields littered with unexploded ordinances; looting; destroyed silos, storage and crop processing facilities; lack of seeds and fertilizers; and the collapse of government support in providing agricultural inputs and financial dues.

Areas that have been liberated or are experiencing ongoing conflict have suffered the most, with wheat and barley production losses amounting to as much as 75 to 80 percent... Ninewa governorate, in particular, produced virtually no grains or other foods due to destroyed crops and continued problems with insecurity, theft, looting and unexploded ordinances.

Previous difficulties related to lack of seeds, fertilizers and pesticides have been intensified by the suspension of government assistance and provision of such inputs. Other difficulties in accessing inputs include import and transport regulations that prevent the usage of fertilizers that could be used to manufacture improvised explosive devices, security concerns, infrastructure damage and other transportation challenges.

... Currently, on average across all assessed areas, only 20 percent of farmers are thought to have access to irrigation, compared with 65 percent prior to the crisis. Substantial amount of irrigation infrastructure are in urgent need of repair. Ninewa governorate has been particularly affected, as ISIL looted and destroyed over 90 percent of pipes, sprinklers, water pumps and channels, and filled in some of the wells, according to key informants.

The lack of access to spare parts for generators has also been a limiting factor for irrigation through channels. Essential machinery and tools used by farmers have either been looted or damaged during the armed conflict. Farmers' financial constraints, combined with the higher prices of equipment, prevent most from repairing or replacing their equipment and tools.

... A significant number of livestock were lost, dead or injured due to the conflict. On average, as much as three-quarters of cattle, sheep, goats and buffalo were lost, although in some areas this figure reached as high as 85 to 95 percent. Poultry losses were significant in all areas; in some cases, flock sizes numbering in the hundreds fell to virtually zero.

Reduced herd sizes were most frequently attributed to security-related problems such as livestock being stolen or killed. Other reasons included the lack of and/or high prices of animal feed, inability to access pasture due to occupation or explosive contamination and government suspension of veterinary programs (e.g. medicines, vaccines, etc.). As a coping mechanism, farmers are selling their livestock to obtain cash.

According to farmers, rebuilding herds will require improved security, temporary shelters, replanting of pastures and clearance of unexploded ordinance. In addition, feed, fodder and government emergency veterinary services are needed, as well as the support to improve the sector's economic viability.

... Since 2014, engagement in fisheries and aquaculture has fallen by 50 to 75 percent. Ongoing conflict areas have been hit the hardest. In some areas, about 20 percent of men were engaged in the sector, compared with only 2 to 6 percent now. Reasons for production losses were attributed to the high cost of fish feed and insufficient access to boats, fuel, gear and equipment, and the lack of shops to purchase inputs such as lime, feed, seed and fingerlings. Selling production is also challenging, given low demand, low prices offered for fish and a lack of storage and processing facilities.

... State Company for Agricultural Supplies (SCAS) through the SCAS governorate branch to district-level local agents and then to farmers. Some imported inputs were also privately distributed through wholesalers and retailers, and a smaller share was produced domestically and distributed through either public or private chains. Accordingly, important formal arrangements included government support through the subsidization of agricultural inputs, relaxed taxation on imports and a system to ensure input quality control.

Due to severe disruptions to the SCAS system in liberated and ongoing conflict areas, some places have not received government inputs in more than two years. The SCAS system is no longer viable and, as such, the system now relies mainly on importers and distributors dealing directly with private wholesalers. Other challenges include the lack of quality control mechanisms and restrictions on the importing and transporting of fertilizers and pesticides because of their potential use for explosive devices. Physical structures, such as shops, markets, roads and transport storage facilities, have also suffered significant damage.

Access to local functional markets for agricultural inputs is restricted in most areas and non-existent in Al-Qayara, Bashiqa, Al-Qosh, Hamdaniya and Baquba. Prior to the crisis, the majority (87 percent) of the households in the assessed communities were engaged in agriculture and related activities. In liberated and ongoing conflict areas, farmers had fled in fear of their safety, leaving most of their possessions behind. People's assets, job opportunities and local businesses have all been adversely impacted.

While wage labor in agriculture and the selling of agricultural goods were the most common forms of employment, more than half the workforce is now unemployed. Before the crisis, an average farm employed around 14 workers. However, farmers can no longer afford this and are currently relying on family members to carry out most activities. In most cases, inactive farmers, eager to generate much needed income, are now taking jobs in construction or transportation, or working for the municipality.

Farmers in liberated areas who have now returned revealed that most, if not all, crops, livestock and agricultural machinery and tools left behind were lost. Consequently, farmers' incomes from current activities have been drastically reduced, exacerbated by payment delays from the Government to farmers for crops purchased over the last three years.

Food insecurity has become more widespread. According to the focus group discussions across all assessed areas, people are not only relying on less expensive and less nutritious food but are also reducing their number of daily meals. Most also reported that they have borrowed money to provide for their families.

Similarly, a range of FAO summary reports for 2017 noted the growing agricultural problems in both Iraq and the entire region, and their impact on what had been an ample food supply – some stemming from conflict and many from poor economics and the impact of war.⁸⁶ One found that food problems existed in supplying 3.1 million displaced people in 2016.⁸⁷ Another produced the estimates of Iraq's relative hardships shown in **Figure Twenty-Three**. Iraq does not face a crisis relative to the world's poorer nations, but it does face serious challenges.

