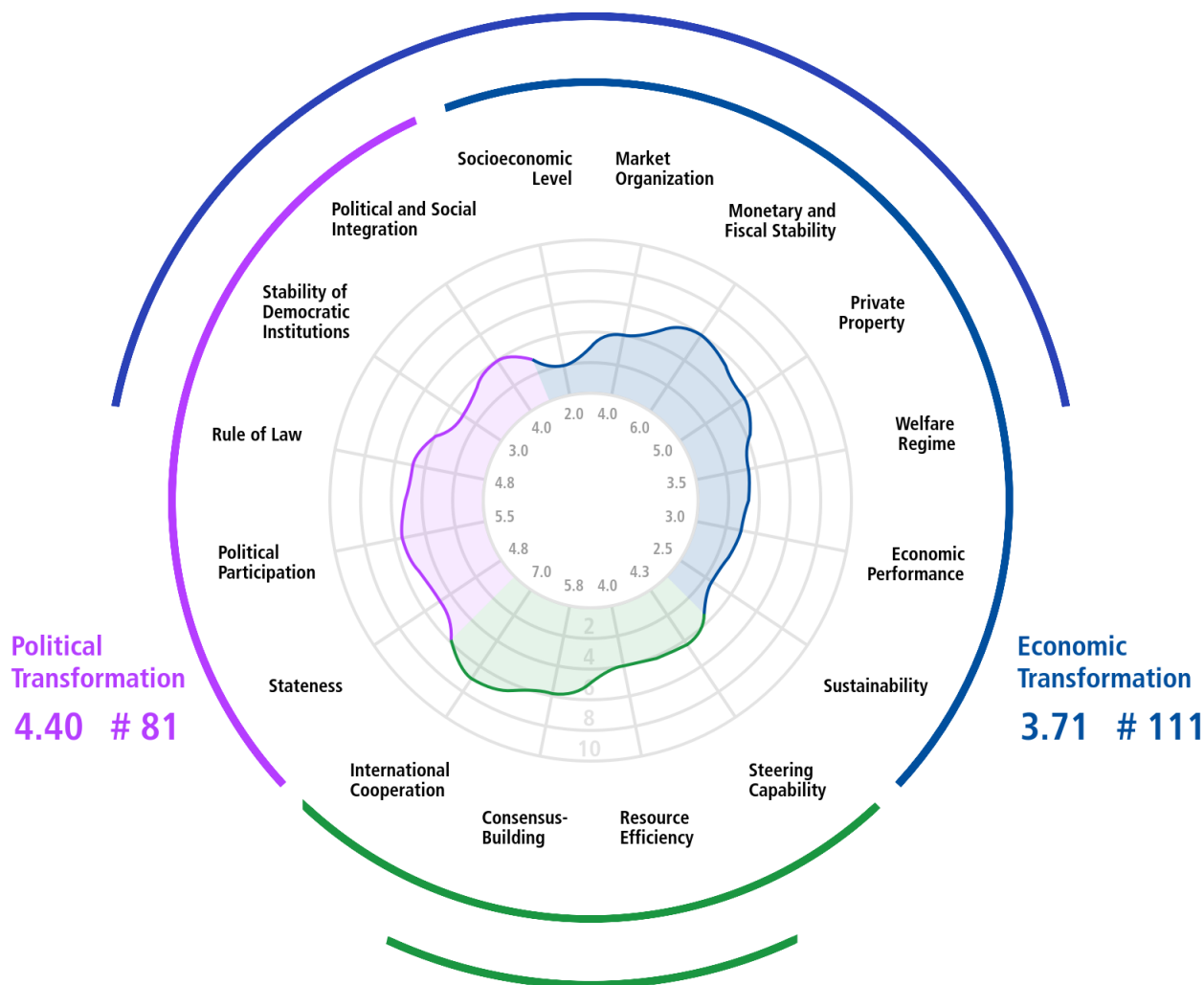


## Iraq

### Status Index

**4.06 # 104**

on 1-10 scale out of 137



### Governance Index

**4.90 # 61**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2024**. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>44.5</b>	HDI	<b>0.686</b>	GDP p.c., PPP \$	<b>10862</b>
Pop. growth <sup>1</sup>	% p.a.	<b>2.2</b>	HDI rank of 189	<b>121</b>	Gini Index	<b>29.5</b>
Life expectancy	years	<b>70.4</b>	UN Education Index	<b>0.599</b>	Poverty <sup>3</sup>	% <b>2.4</b>
Urban population	%	<b>71.4</b>	Gender inequality <sup>2</sup>	<b>0.558</b>	Aid per capita \$	<b>41.6</b>

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

On the 20th anniversary of the U.S.-led invasion of Iraq on March 19, 2003, the Iraqi state remains weak and is undermined by non-democratic, often armed, forces. The country's ethnic-confessional power system is dominated by powerful elites who often use their subnational identities to gain power or retain their power. Such practices have hindered societal transformation.

Mohammed Shia' al-Sudani, prime minister since October 2022, took nearly a year to finalize his cabinet. Prior to this, parliamentary elections in October 2021 nearly descended into a farce due to repeated rescheduling and threats to boycott the election by the leading "Sadrist movement." Eventually, they chose not to boycott and "won" the elections with 10% of the votes.

Low-intensity attacks by the Islamic State (IS) and the Popular Mobilization Forces' (PMF) actions in Kirkuk, Diyala and Salah al-Din threaten the stability of the country. The presence of fighters from the Kurdistan Workers Party (PKK) in Sinjar helped the Kurdistan Regional Government (KRG) and the Government of Iraq (GoI) improve their security cooperation, but it also escalated conflict with Peshmerga forces affiliated with the Kurdistan Democratic Party (KDP). Türkiye and Iran increased their attacks on the PKK inside Iraqi territory, posing potential security threats to the region's interstate relations. Light weapons are readily available, particularly in southern regions where local clans use them to carry out acts of revenge against each other, further undermining the rule of law.

Oil remains the country's main source of revenue. Attempts to diversify the economy and modernize the financial and banking sectors are hampered by the political dynamics in the country. The country remains weak in enhancing its export capacity, particularly in agricultural items. The private sector and FDIs remain feeble.

Corruption remains rampant and the lack of basic services widespread. More than 800,000 Iraqis live in extreme poverty. The COVID-19 pandemic exposed just how profoundly unprepared Iraq is for major hazards, including climate change. Rising temperatures have already brought about environmental and social challenges, such as water scarcity, increased energy demand and rural-urban migration. The Iraqi marshes face an existential threat, particularly due to Türkiye and Iran's consistent restriction of Iraq's access to river water.

One of the few signs of hope for the country was the success of the Iraqi football team in the Khaliji25 championship (the 25th Arabian Gulf Cup). Celebrated nationwide, this victory became a symbol of unity and an opportunity to end Iraq's isolation from the GCC region.

## History and Characteristics of Transformation

Confounding initial hopes, the end of Saddam Hussein's notorious Ba'th regime in 2003 did not bring peace and prosperity to Iraq. His long-standing dictatorship had held the country together with an iron fist since his ascendance to the presidency in 1979. Hussein's rule ruined the country's economy and political relations through major wars with Iran (1980 – 1988), Kuwait (1990 – 1991) and its Kurdish population, which included the "Anfal" gas attacks in 1988. However, the Ba'th regime was replaced by sectarian violence and an unprecedented wave of terrorist attacks. The Sunni elite, which had profited from the Ba'th government, opposed the post-2003 political process, in which political power shifted to the Shi'ites to reflect their comprising 60% of Iraq's population. There was also a cementing of Kurdish autonomy in the northern Kurdistan Region of Iraq (KRI). Many Sunni-dominated cities boycotted the 2005 legislative elections and the public referendum on the new 2005 constitution.

The uncompromising de-Ba'thification process left thousands of former civil servants unemployed. This prompted the Sunni armed opposition to begin its insurgency a few months after U.S. troops had occupied the country. With the help of foreign jihadis, with particular support from the Syrian regime, they turned against Iraq's Shi'a community in an attempt to inflame sectarian violence.

The bombing of the Holy al-Askari shrine in 2006 unleashed a wave of sectarian violence, eventually triggering a U.S. military surge in 2007 that saw additional U.S. troops sent to Iraq. The parallel Sunni Awakening, a movement among Sunni tribes to fight the foreign jihadis, helped to decrease sectarian tensions and establish a period of relative security in Baghdad and the Sunni areas. President Obama's decision to withdraw U.S. troops in 2011, however, reignited sectarian tensions, which were further fueled by then-Prime Minister Nuri al-Maliki. The sectarian and centralized policies of al-Maliki's administration provoked Sunni and Kurdish dissatisfaction alike. Instead of meeting the demands of sit-in protests in cities such as Ramadi, Fallujah, Samarra, Mosul and Kirkuk, the government ordered a crackdown on these protests, detained thousands of predominantly Sunni protesters and accused them of terrorism.

Amid this tense atmosphere, the Islamic State (IS) group successfully recruited new members, especially from among the Sunni youth, and took an increasing hold in Sunni areas around Mosul, Iraq's second-largest city, from 2014 onwards.

Four military divisions of the Iraqi armed forces were defeated during the operation. Leading Shi'a clergymen issued a fatwa urging Iraqis to unite in the fight against the IS. This led to the formation of the Popular Mobilization Forces (PMF). In collaboration with coalition forces and Kurdish troops, the PMF ultimately succeeded in driving out the IS from large areas of territory by December 2017. This marked the end of three years of IS terror in a region encompassing nearly one-third of Iraq, characterized by horrific crimes against humanity, including the killing of tens of thousands of civilians, the displacement of hundreds of thousands, and genocide against Iraq's Yazidi population.

In 2017, despite the opposition of the central government in Baghdad, the Kurdistan Regional Government (KRG) conducted a referendum on potential independence for the Kurdistan Region of Iraq (KRI). Although the majority of Kurds voted in favor of independence, the referendum was rejected by the majority of Western and regional powers, and no further progress toward formal independence has been made since.

That same year, Iraq declared victory over the IS and recaptured all the territories previously held by the group. The war resulted in 18,802 deaths, 37,000 injuries, and the displacement of 3.2 million people prior to the Battle of Mosul. Additionally, the government incurred \$36 billion in losses from the central bank, with nearly 250,000 private homes destroyed, amounting to a cost of \$7.5 billion. The electricity sector suffered estimated losses of \$12 billion.

Thus, Iraq was on the brink of political, economic and social disaster the moment that COVID-19 hit. Its repercussions added another layer of suffering and hardship to Iraqi citizens. As of January 31, 2023, the World Health Organization (WHO) had recorded nearly 2.5 million confirmed infections and more than 25,000 deaths, although the actual numbers were presumably higher.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The state has expanded and strengthened its control over the country's territory in recent years, but it still faces internal challenges from various actors, notably the Popular Mobilization Forces (PMF), the Kurdish Peshmerga, remaining IS fighters in the western desert, the Kurdistan Workers' Party (PKK), and influential tribes. Externally, Iran, Israel and Türkiye have continued their military interventions in Iraq.

The national army, rapidly rebuilt after Saddam Hussein's fall in 2003, underwent a swift and, at times, rushed process of recruitment, arming and equipping new combat units. Officers were promoted rapidly. This army gained training and experience through combat against al-Qaeda in Iraq, later against IS and, occasionally, Shi'ite militias.

Despite achieving a reduction in violence between 2008 and 2011 through cooperation with Sunni "Awakening" forces, the capacity of security institutions like the air force, air defense and naval force was not strengthened. Instead, "Awakening" forces were marginalized, government policies became sectarian, and a significant portion of the state budget was mismanaged. Following the withdrawal of the U.S. army between 2007 and 2011, Iraq struggled to maintain security in Sunni cities and at its borders.

Since the defeat of IS in 2017, the Iraqi army has gradually regained its strength and was ranked 34th out of 145 armies by Global Fire Power. However, as of 2023, it has dropped to the 45th position.

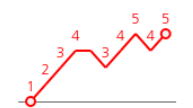
Nevertheless, the army faces several unresolved challenges. Foremost is the fragility of the political process, which has contributed to a weak and disjointed military institution. The Kurds are concerned that a robust Iraqi army could threaten their autonomy. Although the Minister of Defense typically comes from a Sunni background, Sunnis still perceive the army as politicized due to past practices in Sunni cities during Prime Minister Nuri al-Maliki's tenure. It's noteworthy that public trust in the army has increased in recent years, according to Arab Barometer.

Question  
Score

Monopoly on the  
use of force

5

'06 '24 10



Another challenge is the army's relationship with the Peshmerga and the PMF. The constitution assigns security and defense to the federal government (Article 110), while regional governments can establish internal security forces like the police and border guards (Article 121). This overlapping authority remains unresolved. Additionally, the Kurdistan Region of Iraq's provisional constitution (1996) mandates approval from the Kurdistan parliament for the entry of Iraqi federal forces into the region, further complicating the Erbil-Baghdad relationship.

Regarding the PMF, despite their heroic role in the fight against IS, their integration into the state's security apparatus in 2019 presents challenges. The PMF's chief operates independently of the army's chief of staff, leading to a lack of cohesion within the regular armed forces. Moreover, the PMF lacks academic officers and military discipline compared to the Iraqi army, further contributing to an incoherent military structure.

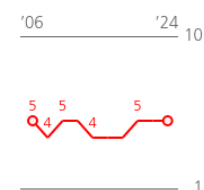
Iraq's ongoing quest for a cohesive national identity that encompasses its diverse communities is a challenging endeavor. The country operates under an ethnic and confessional power-sharing system known as "muhasa," designed to ensure representation for all communities. However, this system has inadvertently fueled sectarian divisions within society and fostered an elite-driven approach to power-sharing. Current political leaders frequently exploit their subnational identities as a means to attain and retain power. Unfortunately, these efforts have, by default, stymied any meaningful social transformation since 2005.

A potential shift in the country's dynamics has emerged in the wake of the Tishreen (October) protests that began in 2019. These protests, which have continued to demand democratization and equitable economic participation, represent a significant ongoing movement. Another symbol of unity was the victory of the Iraqi national soccer team in the "Khaliji 25 championship" (25th Arabian Gulf Cup) in January 2023, an achievement celebrated nationwide.

However, it's important to note that these developments do not necessarily signal a wholesale change in the overarching power-sharing system. The presence of non-state actors, particularly the political elite, will likely resist substantial alterations to the post-2005 power-sharing arrangement, even resorting to force if necessary. Additionally, the framework of the power-sharing system is inflexible, and any policy shift would necessitate the Herculean task of drafting a new constitution – a mission that appears exceedingly challenging.

State identity

5



Iraqi law is based on French civil law as well as Shariah law. Shariah law encompasses both the Jaa'fari School of Jurisprudence, regulated by the Shi'a Endowment for Shi'a religious affairs, and the Shaafi'i School of Jurisprudence, regulated by the Sunni Endowment for Sunni religious affairs. In addition to the Shi'a and Sunni endowments, an endowment for other religious minorities handles cases for Yazidis, Christians, Yarsanis (Kaka'is), and others. Therefore, Shariah law is a main source of legislation, although not the only one.

Among the religiously sensitive cases that Iraq's legal system uses civil laws to deal with are punishment for adultery, the penalty for defamation, drinking alcohol, the punishment for theft, prostitution and apostasy.

That said, Iraq, including the Kurdish region, saw several cases of forced marriage and honor killings occurring outside the legal system – highlighting the separation between laws and their enforcement.

The Ministry of Endowments and Religious Affairs regulates religious affairs in the KRI. It includes representatives from various religious groups.

On paper, fundamental service provisions are surprisingly good: statistics from the World Bank show that the population's access to electricity is 100%. However, such offerings are not safely managed as power cuts are frequent, and almost 80% of the provided electricity depends on privately owned diesel generators, ranking Iraq among the top five countries in the use of generators per capita. According to international reports, the recent expansion of electricity capacity has not matched the increased electricity demand, which peaked at 34.18 gigawatts in the summer of 2022. Overall, the electricity infrastructure is weak due to years of war and rampant corruption. In addition, electricity taxes are substantially below the recovery cost. Iraq is, indeed, at the top of the list for uncollected and unbilled electricity in the region, according to the Washington-based Middle East Institute.

Also, according to the World Bank, although almost 99% of the population has access to water sources, only 60% of the population has access to safely managed water. The situation is similar for sanitation, with 100% having access overall but only 43% having access to safely managed sanitation.

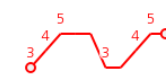
The provision of essential services is particularly inconsistent in areas that were formerly under "IS" control. There are still no reconstruction plans for areas that have been destroyed by fighting. In the south, public dissatisfaction erupted in October 2019 in the form of major protests, with protesters demanding essential services and an immediate end to corruption.

Public discontent with the federal government reached its highest levels in light of the government's mismanagement of the COVID-19 pandemic. Despite these "Tishreen" protests, Iraq remains one of the most corrupt countries, even after the pandemic.

No interference of religious dogmas

5

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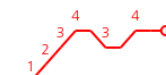


\_\_\_\_\_ 1

Basic administration

4

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According to the Arab Barometer, most Iraqis are dissatisfied with their government's performance. Less than a third of citizens are satisfied with the health care and education systems, which have been heavily impacted by COVID-19. Regional variation exists in satisfaction with public services governed by regional governments. People in KRI are relatively more satisfied with the education and health care systems than others in the country.