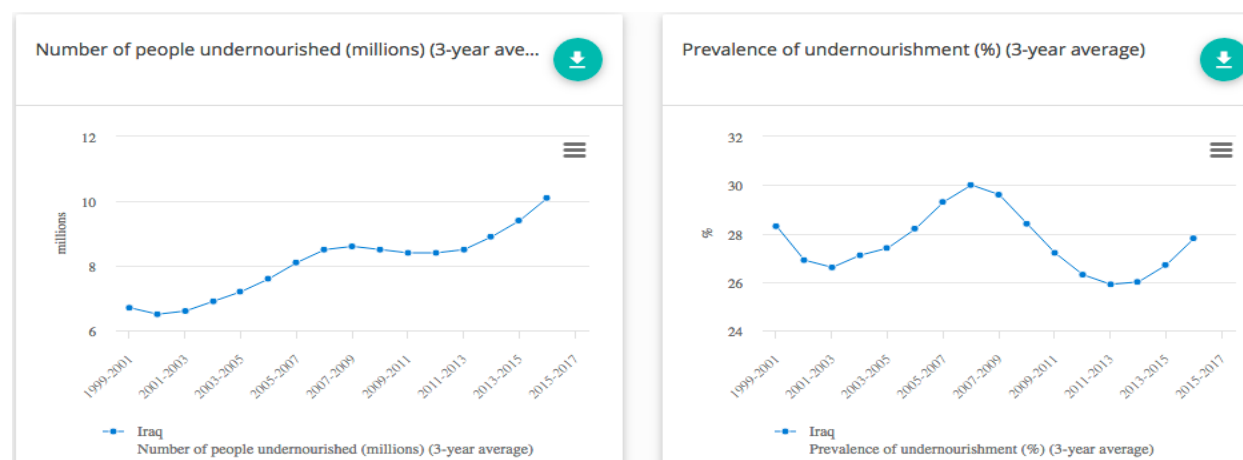
Figure Twenty-Three: Key Indices of Nutritional and Medical Issues in Iraq

Iraq Compared to Other Regional States

REGIONS/ SUBREGIONS/ COUNTRIES/ TERRITORIES	PREVALENCE OF UNDERNOURISHMENT IN THE TOTAL POPULATION ²		PREVALENCE OF SEVERE FOOD INSECURITY IN THE TOTAL POPULATION ³	PREVALENCE OF WASTING IN CHILDREN (UNDER 5 YEARS OF AGE)	PREVALENCE OF STUNTING IN CHILDREN (UNDER 5 YEARS OF AGE)		PREVALENCE OF OVERWEIGHT IN CHILDREN (UNDER 5 YEARS OF AGE)		PREVALENCE OF OBESITY IN THE ADULT POPULATION (18 YEARS AND OLDER)		PREVALENCE OF ANAEMIA AMONG WOMEN OF REPRODUCTIVE AGE (15-49 YEARS) ⁴		PREVALENCE OF EXCLUSIVE BREASTFEEDING AMONG INFANTS 0-5 MONTHS OF AGE	
	2004-06	2014-16	2014-16	2016 ⁵	2005 ⁵	2016 ⁶	2005 ⁵	2016 ⁶	2005	2014	2005	2016	2005 ⁷	2015 ⁸
	PERCENTAGE													
Iraq	28.2	27.8		6.5	20.0	22.1	n.a.	11.4	17.4	22.4	34.6	29.1	25.1	19.6
Israel	<2.5	<2.5	1.1	n.a.	n.a.	n.a.	n.a.	n.a.	22.1	25.9	12.3	15.7	n.a.	n.a.
Jordan	3.4	4.2	12.7	2.4	12.0	7.8	4.7	4.7	23.0	29.0	28.9	34.7	21.8	22.7
Kuwait	<2.5	<2.5		3.1	4.5	4.9	7.5	6.0	30.6	34.9	21.3	23.8	n.a.	n.a.
Lebanon	3.5	5.4	n.a.	n.a.	16.5	n.a.	16.7	n.a.	23.0	27.3	27.3	31.2	n.a.	n.a.
Oman	10.0	6.2	n.a.	7.5	n.a.	14.1	n.a.	4.4	19.1	22.0	37.9	38.2	n.a.	32.8
Palestine	n.a.	n.a.	9.5	1.2	11.8	7.4	11.4	8.2	n.a.	n.a.	28.6	29.4	24.8	38.6
Qatar	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	31.4	34.6	27.0	27.7	n.a.	29.3
Saudi Arabia	8.0	4.4		n.a.	9.3	n.a.	6.1	n.a.	25.3	32.2	43.6	42.9	n.a.	n.a.
Syrian Arab Republic	n.a.	n.a.	n.a.	n.a.	28.6	n.a.	18.7	n.a.	15.8	20.6	33.7	33.6	28.7	n.a.

Source: FAO/IFAD/UNICEF/WFP/WHO, *The State of Food Security and Nutrition in the World 2017: Building resilience for peace and food security*, 2017, ISBN 978-92-5-109888-2, p. 80

Iraqi Nutrition Levels



Source: FAO, FAOSTAT, <http://www.fao.org/faostat/en/#country/103>

Water

Iraq's focus on crisis and conflict has also lead it to give relatively low priority to a range of growing water problems, all of which will need attention in the near to long term:

- The declining riverine flow into Iraq from the Tigris-Euphrates and from Iran, affected in part by dams in Turkey, Syria, and Iran, and in part by declining rainfall and river levels.
- Occasion drought and declining rainfall in the north. A UN study estimated a recent drought had affected 1.5 million people.⁸⁸
- Poor original design of dams – like the Mosul dam -- and water purification facilities compounded by long under investment, and by the fighting after 2003, especially in the Mosul area and West.
- Over expansion, poor design poor maintenance, and mismanagement of irrigation.
- The residual impact of Saddam Hussein's draining of the marshes in the Southeast.

Each of these problems is a complex and controversial issue, but many sources agree that Iraq's ability to draw upon water from its rivers is becoming a steadily more serious problem because of growing demand -- driven in part by the massive population increases described earlier; cuts in annual rainfall; and the fact that Turkey, Syria, and Iran are all seeking to increase their water use and cope with their drought problems by drawing on more water from the rivers flowing into Iraq.

Figure Twenty-Four provides some graphic illustrations of the challenges Iraq faces in water supply. Again, however, it needs to be stressed that the data and existing analyses are weak and uncertain, and sources disagree over the scale of each problem. The data on riverine problems seem particularly uncertain, and are critical because of Iraq's dependence on the Tigris and Euphrates. Even so, **Figure Twenty-Four** at least shows that the World Bank already estimates that parts of Iraq, and the states around it, already are under serious other forms of water stress.

An FAO study issued in 2012 assessed Iraq's water issues as follows:⁸⁹

Irrigation potential was estimated in 1990 at over 5.5 million ha, of which 63 percent in the Tigris basin, 35 percent in the Euphrates basin and two percent in the Shatt Al-Arab basin. Considering the soil resources, it is estimated that about six million ha are classified as excellent, good or moderately suitable for flood irrigation.

In 1997, the total irrigated area was estimated at 3.4 million ha, of which 87.5 percent obtained water from river diversion, 9.2 percent from rivers using irrigation pumps, 3.1 percent from artesian wells and 1.2 percent from spring sources.¹² Irrigation is used in the summer for rice, corn, dates, cotton, vegetables and fruits grown primarily in central and southern Iraq. Wheat and barley are the main irrigated winter crops...

The agriculture sector is the main sector in consumption of water in Iraq. It is estimated that 85 percent of the water resources are used in agriculture and about 8 percent are used for other purposes, while the rest is lost, especially through evaporation. Water losses in irrigation schemes, all over Iraq, are substantial. By and large, water is conveyed to farmers' fields through very poorly maintained distribution systems made of earth canals and ditches which suffer significant water losses because of infiltration, seepage or leakage. On-farm field application efficiency using the traditional surface gravity systems is assumed to be between 30–40 percent but is probably near 20 percent or less...

Geographic factors affect Iraq's water resources availability and use. Like all rivers, the Tigris and the Euphrates carry large amounts of silt downstream. This silt is deposited in river channels, in canals and on flood plains. Drainage is complicated by the flat nature of the terrain. Most important, Iraq lies downstream from both Syria and Turkey on the Euphrates River and downstream from Turkey on the Tigris River. In the early 1970s, both Syria and Turkey completed large dams on the Euphrates and filled vast reservoirs causing a decrease in the river's flow and of irrigated areas along the Euphrates from 136,000 hectares to 10,000

hectares from 1974 to 1975. No agreements between Iraq, Turkey and Syria on Euphrates and Tigris international water use have yet been signed.

For the above reasons, prospects for increasing irrigated areas should mainly be based on increases in efficiency and reduction of waste. Furthermore, “... *Iraq will witness more shortages in water resources and low quality after Turkey and Syria develop their irrigation projects. Turkey and Syria are aiming at planting more than 2.4 million hectares that will be irrigated from the Euphrates basin, and approximately one million hectares that will be irrigated from the Tigris. This will cause a deficiency in revenues (water availability) from the Tigris and Euphrates of more than 43 percent in 2015...*”

The water level of both the Tigris and the Euphrates rivers has fallen by more than 60 percent over the last 20 years partially as a result of upstream water use and damming. Water deficiency may lead to a shortage of hydropower, desertification, dust storms, loss of biodiversity and the spread of waterborne diseases — all of which have an impact on households and farming communities, with particular harm to the poor and other socially vulnerable groups (women, children, elderly, disabled)...

A World Bank assessment of the situation in Iraq in 2017 – which did not fully address riverine supplies -- warned that,⁹⁰

...Climate change threatens to exacerbate the effects of existing poor practices in agriculture. Deforestation, land degradation, overgrazing by livestock, war, and rapid urbanization all hasten desertification and land degradation. The implications of climate change and land degradation pose serious threats, primarily to food and water security. Climate change is already affecting the agriculture sector and is set to be an increasing threat...Significant investments in the sector are required to meet these challenges and to fulfill the sector's potential contributions to growth and diversification, food security, and employment generation. Yet there are no incentives in place to encourage private sector investment in food and agriculture.

... Unless there are changes in water management, Iraq may not have enough high quality fresh water to meet its development needs by as early as 2020 (T-Zero, 2015). Iraq currently has relatively abundant water compared to many other countries in the region - current annual, renewable freshwater availability of 2,200 cubic meters per capita compared to a regional average of 1,100 cubic meters. Yet rapid population growth is quickly reducing the gap between the demand for and the supply of water. Municipal and industrial demand for water has grown substantially, raising concerns about how to allocate water between competing uses.

...Declining water quantity and deteriorating quality have put almost 40 percent of historically irrigated agricultural areas out of production, while 70 percent of crop land is affected by high soil salinity, which significantly limits crop yields. The inadequate water supply also has a direct economic impact on the private sector. The Investment Climate Survey of 2012 noted that the average manufacturing firm in Iraq reported experiencing 17 water outages per month. To augment the public water supply, many firms rely on their own wells or commercial water providers, which adds to their costs.

... Iraq's water sector has suffered from decades of conflict and sanctions that left its institutions weakened and that have resulted in under-investment and chronic deterioration of its infrastructure assets. Public spending on the water sector increased rapidly between 2007 and 2012 (World Bank, 2014b). Average annual public expenditure on water as a proportion of total federal spending in 2012 was almost 4 percent (from a low of 1.9 percent in 2007)—the equivalent of 1.8 percent of GDP.... the Iraqi water sector faces a significant investment gap...Most of the funds for the sector are provided by the government as consumers contribute very little even to the operation and maintenance of water services.

Another World Bank study, also published in 2017, noted that Iraq already had a high and rising water stress level, made minimal use of its wastewater and was the third worst country in the region in terms of economic losses from inadequate use of water. It concluded that Iraq suffered from least agricultural and industrial productivity in water use in the MENA region -- although Iraq was scarcely alone in dealing with such with water problems.⁹¹

Water quality in the region is degraded by unsustainable water consumption, brine discharge from desalination, pollution, and untreated wastewater. The cost of poor water quality in the region is estimated to range from 0.5 to 2.5 percent of GDP every year (World Bank 2007)...Total water productivity in the Middle

East and North Africa is only about half the world's average. There are striking differences in total water productivity across the region, which features some of the most water productive as well as some of the least water productive countries in the world.

...Agriculture accounts for nearly 80 percent of the region's water use, somewhat higher than the world average of about 70 percent. Agriculture tends to produce the lowest economic returns from water. Globally, on average, the economic returns to agricultural water are about half that of municipal and one-third that of industrial water (Aylward et al. 2010). The region has some of the world's highest losses of freshwater resources in its food supply chain on a per capita basis. Some Middle East and North Africa countries lose between 80 to 177 cubic meters per capita per year of freshwater resources from "field to fork" (Kummu et al. 2012). Agricultural losses, processing losses, and losses at the distribution and consumption stages are all responsible for this waste.