Public hospitals lack capacity due to years of war and international sanctions. Hospitals were overwhelmed, particularly by the second wave of COVID-19 in the winter of 2020/2021. While Iraq has recovered from the pandemic, hospitals still struggle to meet public needs. Iraqis, if they can afford it, often utilize private clinics and hospitals to avoid long queues. This issue is particularly evident in Kurdistan, given the influx of refugees from Syria and internally displaced persons (IDPs), which has placed additional strain on the region.

## 2 | Political Participation

Iraqis vote every four years for their national and regional representatives in elections supervised and coordinated by the Independent High Electoral Commission (IHEC). The country's stagnancy has rendered the significance of elections generally questionable, given their apparent inability to bring about significant changes.

Prior elections had been conducted under proportional representation using the Webster/Sainte-Laguë method. In the 2021 elections, in response to the October 2019 protests, the single non-transferable vote (SNTV) allowed the participation of independent candidates and minor parties in the elections.

In general, the United Nations considered the entire process satisfyingly well-organized, despite reported cases of fraud and manipulations. All parties and blocs were given fair and equal access to the media, and voting participation was conducted accessibly and confidentially. However, with just above 43%, the elections witnessed the lowest turnout in the country since 2003.

The elections resulted in a change in the political balance within Shi'a parties: Muqtada al-Sadr's bloc (73 seats) gained ground at the expense of the al-Fatah alliance. As a result, al-Fatah and other Shi'a parties contested the results, calling them fraudulent.

In late July 2022, the Sadrist movement withdrew from the Council of Representatives as a protest of the failed attempts to form a cabinet in the country. The seats of the Sadrist members were redistributed among al-Fatah and other parties, making the Coalition Forces (CF) the largest bloc in the Council of Representatives (CoR) with 130 seats.

Free and fair elections

6

'06 '24 10



1

CF consists of several political blocs, some of which are allied to Iran. CF includes the State of Law coalition led by the former prime minister and chief of the al-Dawa party, Nuri al-Maliki; the al-Fatah Alliance led by Hadi al-Amiri; the Ataa Movement led by PMF chairman Falih al-Fayyadh; the Righteous Movement led by Hezbollah Brigades chief Hussein Mu'nis al-Muhammadawi; the Islamic Virtue Party; and the "State Forces Coalition" led by Shi'ite cleric Ammar al-Hakim and former Prime Minister Haider al-Abadi.

In KRI, elections will take place in November 2023 based on four electoral districts, with one district for each of the four governorates of the region: Erbil, Sulaymaniyah, Dohuk and Halabja. The percentage of provincial seats will be determined by the voter records of IHEC and data from the Federal Ministry of Planning.

While the consociationalism system employed in post-2003 Iraq has ostensibly yielded a measure of equilibrium in the distribution of power among diverse social factions, the practical manifestation of this system seems to exhibit undemocratic tendencies.

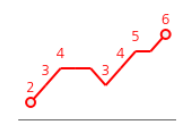
Legislative enactments are established through a consensus reached among the foremost Shi'ite, Sunni and Kurdish factions. Consociation, despite its intended objective of forestalling authoritarianism, resulted in the establishment of a political framework characterized by elitism and ensnared in undeniably rampant corruption. Negotiations are frequently conducted in private meetings, behind closed doors. In addition, the necessity of navigating all political affairs through the CoR (Council of Representatives) provides Shi'ite political parties with "structural dominance" since they, despite consociationalism, maintain significant leverage that will allow them to block and/or pass laws.

Iran possesses a significant degree of political influence over Iraq through its alliances with its allies within the CF. As the most powerful bloc in the country, the CF could signal a shift in Iran's role within Iraq, given that the CF successfully resolved the political deadlock after the 2021 parliamentary elections. Despite the autonomy of the current government and its prime minister, certain factions within the CF aim to assert their dominance over the nation's security, military and petroleum sectors. This could be interpreted as a victory for Iran and compensation for its diminished authority following the assassination of al-Quds forces chief, Qasim Soleimani, in January 2020.

Effective power to govern

6

'06 '24 10



All Iraqis are granted the constitutionally enshrined freedom of association and assembly. The right to form political parties is organized under Law 36-2015. In 2017, the Council of Representatives (CoR) passed a law governing unions and professional associations – a significant step toward more progressive political practices. Government approval is generally required to hold a public demonstration. In practice, the right to assembly is challenged by some officials – often with links to Shi'a parties – and non-state actors, mainly the Popular Mobilization Forces (PMF).

Security forces aligned with the ruling parties in the KRI have repeatedly cracked down on public protests. For example, in August 2022, hundreds of demonstrators in Sulaymaniyah protested against the KRG and largely accused the PUK of corruption, blaming it for the deterioration of living standards. The security forces responded with tear gas and briefly arrested a number of deputies belonging to an opposition Kurdish party that called for the demonstration.

As for the post-COVID-19 period, all assembly restrictions that the government imposed during the lockdowns have been lifted across the country.

The Iraqi constitution ostensibly protects journalistic freedom, just as the protection of the right to express oneself is constitutionally ensured. There is a functional framework for the promotion and protection of freedom of information through relevant legislation. Censorship is not observed within the government, and the penalty regulations in place do not engender fear or discourage opposing views.

In practice, however, Iraq is among the most dangerous places in the world for journalists, with a significant risk of violating individuals' right to free speech. According to Reporters Without Borders (RSF), Iraq's ranking in the 2022 World Press Freedom Index was 172, a decline of nine ranks since its 2021 ranking.

Political parties have a direct influence over the media, polarizing society further and making it nearly impossible to have fair and impartial media in the country. The more resources a political party possesses, the more power its associated media outlet wields. Reporters Without Borders indicates that media outlets lacking funding default and cease operations.

Furthermore, the CoR is currently discussing a draft law on freedom of expression and peaceful demonstration. The law sets narrow boundaries for public freedoms and provides vague definitions of freedom, social rights, justice and equality. This is not the first attempt to introduce such a law. In 2010, the CoR received the same bill for legislative purposes, but it faced several criticisms. The bill was reconsidered in 2016 but encountered the same obstacles. Currently, there is a possibility of enacting the law, which, in its current form, could restrict freedom of expression. The bill encompasses a range of legislation and laws, including the Information Crimes Law, freedom of expression, peaceful demonstration, the right to access information and, finally, the amendment of the Intellectual Property Law.

Association /  
assembly rights

7

'06 '24 10



1

Freedom of  
expression

3

'06 '24 10



1

### 3 | Rule of Law

The federal republic is divided into three authorities that each carry out their duties based on the principle of separation of powers, according to the 2005 constitution. As a parliamentary political system, this power division does not suggest total separation but rather complements each other. The Council of Representatives (CoR) selects a ceremonial president who appoints the prime minister from the largest bloc within the CoR. The prime minister serves a maximum of two four-year electoral terms. The CoR also elects the state president with a two-thirds majority.

However, because of the sectarian-based quota, the legislative, executive, and judicial powers are distributed among party-based Iraqi components (Shi'a, Sunnis and Kurds). This has given the political parties significant power in the country over the state and its institutions. Those partisan blocs share seats in the three authorities and with limited subjection to accountability. Indeed, each bloc has a representative in the three powers, blurring the border between legislative and executive powers.

The authority of Chief Justice Faeq Zaydan has expanded during the reporting period. Although the courts remain politicized, the legislative and executive branches do not have the ability to control the judiciary's decisions. In January 2023, Prime Minister al-Sudani paid a visit to the Supreme Judicial Council and publicly declared his backing for the judiciary in all its institutions, instructing it to fulfill its full legal and constitutional responsibilities.

However, the executive cannot protect the judges from militia abuses. The case of releasing Nour Zuhair Jassim, the main suspect in what was known as “the theft of the century,” on bail in exchange for recovering some of the money sets an example, as he admitted to having stolen one trillion Iraqi dinars. Another example is the release on bail of the former member of parliament Haitham al-Joubori in return for a guarantee of four billion Iraqi dinars in exchange for recovering the money he admitted, amounting to about RSD 17 billion. Iraq is said to have recovered only 2% of the stolen money.

What Iraqis refer to as “the theft of the century” is a \$3.7 billion tax fraud involving five companies and Rafidain Bank between September 2021 and August 2022. Then Finance Minister Ihsan Abdul-Jabbar discovered the burglary and presented the audit to the Council of Representatives' financial committee.

The Federal Court has recently invalidated the Kurdistan Regional Government's (KRG) oil and gas law of 2007 and ordered that the region not receive its share of the federal fund. A Kurdish figure told the media that the court's intervention in regional affairs undermines the principle of separation of powers, as it appears that the court has become the sole authority in the country.