... Despite its scarcity, the region has the world's lowest water tariffs and the highest proportion of GDP (2 percent) spent on public water subsidies. This leads to excessive use of extremely scarce water resources... Especially in the agricultural sector, water service fees in the Middle East and North Africa do not reflect the scarcity value of water or the cost of delivery... The region has some of the lowest water service fees for irrigation water in the world, which enables farmers to grow water-intensive crops and discourages the adoption of water-saving irrigation technologies (Berglöf and Devarajan 2015). Service fees on drinking water are also very low, with some cities charging seven to eight times lower than elsewhere in the region and the world...

Figure Twenty-Four - Part One: Water Stress in the MENA Region⁹²

Iraq and Turkish and Iranian Transboundary River Basins



Percent of Internally Displaced People Citing Water Scarcity as the Main Reason for Displacement and for Preventing their Return to their Place of Origin, Iraq

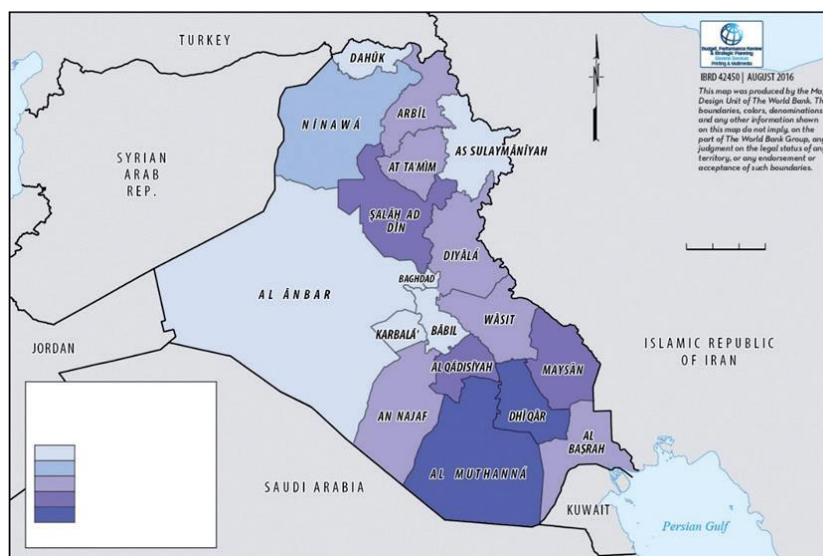


Figure Twenty- Four - Part Two: Water Stress in the MENA Region⁹³

Impact of Population Growth

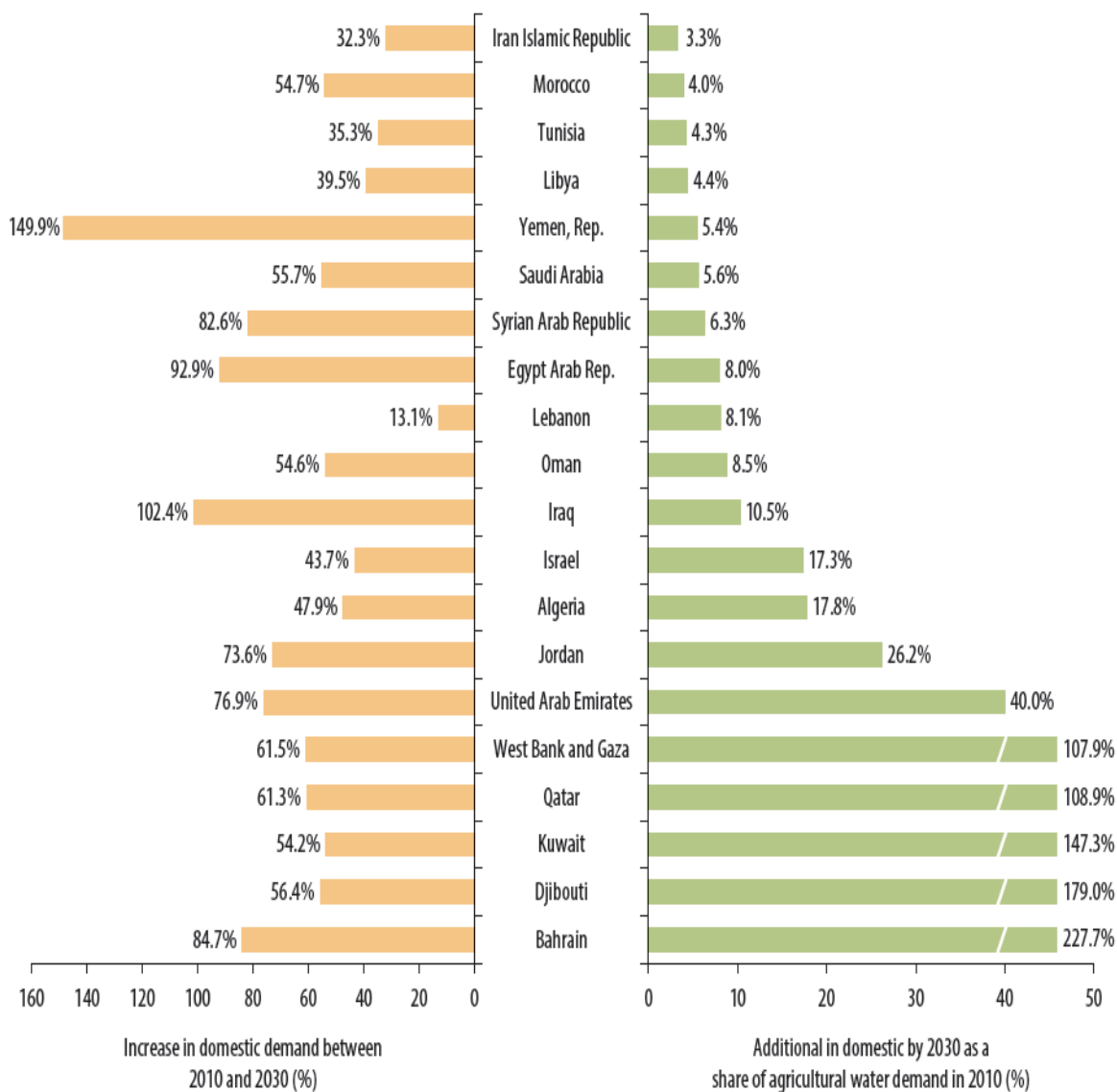
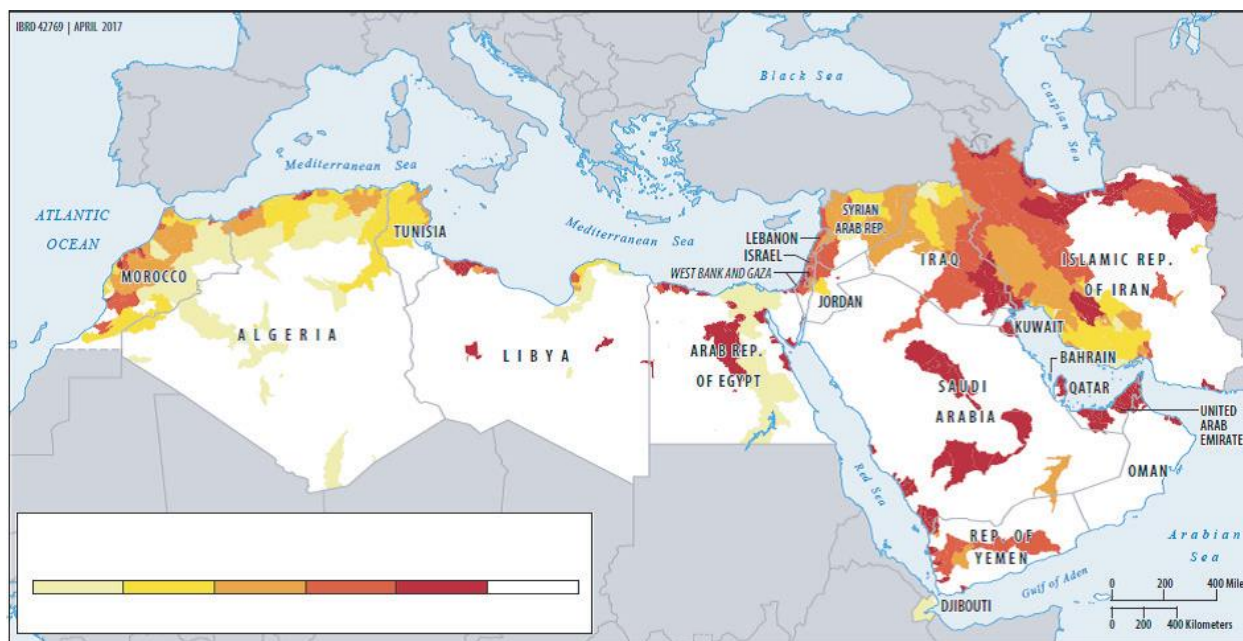
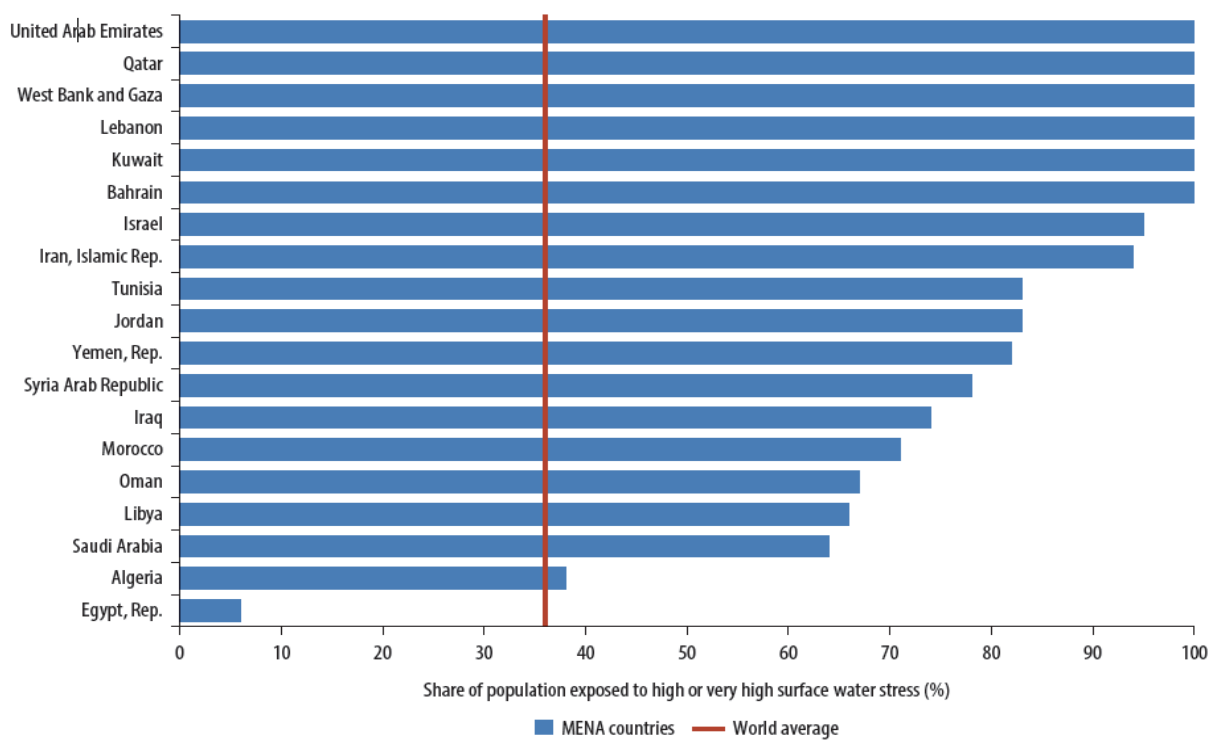


Figure Twenty- Four - Part Three: Water Stress in the MENA Region⁹⁴

Surface Water Stress Level by Country in 2010



Percentage of Population Exposed to High or Very High Surface Water Stress



Source: World Bank, MENA DEVELOPMENT REPORT, *Beyond Scarcity, Water Security in the Middle East and North Africa*, Conference Edition, 2017, pp. 24-25.

The Civil Side of Military and Security Challenges

Iraq cannot focus on security alone in the post-ISIS era, but it must have internal security to make sustain civil progress and meet its peoples' needs. Iraq will also need sufficient military forces to deter Iran and its other neighbors, and to prevent the rise of any new extremist forces, Sunni-Shi'ite conflicts, and Arab-Kurdish conflicts. It will need to create effective police forces for both paramilitary and civil roles, and it will need to create an effective justice system.

Civil Planning Must Explicitly Recognize the Need for Security and Vice Versa

One of the most critical failures of efforts to analyze Iraq's military and civil needs is the failure to explicitly examine the future need to balance expenditures on security and stability, and the fact that their cost involves key competing interests where major trade-offs must be made. "Whole of government" has become "hole in government" for both the security and civil sides of the effort to deal with Iraq's problems. Efforts to integrate civil and security efforts range from pro forma and cosmetic to non-existent.

The military can justly be accused of largely ignoring the civil sector and focusing on kinetics and terrorism. The civil side – including the UN, IMF, World Bank, USAID and most other aid organizations – can be accused to living in a fantasy land where it does not explicitly examine Iraq's overall needs and needs for security. They can all claim bureaucratic and institutional reasons for such neglect. The fact remains that the end result is to ignore of the hardest and most important decisions Iraq must make and is totally irresponsible.

Iraq's military forces have defeated ISIS only because of the support of the U.S.-coalition air forces, outside train and assist personnel, and special forces and other combat support. They still need years of development and must be expanded and modernized to be able to deter outside conventional and missile threats.

The World Bank diagnostic is the best analysis to date but—like all of the other work of its kind—it only addresses the civil dimension of the problem. It does not address the cost of Iraq's current wars, and future security needs, it only focuses on the civil impacts of the fighting. These present serious issues in terms of cost, and defining future needs: military, police, and justice system; and the interface between the Ministry of Defense, Ministry of Interior, and Ministry of Justice.

Funding the Military, Internal Security Forces, and Police

Any form of political stability must recognize the need for suitable security forces, and adjustments to Iraq's present legal, police, paramilitary, and military institutions and forces. Above all, it must recognize the massive impact this will have on Iraq's budget and resources. Estimates of the current cost differ sharply, but the International Institute of Strategic Studies (IISS) estimates that Iraq's military and paramilitary forces alone cost \$18.9 billion in 2014, \$21.1 billion in 2015, and 17.9 billion in 2016. They were almost certainly higher in peak fighting in 2017.⁹⁵ There is no clear way to predict Iraq's future military and other security needs. The current war, however, has been anything but cheap.

To put these numbers in perspective, they represented 8.48% of the GNP in 2014, at a per capita cost of \$524. They represented 12.87% of the GNP in 2015, at a per capita cost of \$573, and they represented 11.61% of the GNP in 2016, at a per capita cost of \$476.⁹⁶ There is no clear way to predict Iraq's future military and other security needs. The current war, however, has been anything but cheap. Iraq's burden can be judged by comparing the International Institute for Strategic Studies (IISS) estimates of Iraq's percentage of GDP to those of the U.S. The U.S. spent well under 4% of its GDP, and most other NATO countries spend well under 2%.

In addition, an analysis by the Congressional Research Service (CRS), using declassified U.S. data, estimated that Iraq took delivery on \$14 billion worth of arms orders between 2008 and 2015 – of which \$10.3 billion came during 2012-2015 in the fighting with ISIS. Iraq placed \$34.4 billion worth of arms orders between 2008 and 2015 – of which \$23.9 billion came during 2012-2015 in the fighting with ISIS.⁹⁷

These numbers are so high that they indicate that Iraq is either spending more than the IISS estimates or was getting substantial aid. It seems more likely that Iraq was spending more, although a substantial amount may have been by place advance orders without full funding or through debt.

The defeat of the ISIS "caliphate" at the end of 2017 should reduce these costs, but Iraq must then reserve much of its present structure for an unknown period to deal with the risk of new forms of terrorism and insurgency, and rebuild its capability to deter military threats from its neighbors. It also is almost certain to get far less U.S. military aid and support. The U.S. spent several billion dollars a year on aid to Iraq during the fighting against ISIS, with total Overseas Contingency Outlays that seems to have approached \$5 billion for the Syria-Iraqi aspects of the ISIS war in FY2017 and \$ FY2018.⁹⁸

Iraq will also have to rebuild key elements of the regular military forces it lost during 2003, and maintain security along its border with Syria—and potentially Turkey and Iran. It will also need to fund the security and counterterrorism forces of the Ministry of Interior.

Rule of Law

Day-to-day security outside conflict and high-risk areas has an expensive and critical civil dimension that the previous analysis shows requires massive reform and restructuring. Iraq will have to create a new mix of police, and all the elements of an effective justice system. It will have to be one that can deal with its present Kurdish, Arab Sunni, and Arab Shi'ite popular militias, smaller local militias and gangs, and organized crime. Its police and civil justice system will have to represent all of Iraq's factions, and be funded well enough to limit corruption.

Iraq will also have to create an effective Ministry of Justice and fund the reform of the rest of the justice systems. During 2003-2011, the U.S. and other outside efforts to reform the Iraqi justice system took a damaged system and thoroughly broke it—failing to reform the police, create an evidence vs. confessions-based system, and creating far greater levels of corruption.

Here, the World Bank diagnostic study notes that,⁹⁹

... The administration of justice and the capacity of the legal profession have deteriorated after decades of dictatorship, conflict, and sanctions. Iraq is in last place in the MENA region and ranks in the bottom 10 percent worldwide on indices of the rule of law...The main reasons include the poor quality of legal education, years of domination of the justice sector by the executive branch, the country's fragile security situation, and the politicization of law enforcement. Iraq's judiciary still struggles to maintain its independence, poor security limits public access to court files and information, and judges routinely face political pressure and

personal threats.