Separation of powers



Iraq's judiciary is divided into three branches: the ordinary judiciary (which includes the Supreme Judicial Council, Court of Cassation, Vice-Chief of the Court of Cassation, Public Prosecution, Judicial Supervisory Authority, and the Court of Appeal); a constitutional jurisdiction (the Federal Court); and an administrative judiciary (Military Judiciary, Courts of the Internal Security Forces, and the Courts of the Supreme Judicial Council). According to Article 19 of the constitution, the judiciary is independent and bound only by the law. However, powerful political elites and parties have politicized it, resulting in a generally weak judiciary given the overall erosion of the state's power.

There are major crime cases that the courts have yet to resolve, even though lawyers responsible for the cases have complied with all required procedures. Among them are those against (former) members of the "IS."

In response to the October 2019 protests, an increasing number of public officials and politicians have faced prosecution for alleged office abuse, particularly under former Prime Minister Mustafa al-Kadhimi.

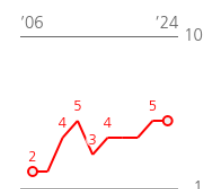
Masked by fair representation, the quota system of the power-sharing structure has produced one of the most corrupt systems, effectively institutionalizing corruption. Motives to join the political club often revolve around self-centered political and economic interests. This system, which is based on an elite hierarchy, enables abuses to persist based on the whims and personal desires of certain elite figures – who are perceived as the guardians of the political system – without fearing prosecution.

For example, the "theft of the century" involved a network of officials, civil servants and businessmen. The new government has formed a high commission to deal with the case. While the details of the heist remain to be discovered, the government has called on defendants to turn themselves in and return stolen sums. This marks the first instance of such a move in Iraq.

In the sequel, approximately \$123 million was recovered from businessman Nour al-Khafaji in November 2022, out of \$1.1 billion. Al-Khafaji was supposed to deliver the full amount within two weeks, enabling him to sell real estate purchased and return the money to the state. However, none of this happened during the reporting period. Similarly, in November 2022, the government released former member of parliament Haitham al-Joubori on bail in exchange for a guarantee of four billion Iraqi dinars, in return for the recovery of the money he had admitted to, totaling about 17 billion Iraqi dinars.

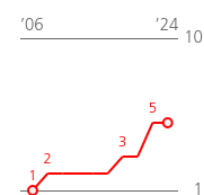
#### Independent judiciary

5



#### Prosecution of office abuse

5



While constitutionally protected, civil liberties are often violated by the state, the PMF and non-state actors (such as IS, major political parties and tribes – especially in the south).

With a score of 29/100, Iraq is considered “not free” in the “Freedom in the World” Index 2022. However, it has witnessed a relative improvement in recent years, particularly in terms of the decline in prosecution of activists and journalists.

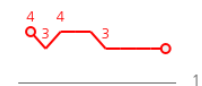
The state of minorities in Iraq, in general, is a concern, according to Minority Rights Group International. In the former “IS”-held areas, Yazidi women and girls continue to face issues such as displacement, gender-based violence, customs, economy, health care, job opportunities, and particularly, gender discrimination. A study conducted by the Institute of Development Studies at the University of Sussex reveals that Christian women also encounter harassment, poor education and insecurity, leading them to relinquish their jobs to avoid mistreatment and, in certain instances, abduction.

That said, there are presently no additional obstacles imposed on civil rights stemming from the COVID-19 period.

Civil rights

3

'06 '24 10



4 | Stability of Democratic Institutions

The formal democratic system of Iraq has performed adequately since 2005. Elections and power transfers have largely been peaceful. The democratically elected bodies – to a good extent – perform their duties, especially after the premiership of Nuri al-Maliki in 2014.

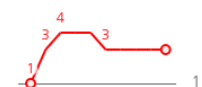
In practice, Iraq’s democratic system grapples with diverse political challenges, particularly within the current CoR. The establishment of the al-Sudani cabinet presented a significant hurdle as negotiations endured for nearly a year. By that time, the Sadrists had already departed from the CoR, a decision that bolstered the Coordination Framework, a coalition aligned with Iran. This development potentially weakens the democratic legitimacy of the current CoR.

Political parties, religious establishments and the military do acknowledge the utility of democratic institutions. Civil society organizations, interest groups and other social associations subscribe to democracy and support democratic institutions but oppose the manipulation of democratic institutions by the political elites. As mentioned earlier in the report, Iraq is a hybrid regime where the political forces support democratic institutions as long as they serve their purposes, despite the anti-democratic behavior of some groups.

Performance of democratic institutions

3

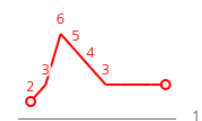
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Commitment to democratic institutions

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## 5 | Political and Social Integration

In theory, the party system in Iraq is a multiparty system. In practice, however, the party system seems to reflect the dominant-party system instead. This issue occurs because the political process is dominated by groups of parties that have repeatedly won elections and are unlikely to be defeated in the near future.

Consociationalism, as explained earlier, has reinforced an elite-based system of certain political parties. This does not mean that the parties in Iraq are not socially rooted. Rather, these dominant parties do enjoy social support – though it has declined in the past years because of excessive corruption and mismanagement.

These parties enjoy a massive influx of Petro cash. As in any other rentier economy country, these parties frequently purchase loyalty, votes and candidates. Consequently, the level of clientelism is high, often leading to political instability. Additionally, membership in these parties is predominantly, though not entirely, determined along ethnic-sectarian lines, further contributing to the fragility of the system and its susceptibility to social polarization.

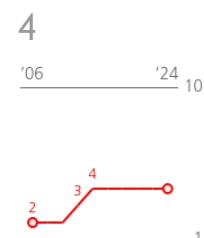
Among the most popular and strong parties and blocs are the Sadrist movement (73 seats – withdrew from the CoR); the Progress Party, led by the speaker of the CoR, Mohamed Al-Halbousi (37 seats); the Dawa Party, led by Nouri al-Maliki (part of the State of Law – 33 seats); the Badr organization, led by Hadi al-Amiri (part of the Fatah alliance – 17 seats); the Supreme Islamic Iraqi Council, led by Sayyed Amma al-Hakim (part of the Fatah alliance); and the two Kurdish parties: the Kurdish KDP, chaired by Masoud Barzani (31 seats), and the PUK, led by Bafel Talabani (part of the Kurdish Coalition along with the Change movement – 17 seats).

Shi'a militias are recognized as influential interest groups in the nation. Following the U.S. withdrawal in 2011, the prevalence of armed militias has grown substantially – particularly following the assassination of General Qasim Soleimani, the head of the IRGC al-Quds forces, and Abu Mahdi al-Muhandis, the head of the PMF in January 2021.

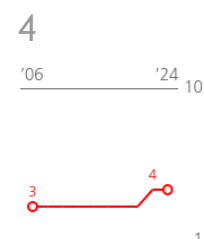
Some Shi'a militias are loyal to Iran and have a significant impact on shaping the country's politics. Their armed influence has increased to the extent that they threaten to kill or arrest Sunni political forces, including those involved in the government.

The PMF heroically helped defeat "IS." As a result, they earned social support and won seats in the CoR and government ministries in 2018. However, these groups lost the elections of 2021. They described the results and claimed that fraud cases took place across the country, managing to block government formation for months. According to media reports, the PMF threatened residents of Sunni areas to vote for candidates associated with these militias.

Party system



Interest groups



Religious organizations, and sometimes individual dignitaries, can be considered interest groups since they have an active – though usually informal – role in the political process, thanks to their endowments. Initially introduced after 2003 to ensure the separation of religion and politics, these actors, especially the Shi'ite ones, have often worked to influence the government from outside. They mobilize their followers in places of worship and religious gatherings to support their causes, particularly during elections or political crises.

The influence of tribal sheikhs is primarily limited to their respective villages or towns. They play a crucial role in local peace processes by resolving tribal disputes and rallying tribal members to endorse a government candidate for the clan.

Trade unions exist, but their work has been eroded by party-based political processes since the arrival of the Ba'th party in 1968.

The number of non-governmental organizations (NGOs) has drastically increased in Iraq, especially after the collapse of the Islamic State (IS) group. According to the International Center for Not-for-Profit Law, the number of NGOs in Iraq has reached 4,800. Many influential NGOs are affiliated with powerful political parties and prioritize these parties' interests. NGOs lacking political support face challenges in their operations, particularly in areas previously under IS control. These NGOs are often required to obtain security clearance to carry out activities in those areas. Additionally, reports by the Berghof Foundation and its partners indicate that NGOs are frequently instructed not to engage with matters concerning reconciliation and internally displaced persons (IDPs), as these issues fall under the authority of the executive power. Consequently, NGOs find it difficult to bridge the gap between the general public and the state. Despite an immature NGO culture in Iraq, their work and influence are expected to grow in the future.

The political process is generally viewed negatively. The public mistrusts elections because they do not result in change. Additionally, the public's trust in democratic institutions has further eroded due to the corruption of political elites. This negative perception of democratic institutions was worsened in the post-2021 elections following al-Sadr's retirement – and withdrawal – from the political process, despite his decisive win in the polls. The recent dollar crisis – escalating after the United States' restriction of U.S. dollar flows into Iraq in response to alleged smuggling activities of U.S. dollars from Baghdad to sanctioned Iran and Syria – has added another source of public frustration with the political processes and the government's democratic misconduct.

According to the Arab Barometer survey, a majority of Iraqis (68%) believe that democracy is the best form of government, despite its flaws. However, the conviction rate has decreased by 15% since its original measurement in 2011. The decline may be attributed to concerns about the advantages of democracy. In the same Arab Barometer survey, over 70% of Iraqis believe that democracy does not guarantee a strong economy or stability.

Approval of  
democracy

n/a

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n/a n/a

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Family ties, tribal, clan and ethno-sectarian communities remain among the key providers of social capital. Political instability in the country hinders the development of a unified social identity. Social cohesiveness is further harmed by the absence of a decentralized framework that might better handle current divides.

That said, Iraqis have increased their trust in the Iraqi army. According to the Arab Barometer, 83% of Iraqis greatly trust the Iraqi Army.

SolAbility Sustainable Intelligence ranked Iraq 141 out of 184 countries, with a score of 37.6 out of 100. This is a low ranking for a country that is rich in oil.

About 2.5 million people are considered to be in particular humanitarian need. While the number decreased by almost 40% compared to the BTI report of 2022, the number remains high. The state of internally displaced persons (IDPs) remains unchanged. The country has more than one million IDPs despite the governmental closure of the formal camps – Kurdistan did not close the camps. Similarly, the state and the number of Syrian refugees in Iraq – mainly hosted in Kurdistan – remained almost the same, as the number of refugees decreased only by 2% since November 2022. Indeed, more than 250,000 still live in Iraq, mostly in the Kurdistan region.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Iraq continues to suffer from rampant corruption, identity politics, a lack of effective safety nets, and insufficient basic services. The country was ranked 121st in the 2021 Human Development Index (HDI) with a score of 0.686. In the Gender Inequality Index, Iraq witnessed a slight decrease from 0.564 in 2020 to 0.558 in 2021. The overall loss in HDI due to inequality reached 19.2% in 2021, following 22.0% in 2011.

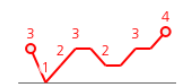
Most statistics, if ever available, are often outdated. The Multidimensional Poverty Analysis report on Iraq (2022) from Sida's Department for Asia, the Middle East, and Humanitarian Assistance concluded that approximately 800,000 Iraqis, or 2.5% of the nearly 32 million total population, lived in severe poverty (less than \$1.90 per day) in 2012. Additionally, the report found that 6.20 million Iraqis, or 19%, lived below the national poverty line of \$3.20 per day, while another 8.2 million individuals, or 57%, had less than \$5.50 for daily expenses.

According to the United Nations Development Programme (UNDP), COVID-19 constraints have significantly harmed the country's economy, leading to a 50% increase in poverty.

#### Social capital

4

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#### Question

Score

#### Socioeconomic barriers

2

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While Iraq's economy gradually recovered from COVID-19, thanks to the rise of oil prices following the Ukraine crisis, poverty and economic exclusion remain serious challenges – not least for the 1.2 million internationally displaced persons (IDPs) who still partly reside in temporary homes and camps as of March 31, 2022.

Economic indicators		2019	2020	2021	2022
GDP	\$ M	233636.1	180924.1	207691.6	<b>264182.2</b>
GDP growth	%	5.5	-12.0	1.6	<b>7.0</b>
Inflation (CPI)	%	-0.2	0.6	6.0	<b>5.0</b>
Unemployment	%	15.1	16.2	16.2	<b>15.5</b>
Foreign direct investment	% of GDP	-1.3	-1.6	-1.3	<b>-0.8</b>
Export growth	%	4.6	-10.1	-13.3	-
Import growth	%	28.4	-23.9	7.7	-
Current account balance	\$ M	15762.6	-6197.6	24563.4	-
Public debt	% of GDP	45.4	78.7	59.2	<b>44.9</b>
External debt	\$ M	27467.8	26298.8	25262.7	-
Total debt service	\$ M	2672.0	4003.7	4179.8	-
Net lending/borrowing	% of GDP	2.0	-	-	-
Tax revenue	% of GDP	1.3	-	-	-
Government consumption	% of GDP	19.3	22.5	17.9	-
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	2.1	2.8	-	-
R&D expenditure	% of GDP	0.0	0.0	0.0	-
Military expenditure	% of GDP	3.3	3.4	2.3	<b>1.7</b>

Sources (as of December 2023): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Iraq has gradually embraced market economic concepts since 2003. Alongside the public sector, a significant number of businesses and banks are still public or semi-public.

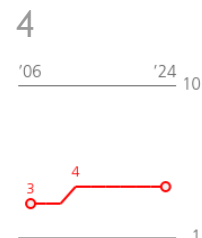
The public sector dominates the job market in the country, whereas the private sector is characterized by a limited number of major corporations, small and medium enterprises (SMEs), and some microenterprises, primarily private limited liability corporations (LLCs). The private sector faces various obstacles, including insecurity and political instability, outdated legislation, lack of regulations and enforcement authorities, limited access to financial services and investment credit, complex registration and closure processes for businesses, and a scarcity of qualified workers. Additionally, the private sector contends with inadequate infrastructure and energy supply, limited understanding of global and regional markets, a lack of productive dialogue between the public and private sectors, excessive bureaucracy, widespread corruption and unfair competition from the public sector.

Price regulations depend on the conversion rate of the Iraqi dinar to the U.S. dollar. Prices of commodities rise when the value of the dollar is high. Hence, the current high inflation and increase in prices came as no surprise. Since November 2022, Iraqi banks have been compelled to meet SWIFT criteria for money laundering, terrorist financing and sanctions, particularly for countries like Iran and Russia, to access foreign reserves at the U.S. Federal Reserve. As a result, the central bank's depreciation of the Iraqi dinar (RSD 1,470 per \$1) was a measure taken to contain the crisis.

There are a few foreign companies in Iraq. Company Law 21/1997 requires 51% Iraqi ownership if a foreign company wants to register in the country. In June 2019, the CoR passed an amendment to Law 21-1997 to accept "holding companies" for the very first time as a newly admissible type of business. There have also been amendments to tax policy in the new budget law 9/2018.

The National Investment Law permits both domestic and foreign investors to qualify for incentives. Foreign investors are allowed to trade shares and securities listed on the Iraqi Stock Exchange (ISX). Iraqi authorities state that currently, there are no restrictions on current account or capital transactions involving currency exchange, as long as valid documentation supports the underlying transactions. It is still uncertain if currency convertibility is completely unrestricted. The National Investment Law includes provisions that enable investors to bank and transfer capital within or outside of Iraq. Additionally, it grants investors an investment license exemption from taxes and fees for a 10-year period.

Market  
organization



Since there is no 51% local ownership requirement in the Kurdistan Region of Iraq (KRI), foreign companies registered in that region are often unable to open offices in the rest of the country. Other challenges to foreign investment include visa and customs requirements, shortages in electricity and unreliable dispute resolution regulations.

The Kurdish private sector faces similar structural barriers that hinder its development. These hardships have led to the expansion of informal labor activities in many sectors. Consequently, the private sector in Iraq currently makes an insufficient contribution to the GDP and cannot sufficiently contribute to economic diversification or job creation. Meanwhile, informal employment is extremely high – estimated by the International Labor Organization at 67%.

The Law of Competition and Antitrust (14/2010) regulates market competition and prevents monopolizing practices, including those in trade and production activities. It prohibits the fixing of prices or quantities of goods and services – such as sales conditions that distort competition. Additionally, the law forbids the division of a market based on geographical locations, the hoarding of materials on which a competitor relies, and various other discriminatory practices.

Article 4 of the law establishes a Competition and Antitrust Council to enforce the law; however, this body has not yet been established. As a result, firms currently lack recourse against unfair business practices. At present, Iraq lacks the institutional authority necessary to effectively enforce competition law. Insecurity and political instability within the country hinder the implementation of competition policies. In southern Iraq, Iran has monopolized trade through its connections with influential political and militia figures. According to the Tehran Times, Iran’s daily exports to Iraq amount to approximately \$30 million, with half derived from oil and gas exports and the other half from goods exports.

In addition, smuggling across the Iranian-Iraqi border is widespread and distorts market competition for many common household goods in Iraq.

In the north, Türkiye, as an almost exclusive oil exporter through the port of Ceyhan, holds significant economic and trade leverage in the KRI.