... The judiciary's weak institutional and professional capacity has many implications for the quality of the criminal justice system, for doing business, and for access to legal aid for the vulnerable. Law enforcement, prosecution, criminal courts, and correction are all adversely affected. Iraq ranks number 122 (out of 189) in the Contract Enforcement Indicator of the Doing Business 2016 Report, largely due to the low quality of its judicial processes, the length of time taken to enforce a contract (520 days), and the high cost involved (28 percent of claim value). Finally, not only do poor security conditions hinder access to justice, but also many disadvantaged groups, including women and the poor, lack the legal aid that they require to access justice services.

At least for some years, the military, police, and justice system must also be a critical source of jobs as well as local security, and be balanced in ways that make it clear that no one faction can abuse the other and violent non-actors will be controlled and unable to threaten stability and security at even the local level.

The Military-Civil Nature of Stability

Put simply, any effective effort to study and/or create stability, recovery, and development must involve a clear plan and funding to create security. Any study of Iraq's post-ISIS conflict needs that focuses only on its civil dimension—but fails to address its needs for military, paramilitary and security forces, and the other costs for any effective justice system—will ignore critical aspects of Iraq's governance, human development, and economy, and will be unable to realistically come to grips with its ethnic and sectarian differences. This may be the current practice for stability studies, but the end result is dangerous and impractical analytic rubbish.

Creating Effective Strategic Stability Operations: Helping Iraq Build Its Own Nation

Iraq is still a country with vast opportunities, but this study outlines a host of critical challenges that it must begin to meet immediately, and where consistent progress in many areas will be critical to winning and maintaining any lasting form of security and stability—as well as to shaping Iraq's longer-term development in ways that meet the needs and expectations of its people.

One key step in meeting such challenges is to look beyond the immediate priority of finding some practical solution to Iraq's immediate post-ISIS security needs and ethnic and sectarian divisions, and to assess its broader structural challenges more accurately. It is to find possible solutions, and establish clearer priorities and options for dealing with them. It is also to recognize that Iraq can only move slowly in many areas, that it will be forced to make hard trade-offs, and that it will often choose political expediency over longer-term effectiveness.

Flexibility will be another key to success. Effective action will require years of in-country effort to analyze and quantify Iraq's needs, and carry out an ongoing planning and management effort that can deal with the changing interactions created by Iraq's evolving problems and needs. Serious progress will be impossible without proper planning and analysis, but no given plan will survive engagement with Iraq's problems.

Such efforts can only begin if Iraq's leaders look beyond their present sectarian and ethnic tensions, face the full nature of Iraq's problems, and find some way to work together. The first step is to take advantage of the defeat of ISIS's "caliphate," and find a common path to short-term stability and the ability to work towards common goals.

As events during 2003-2011 showed all too clearly, no outside power can help an Iraq that is not prepared and organized to actively meet the full range of challenges outlined in this report. The same lessons about a failure to assume responsibility have emerged again and again since World War II. The end result of exporting responsibility, and depending on outside aid efforts, may allow Iraq's leaders to focus on their own or factional interests and dodge full responsibility for their actions. It will, however, end in failure, and create growing resentment and tension that may well divide the nation or lead to new forms of civil war.

The world must hold Iraq fully responsible for finding its own path in making the transition from war to security, stability, recovery, and development, and for financing the vast majority of the effort. This is particularly true because there is little sign of any outside willingness to try to rescue Iraq from itself, and little chance that any outside power can assume the burden of dealing with Iraq's complex human, governance, and economic transitions once ISIS is largely defeated in the field.

At the same time, Iraq cannot succeed on its own. It will need outside technical and financial aid for years until its progress reaches a self-sustaining level. Outside states and institutions also have a potential common interest in helping Iraq, and some moral responsibility to do so, *but only if Iraq's leaders can come together and show that such help will serve a clear purpose*. It is critical that Iraq's leaders understand that they—and they alone—must assume responsibility for creating the necessary politics, leadership, and institutions that can ensure Iraq's success. Iraq's past tendency to try to export blame and responsibility will only end in another exercise in self-destructive behavior, regardless of the faults of outside states and institutions.

As for the United States, it needs to seek as broad an international effort as possible. The costs and levels of effort will be too high for any single outside power to assume. But more than that, America's mistakes during 2003-2011 have already shown that too large a U.S. effort can be self-defeating. It will fail to produce a strong and independent Iraq—the key strategic goal the United States should be seeking to achieve. And, it will almost inevitably provoke both major internal opposition in Iraq and opposition or challenges from outside power like Russia, Iran, and Turkey.

At the same time, there is little point in U.S. efforts which address security and not stability. The preceding analysis shows that there is little point in U.S. military interventions in failed state wars if outside states like the United States are not prepared to help nations like Iraq create effective plans and programs for post-conflict security, stability, recovery, and development. It also seems virtually certain that Iraq's problems are so severe that it can only deal with them in ways that can produce an effective level of stability if it can supplement its revenues with outside aid.

International bodies like the UN, IMF, and World Bank—and various NGOs and think tanks—can play a major role. It should be clear, however, that rounding up the usual suspects, and advancing the usual list of reforms tailored to institutional priorities and needs, will do more harm than good. Iraq's problems go far deeper, and internal unity and stability—not fiscal issues or macroeconomic progress—are its key priority.

One answer may be to create some form of international body that is located in Iraq and can provide direct assistance in planning the necessary security, stability, recovery, and development program—doing so on a conditional basis, with full and open transparency as to Iraq's problems and progress, and only offer aid where fiscal responsibility and measures of effectiveness are present and corruption is kept to an acceptable minimum. Such an international body also has the potential to find some effective approach to coordinating outside aid to Iraq, although the past precedents in aiding conflict states have often been monuments to failure.

The history of the UN raises critical questions as to whether it can ever be effective in missions that require effective management and criticism of a member state, and UNAMA was never effective in Afghanistan in developing and coordinating any major aspect of the civil aid efforts. Its history in dealing with Iraq's oil sales between 1992-2003 was as filled with corruption as any Iraq effort. The IMF has a different mission, but one reason for highlighting the World Bank's *Systematic Country Diagnostic* throughout this study has been to show that a World Bank in-country team might be effective—a possibility reinforced by the work of the World Bank team that did similar analysis in Afghanistan.