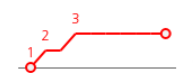
Iraq is eager to trade with its neighboring countries. The country is bound by geopolitical realities, with Iran and Türkiye having substantial leverage over it. It has also increased ties with Chinese energy and construction companies.

Iraq has been an observer in the World Trade Organization (WTO) since 2004 and has submitted a pending case to become a member of the organization ever since. However, rampant corruption and the political and security uncertainty in the country remain the biggest challenges for Iraq to be accepted.

### Competition policy

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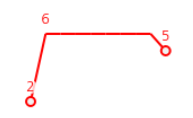
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### Liberalization of foreign trade

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The Iraqi economy lacks international standard regulations for commerce. It also lacks economic legislation, specifically for workers' rights in the private sector and social security. Furthermore, Iraq faces the challenge of being primarily an importing country and an oil-based economic power, which makes it difficult to meet WTO standards.

Among the non-tariff barriers is the country company law 17/2019 (an amendment of law 21/1997), which requires foreign entities to be registered with at least 51% Iraqi ownership. Additionally, the Iraqi central bank (CBI) mandates compliance with the U.S. Office of Foreign Assets Control sanctions. The bank also maintains its own blacklist of non-compliant banks (many from the KRI) with which it ceases to engage in trade. Furthermore, Iraq is a party to the pan-Arab Israel boycott. Moreover, Iraqis are prohibited from engaging in transactions, whether buying, selling or entering into business contracts, with any Israeli entity – be it the government, an Israeli citizen, an Israeli resident or an Israeli company. These non-tariff barriers frequently result in protracted and unpredictable customs clearance delays in Iraq.

Exports are also subject to long delays, and companies must obtain certificates of origin for their products.

Iraq has bilateral free-trade agreements with 11 Arab countries, in line with the Free Zone Authority Law 3/1998.

Tariff Law 22/2010 introduced a new tariff schedule based on the “Harmonized Classification System-HS” coding, which implements tariffs ranging from 0% to 80%. On January 19, 2016, a customs tariff was implemented, imposing a 30% customs duty on all goods imported through Iraqi ports. Consequently, business at the country's primary port of Umm Qasr in Basra suffered, leading to a buildup of uncollected cargo containers at the port.

In theory, capital, profits, and investment income from projects in a free zone (FZ) are exempt from all taxes and fees throughout the life of any project. However, goods imported through FZs are still subject to Iraq's 5% tariff when they leave the zone (except for re-export).

While the law of domestic arbitration is fairly well-developed, international arbitration is not sufficiently supported by Iraqi law because the country has not signed or adopted the two most important legal instruments for international commercial arbitration: the U.N. Convention on Recognition and Enforcement of Foreign Arbitral Awards (New York Convention, 1958) and the attendant rules and procedures established by the U.N. Commission on International Trade Law (UNCITRAL).

More than 70 banks have been established in Iraq since 2003, but there are only 920 branches open across the country, and the sector as a whole is underdeveloped. Their services are basic and lack technological updates. The number of ATMs is low – reportedly one ATM per approximately 100,000 inhabitants. Individuals typically mistrust the banking system and prefer to save their money at home rather than deposit it in banks. World Bank figures indicate that only 23% of Iraqi families have an account with a financial institution, among the lowest rates in the region. Formal employees receive their salaries through banks, but they usually withdraw the money immediately rather than hold it on deposit. Most daily financial transactions are carried out in cash.

All banks are supervised by Iraq's central bank (CBI). Banks contribute less than 2% to Iraq's GDP. The two main banks, the Rafidain Bank and Rasheed Bank, along with al-Iraqiya for state-owned trade, hold approximately 90% of the sector's assets. Amid the financial crisis of 2020, the government – approved by the CoR – borrowed money from these three banks, raising the government's domestic debt.

Due to the weak banking system, business owners often work with banks in neighboring countries for their international commercial dealings. The Trade Bank of Iraq (TBI) is the only bank in Iraq that allows businesspeople to open lines of credit, although it does not provide banking facilities. The World Bank estimates that less than 5% of loans secured by small and medium enterprises are from local Iraqi banks. Most entrepreneurs and investors borrow from family and friends.

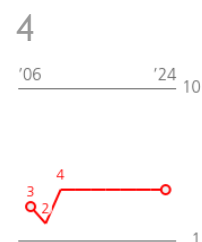
In 2019, Finance Minister Fuad Hussein inaugurated the first international outlet of the TBI in Riyadh, Saudi Arabia. The aim was to enhance TBI's international credentials, promote investment opportunities in Iraq, and help with reconstruction efforts in the country. TBI also planned to open a branch in China and update its license in the UAE in further moves to increase its revenues. Amid the decline of the Turkish lira, the TBI sought to buy a commercial bank in Türkiye, Iraq's largest trade partner. However, all of these moves have been put on hold by the financial crisis, the COVID-19 pandemic and with the formation of the cabinet following the 2021 elections.

The Iraqi Stock Exchange (ISX) operates separately from the Iraqi government as a non-profit entity owned by its broker members. Banking accounts for more than 45% of its operations, followed by telecom, which constitutes just over 40%, and the industry.

According to the World Bank, Iraq's bank capital to assets ratio was 13.5% in 2019, and non-performing loans reached 16.2% in 2018.

Since November 2022, Iraq has adopted the SWIFT system to improve transparency, combat money laundering and enforce sanctions. Since then, the banks have been striving to comply with SWIFT regulations, which are considered an important step in reforming the banking system in the country. Iraqi banks must now use SWIFT to access U.S. dollar reserves, which, according to reports, has so far blocked nearly

#### Banking system



80% of Iraq's share due to a lack of adequate information regarding the intended expenditure of the funds. As a result, the central bank of Iraq (CBI) now offers a smaller amount, causing an increase in commodity prices as the dollars spent on imports have reduced to 34% from 90%, according to the Associated Press.

## 8 | Monetary and fiscal stability

Since the Iraqi dinar is pegged to the U.S. dollar, which has helped maintain low levels of inflation (CPI ranging from 0.6% to -0.2% between 2016 and 2020), inflation has only recently surged to 6.0% in 2021. As a consequence of the Federal Reserve Bank of New York reducing its transactions involving the U.S. dollar, partly due to concerns about money laundering and the smuggling of currency into Iran (which is presently subject to international sanctions), the Iraqi dinar has depreciated by over 10%.

In a move to stabilize the Iraqi dinar, Iraq's central bank (CBI) devalued it. Consequently, in late January 2023, Prime Minister Muhammad Shia' al-Sudani dismissed the governor of the CBI, Mustafa Ghaleb Makhaif, citing his "mishandling of the crisis," as stated by the government. Paradoxically, the Iraqi constitution establishes the CBI as an independent institution accountable solely to the parliament.

On January 31, 2023, the currency exchange stabilized at a rate of IQD 1,300 to \$1, which is the highest value since 2020. Since then, the exchange rate in the stock market has fluctuated between IQD 1,400 and IQD 1,500 per \$1.

Of a more structural nature is the overall petro-dollarization of the Iraqi economy, with the country's foreign currency reserves closely linked to the global oil market. Consequently, any drop in oil prices results in a decrease in Iraq's foreign reserves. Despite the rise in oil prices, the monetary system remained fragile due to the currency crisis.

This devaluation further contributed to public discontent as it resulted in price increases for exports and commodities.

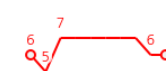
While the World Bank reported that Iraq's public debts accounted for 59.1% of GDP in 2021, local experts assert that it is less than 35% of GDP, which would still be considered stable when compared to the international standard of 60%. Depending on the source, public debt statistics range from \$55 billion to approximately \$70 billion in 2021, with around \$50 billion being classified as domestic debt. Of these domestic debts, over 60% are owed to the central bank of Iraq (CBI), while the remaining amount is distributed among the three main government banks: Rafidain, Rasheed, and the Trade Bank of Iraq (TBI).

In 2021, Iraq's external debt reportedly stood at \$25 billion, marking a marginal 4% decrease from the previous year, as reported by the local media. This brings Iraq's total debt to \$76 billion.

### Monetary stability

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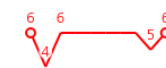


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### Fiscal stability

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Iraq's inflated public sector poses a threat to its monetary stability, with salary expenditures reaching approximately \$37.4 billion in 2022. Government officials and members of parliament receive comparatively high salaries when measured against global benchmarks.

In 2020, government expenditures accounted for 22% of GDP, leading to a shift in the current account balance from the previous \$34.4 billion in 2018 to -\$6.2 billion in 2020. In 2019, net lending/borrowing reached 2% of GDP.

Iraq's total reserves were estimated at \$58.6 billion in 2021.

The recent increase in oil prices left the government with a healthy surplus, and CBI's foreign reserves exceeded \$100 billion in early 2023. Due to the rise of oil prices, the planned annual budget for 2023 has been the highest in the country's history (about \$140 billion with an estimated figure of barrels of oil not to exceed \$70). Approximately \$60 billion is allocated to government expenditures and employee salaries. This comes after no public budget had been approved for 2022 due to the delay in government creation.

## 9 | Private Property

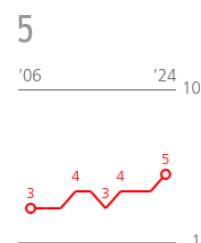
The constitution ensures personal property rights. It prohibits property confiscation, except for a higher public benefit – which has never been clearly defined – and in combination with just compensation determined by law (Article 23 of the constitution). Similarly, investment projects cannot be nationalized or seized except under a judicial judgment (2006 Investment Law, Article 12). Iraq has signed several intellectual property conventions, such as the World Intellectual Property Organization (WIPO) Convention and the Paris Convention for the Protection of Industrial Property.

After the IS destroyed and confiscated property of displaced persons during their conquest of Western Iraq since the summer of 2014, paramilitary groups and government forces have also been responsible for the destruction of private properties.

The government is committed to rebuilding the destroyed properties as part of its reconstruction and recovery package for 2018 to 2022. Laws 20/2009 and 57/2015 entitle citizens to financial compensation if they have been affected by military operations and wars. Residents of previously “IS”-held territories, such as Anbar, Diyala, Kirkuk, Nineveh, and Salah al-Din, are entitled to compensation.

According to local observers, more than 100,000 compensation cases were submitted in Nineveh alone. Between 40 and 45% of these cases received compensation valued at 30 million Iraqi dinars (about \$20,000) or less.

### Property rights





Other than that, not much has been achieved due to the typical barriers that Iraq's public administration is struggling with, including lack of security, political instability and a lack of financial means. COVID-19 came on top. Most alarmingly, many IDPs are hindered by PMF from returning to their areas under the pretext of security threats.

Company Law 21/1997 (amended in 2004 and 2019) regulates private companies. However, in practice, the establishment companies faces numerous challenges. These challenges include neglected infrastructure, a weak framework of legal provisions and regulations for consumer protection and production standards, and a lack of investment incentives.

Thus, the private sector is generally weak compared to the dominant public and semi-public enterprises. The state-owned economy is one of the significant legacies of the previous Ba'th regime, where the state exerted complete control over the economy – with some minor privatization attempts after the Iran-Iraq war. After all, Iraq remains a perfect example of a rentier economy.

In February 2015, the Iraqi government launched a Private Sector Development Strategy (2014 – 2030) to enhance the sector. The strategy aimed to stimulate growth and create jobs by diversifying the private sector and promoting investment.

Because of the impact of the COVID-19 pandemic on the public health sector, the Ministry of Health turned to private businesses to support the government's efforts to mitigate the crisis and upgrade health equipment and services. One example is the government's use of a private hospital specializing in cancer treatment in Baghdad.

That being said, the private sector remains weak. The challenges of the post-pandemic period in Iraq are many, which makes the country unattractive for tangible investment.

There has been a real estate boom in Baghdad, Mosul and the KRI during the reporting period. Multiple high-rise housing compounds are being built by private companies, in addition to the construction of hotels and restaurants across the country. Construction companies are primarily from Türkiye and China.

Privatization of former state-owned assets faces structural and political obstacles. For example, in 2021, the al-Khadimi government sold Basra Electric Company to the Kurdish Kar Group, owned by the Barzani family. Members of parliament from Basra initiated a legal campaign against the company and the government because these power stations were initially built with state money – thus, selling them was deemed illegal.

Private enterprise

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## 10 | Welfare Regime

In 2021, Iraq ratified the Social Security Convention of 1952. However, the current social security and social protection policies are too weak to provide social protection for all Iraqis.

Average life expectancy of 73 years is the third lowest in the MENA region, and while the government health expenditure is not too bad in regional comparison with 2.2% of GDP (in 2019, before the COVID-19 pandemic), it does not cover public health needs sufficiently. Iraq's weak health system, destroyed by years of war and military expenditure, partly collapsed during the pandemic. Given the increasing levels of poverty across Iraq, ordinary citizens can hardly afford access to good-quality health care.

The COVID-19 pandemic and the decline in oil revenue in 2020/2021 decreased public spending on salaries, pensions and welfare, which would have significant consequences.

The government's "Agenda 2030" aims to focus on poverty reduction and reform of the economy. The agenda is hindered by the fragility of the macroeconomy, which relies on oil prices, as well as the domestic and regional political and security climate.

The State Employees' Pension Fund provides adequate social security protection for state employees, while those not employed by the state do not receive any support. It is worth noting that unemployment has significantly increased, and the state no longer offers job opportunities.

The Public Distribution System (PDS), created in 1991 in response to the humanitarian crisis following the occupation of Kuwait and the economic sanctions that followed, is still accessible to a majority of the population today as a means to combat food insecurity among Iraq's numerous underprivileged individuals. However, in recent years, the government has solely been providing flour and occasionally other commodities like cooking oil or sugar. A government proposal was made to replace the PDS with cash (around \$12 per person per month), but due to ongoing security and economic instabilities, a final decision has yet to be reached.

Statistics from 2017 show that the literacy rate in Iraq was more than 85% (91.2% for males and 79.9% for females). More recent data from the Ministry of Education reveals an illiteracy rate of 13% among Iraqis aged 10 or older. This percentage increased for females, reaching 18%, while it decreased for males, reaching a record low of 8%, according to al-Jazeera. The disparity in women's literacy can largely be attributed to ongoing crises and the widespread practice of early marriage, which compels girls to leave school.

Social safety nets

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Equal opportunity

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Overall, all Iraqis are entitled to free education, including minorities. However, women in Iraq do not have access to equal opportunities. Apart from the peripheral norms of honor killing and conjugal violence, the legal system, in many cases, legalizes the abuse of women's rights. Although Iraq ratified the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in 1986, numerous Iraqi laws do not fulfill the requirements of the convention, especially the personal status law and the penalty law. For instance, Article 7 of the personal status law regulates the age of marriage – stating it to be 18 years – but it also allows judges to authorize the marriage of 15-year-old girls.

## 11 | Economic Performance

Over 90% of Iraq's economic power is based on oil, making it vulnerable to the global market. The rising oil production and a revival in domestic economic activities following the pandemic have helped the country's economy flourish. The rising oil prices have recently led to a rise in government oil revenues. As a result, Iraq's GDP per capita (PPP) increased from roughly \$9,954 in 2020 to \$10,409 in 2021, after a 13.3% decline in the year prior due to COVID-19. According to the World Bank (2022), GDP growth rose to 10.5% in the first half of 2022 after rising by 2.8% in 2021. In addition, the non-oil industries, services and agricultural sectors saw significant growth, with non-oil GDP increasing by 8.4%.

However, growth is anticipated to slow progressively as the decline in global demand over the long run will confine oil production. Iraq's significant reliance on oil makes it vulnerable to fluctuations in commodity prices without further structural changes and economic diversification.

The country's GDP per capita increased from \$9,954 in 2020 to \$10,409 in 2021, according to the World Bank. GDP also increased from \$184,369.8 in 2020 to \$207,889.3 in 2021, resulting in GDP per capita growth from -13.3% to 0.4%. As for the gross capital formation, data from 2019 show that it accounts for just over 19% of Iraq's GDP.

Finally, the current account balance – as mentioned earlier in the report – was -\$6.2 billion in 2019, while tax revenues reached 1.3% of GDP in the same year.

Despite the increase in Iraq's GDP, unemployment rose from 14.1% in 2020 to 14.2% in 2021. Foreign direct investment (FDI) also dropped from -1.3% in 2020 to -1.7% in 2021. Inflation surged from 0.6% in 2020 to 6.0% in 2021.

Output strength

3

'06 \_\_\_\_\_ '24 10



1

## 12 | Sustainability

Iraq is the world's fifth-most vulnerable country to climate change. Already, summer temperatures reach 50 degrees Celsius in Baghdad. Water overconsumption, combined with the dams in Türkiye along the Euphrates and Tigris rivers, has reduced the quantity of water. Iraq's water negotiations with its neighbors have so far been unsuccessful, and rainfall is in decline. According to the United Nations, at least 20,000 Iraqis have moved from rural to urban regions by the end of 2021 due to water scarcity.

The marshes in Iraq's south are a much-affected area. The government reported a 60% drop in water reserves in summer 2021, leaving the marshes drying out. As a result of the loss of marshland, over 2,000 families reportedly left their homes. Displaced Marsh Arabs now live in cities such as Basra and Baghdad.

Iraq has made environmental sustainability one of the country's priorities for the period from 2018 to 2022. Among these priorities are ensuring the availability and sustainability of water and sanitation, reducing air pollution, protecting ecological systems and addressing climate change. However, due to the importance of the issue, the Environment Ministry was detached from the Health Ministry during the COVID-19 pandemic.