The U.S. and other outside powers need to recognize these realities, and at least try to create some kind of tailored, collective international effort that can actually work. This may not be possible given the rival outside interest involved, but the United States must at least find the best approach it can to creating an integrated civil-military aid effort, bringing in international institutions, and using aid as catalyst to help encourage the right Iraqi efforts. The U.S. must do its best to find better ways to help Iraq help itself.

Iraq's civil challenges are far too great to rely on either the traditional list of reforms, or assume that Iraq's leaders are capable of enough unity and cooperation to move forward. It is true that the odds of creating an effective and efficient effort approach zero, and that odds of moderate success are uncertain. Given the sheer scale of Iraq's challenges, however, there is no alternative to trying.

More broadly, all involved need to avoid trying to dodge around key problems, understate challenges, and rely on good intentions and optimism. Failing to fully address Iraq's challenges, relying on institutional mandates—rather than Iraq's full range of needs—and trying to deal with key problems through a process of denial can only make things worse. Whether or not good intentions are the road to hell is debatable. Whether or not they are the road to failure is not.

The alternative is not only failure, it is to set a precedent for all other “failed state” wars—one that can only lead to future conflicts and suffering.

¹ UNDP, "Statistical Annex", *Human Development Report 2016*, United Nations, New York, 2017, pp. 199-200, pp. 199-200.

² For a detailed analysis, see Anthony H. Cordesman, *Hitting Bottom: The Maliki Scorecard in Iraq*, May 1, 2014, <https://www.csis.org/analysis/hitting-bottom-maliki-scorecard-iraq>.

³ World Bank, *Iraq - Systematic Country Diagnostic* (English), February 3, 2017, <http://documents.worldbank.org/curated/en/542811487277729890/Iraq-Systematic-Country-Diagnostic>

⁴ For example, see IMF, *IRAQ, STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION, SECOND REVIEW UNDER THE THREE-YEAR STAND-BY ARRANGEMENT, AND REQUESTS FOR WAIVERS OF NONOBSERVANCE AND APPLICABILITY OF PERFORMANCE CRITERIA, AND MODIFICATION OF PERFORMANCE CRITERIA— PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR IRAQ*, IMF Country Report No. 17/251, August 2017.

⁵ CIA, "Iraq," *World Factbook*, accessed December 12, 2017, <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>.

⁶ See World Bank, *Governance Indicators*, <http://databank.worldbank.org/data/reports.aspx?source=worldwide-governance-indicators>, and <http://info.worldbank.org/governance/wgi/#home>; and Transparency International, *Iraq*, <https://www.transparency.org/country/IRQ>, accessed December 12, 2017. Also see Anthony H. Cordesman, *Hitting Bottom: The Maliki Scorecard in Iraq*, May 1, 2014, <https://www.csis.org/analysis/hitting-bottom-maliki-scorecard-iraq>.

⁷ Transparency International, *Iraq-Summary*, <https://www.transparency.org/country/IRQ>, accessed December 12, 2017

⁸ World Bank, *Iraq - Systematic Country Diagnostic* (English), February 3, 2017, <http://documents.worldbank.org/curated/en/542811487277729890/Iraq-Systematic-Country-Diagnostic>, pp. 12-13

⁹ CIA, "Iraq," *World Factbook*, accessed December 17, 2017, <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>, and discussion with U.S. expert.

¹⁰ CIA, "Iraq," *World Factbook*, accessed December 17, 2017, <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>, and discussion with U.S. expert.

¹¹ CIA, "Iraq," *World Factbook*, accessed July 5, 2017, <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>.

¹² World Bank, *Iraq - Systematic Country Diagnostic* (English), February 3, 2017, <http://documents.worldbank.org/curated/en/542811487277729890/Iraq-Systematic-Country-Diagnostic>. This study also states that, "Discussions about Iraq's ethnic and religious diversity are often framed in terms of sectarian tensions among Iraq's Shia and Sunni Arabs, and Kurds. However, sectarianism in Iraq is also easy to caricature and misunderstand or overstate. The current turmoil results less from a centuries-old feud among Sunnis, Shias, and Kurds than from a struggle to compete for power and resources in a post-2003 Iraq characterized by crippled institutions and power vacuums." This reflects the views of many Iraqis who conveniently forget the fact that Iraqi Shi'ite rebels fought in the Marshes and for Iran throughout the Iran-Iraq War, the previous Arab-Kurdish conflicts, and extent to which the Saddam Hussein government favored Sunnis at the expense of Shi'ites.

¹³ For more background, see Ranj Alaaldin, *Containing Shi'ite Militias, The Battle for Stability in Iraq*, Policy Briefing, Brookings, December 2017; Hamza Hendawi and Qassim Abdul-Zahra, "Fears in Iraqi Government Army over Shiite Militias' Power," *Military Times*, March 21, 2016, <http://www.militarytimes.com/story/military/2016/03/21/fears-iraqi-government-army-over-shiite-militias-power/82101226/>; Jack Watling, "The Shia Militias of Iraq," *The Atlantic*, December 22, 2016, <https://www.theatlantic.com/international/archive/2016/12/shia-militias-iraq-isis/510938/>.

¹⁴ "Iraqi Kurds plan independence referendum on Sept. 25," Reuters, [World News](http://www.reuters.com/article/us-mideast-crisis-iraq-kurds-idUSKBN18Y284) | Wed Jun 7, 2017 | 2:11pm EDT, <http://www.reuters.com/article/us-mideast-crisis-iraq-kurds-idUSKBN18Y284>.

¹⁵ CIA, "Iraq," *World Factbook*, accessed December 12, 2017, <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>

¹⁶ CIA, "Iraq," *World Factbook*, accessed July 5, 2017, <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>.

¹⁷ World Bank, Iraq - *Systematic Country Diagnostic* (English), February 3, 2017, <http://documents.worldbank.org/curated/en/542811487277729890/Iraq-Systematic-Country-Diagnostic>, pp. 1-2, 13, 17.

¹⁸ EIA, *Iraq Country Analysis*, April 28, 2016, <https://www.eia.gov/beta/international/analysis.cfm?iso=IRQ>.

¹⁹ EIA, Short Term Energy Outlook, December 12, 2017, <https://www.eia.gov/outlooks/steo/notice.cfm?src=email>

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