The country has a long-term plan to address climate change. The problem is that eliminating fossil fuels will harm the country's economy. The government has been unable to diversify its economy, despite emphasizing the prioritization of economic diversification in the country's national plan for 2018 to 2022. In fact, the same national plan has placed priority on increasing crude oil production, expanding export capacity and enhancing gas reserves. This is comprehensible, considering that the country relies exclusively on oil revenue.

There is also insufficient financial allocation for infrastructure investment or technological advancements to tackle environmental challenges. Given the political and economic constraints, it is not foreseeable that the government will produce an applicable plan to overcome the increasing rise in temperature and drought.

Local campaigns and initiatives to address climate change do exist. For example, in Karbala, religious institutions launched a voluntary campaign to plant trees in schools across the governorate to expand green areas.

In the KRI, the Environment Protection and Improvement Commission indicated that it had implemented approximately 2,500 projects to improve and protect the region's environment. Local media reported that the commission has blocked more than 400 projects that limit green spaces. However, pollution in the region has increased in recent years due to the growing number of cars, particularly in Dohuk.

Environmental  
policy

2

'06 '24 10



Iraq has been suffering from a significant decline in education levels for years, which resulted in it being excluded from the “Davos Education Indicators” rankings more than once, including the latest ranking in 2021.

Iraq’s government spends very little on education, which places it at the bottom rank in the region. The government’s education budget is barely sufficient to bring educational institutions and training facilities (universities, hospitals, etc.) to acceptable modern standards. R&D expenditure is nonexistent. Iraq does not have a body to regulate and fund research that is equivalent to the European Research Council (ERC) or UK Research and Innovation Agency.

The World Bank has estimated that 90% of Iraqi students in the 3rd grade lack comprehension skills. The report underscores the poor learning outcomes and the pressing need to prioritize students in vulnerable positions, including those at risk of being left behind and those who have discontinued their education. However, the report sparked controversy, particularly given Iraq’s relatively high scores in the U.N. Education Index (0.6) and its relatively low overall illiteracy rate (15%).

In 2022, the World Bank announced a \$10 million project to support innovations for learning in Iraq. The project aims to enhance teaching practices, as well as writing and arithmetic skills, among students. It will be carried out within the framework of the Reform, Recovery and Reconstruction of Iraq Fund, established in partnership with the Government of Iraq in 2018. The fund is co-financed by Germany, the United Kingdom, Canada and Sweden.

Education policy /  
R&D

3

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## Governance

### I. Level of Difficulty

Iraq faces several significant structural constraints, including latent conflicts, extreme poverty, and, notably, climate change. The country is highly susceptible to global warming, with summer temperatures reaching up to 50 degrees Celsius. This leads to water shortages, increased demand for electricity and migration from rural to urban areas. In particular, Iraq's marshlands have experienced a significant decrease of up to 60% in their water levels. Additionally, neighboring Iran and Türkiye control water flow into Iraq by constructing high dams along cross-border rivers.

This has already triggered internal displacements of rural populations toward Iraq's cities, further increasing their susceptibility to poverty. In fact, 800,000 people already live in absolute poverty. Furthermore, relative poverty rates are unacceptably high for a country with such abundant natural resources.

Neighborly relations remain charged with tensions, especially with Türkiye, which continues occasional military operations in Iraq's Kurdish territories. At the same time, Iraq's long borders in often deserted or mountainous areas encourage smuggling and trafficking activities. War-torn Syria is another difficult neighbor.

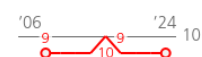
Iraq's experience with IS has, for many, been traumatizing. In addition, the lack of security and political certainty has hindered long-term planning and undermined the country's attractiveness as a place in which to invest. A significant amount of the state's budget goes to security spending, while other areas, such as health, education and the environment, remain largely underfunded.

For example, decades of neglect caused a crisis in Iraq's health sector during COVID-19. The outdated health infrastructure is dilapidated and plagued by shortages in medicine and equipment supplies.

While there has been some improvement in the Kurdistan region, where civil society organizations (CSOs) were established following the conclusion of the 1991 Gulf War and granted autonomy, decades of authoritarian rule have hampered the development of civil society in Iraq. After the overthrow of Saddam Hussein in 2003, CSOs proliferated, albeit with limited professionalism and efficiency. Nevertheless, their impact and significance have gradually increased. International organizations frequently collaborate with regional CSOs for development cooperation initiatives, primarily focused on humanitarian aid. The 2019 demonstrations represented a resurgence of civil society action aimed at promoting a political agenda that could

Structural  
constraints

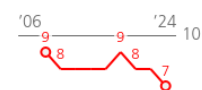
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1

Civil society  
traditions

7



1

reshape traditional power-sharing methods based on race, gender and class. CSOs played a pivotal role in mitigating the crisis by bridging the gap between the state and the streets.

The number of local CSOs is steadily rising, especially in areas formerly under the control of IS. However, their efforts, particularly in peacebuilding, often face obstacles from state institutions and the PMFF.

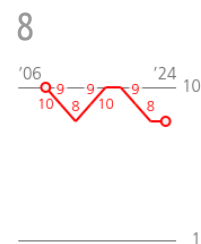
While the intensity of conflict in Iraq decreased after the territorial losses suffered by IS in 2017, challenges to security and societal peace persist due to ongoing low-intensity IS terrorist attacks in Kirkuk, Diyala and Salah al-Din, as well as the actions of the Popular Mobilization Forces (PMF). Certain factions within the PMF have faced accusations of committing massacres in Sunni areas and killing peaceful protesters during the October 2019 Tishreen protests. Starting in December 2019, some PMF factions also began targeting U.S. and international coalition forces, exacerbating the conflict in Iraq, particularly following the U.S. army's assassination of PMF deputy leader Abu Mahdi al-Muhandis and Qasim Soleimani, the commander of the Quds Forces, an international branch of Iran's Islamic Revolutionary Guard Corps (IRGC), in January 2020. However, these attacks have significantly decreased since the formation of al-Sudani's government.

The presence of the PKK in Sinjar and the Kurdistan Regional Government (KRG) territories has remained a contentious issue. Although it prompted increased security cooperation between the KRG and Baghdad in disputed areas, it has also escalated conflicts between the official Kurdish Peshmerga troops affiliated with the Kurdistan Democratic Party (KDP) and the PKK.

Türkiye and Iran have intensified their attacks on the PKK and Iranian-Kurdish groups within Iraqi territories, creating security challenges for interstate relations in the region. Türkiye, in particular, has consistently conducted airstrikes targeting PKK cells in the border areas of Dohuk and Erbil governorates.

Also, the widespread possession of light weapons and the presence of short-range missiles continue to threaten social peace in the country. The Kurdistan Regional Government (KRG) has recently enacted regulations for citizens to sell their light weapons and established a committee within the Ministry of Interior to register these weapons. However, the rest of the country still grapples with the issue of light weapons proliferation, increasing the risk of armed violence, especially in the south, where local clans employ light weapons in vendettas.

Conflict intensity



## II. Governance Performance

### 14 | Steering Capability

The new Prime Minister, Muhammad Shia' al-Sudani, faces substantial responsibility. Reviving Iraq from its decline requires simultaneous efforts in several policy areas, including political stability, security restoration and sustainable economic growth. Iraq's National Development Plan for 2018 to 2022 outlines multiple objectives, such as reducing unemployment, diversifying public revenues through support for commodity exports, increasing agricultural and industrial production, and raising non-oil revenues. In light of past financial crises, the government has given top priority to improving public finance management, maintaining single-digit inflation and ensuring currency stability. To strengthen the financial structure, the government is actively working on enhancing transparency and fortifying the Iraqi banking sector, with the goal of stimulating growth, bolstering foreign exchange reserves and combating money laundering.

In terms of good governance, the Iraqi government is placing a strong emphasis on upholding the rule of law, improving access to justice and reducing human rights violations. Decentralization is also a priority, along with efforts to enhance accountability and transparency to combat corruption.

The National Development Plan also encompasses support for the private sector, the implementation of an administrative and financial system to aid post-conflict recovery and support peacebuilding, poverty alleviation, and the development of the agricultural sector's contribution to GDP.

The government's ability to execute long-term plans is closely tied to its financial capacity, which heavily relies on revenue generated from global oil sales. Insufficient funds remain a significant hindrance to plan implementation.

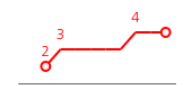
To tackle the fiscal challenge, the previous government under al-Kadhimi introduced a comprehensive economic reform plan known as the "White Paper." This reform program encompassed economic stabilization, strategic initiatives for job creation, infrastructure enhancement and basic service provision, along with support for vulnerable groups. It also aimed to reduce the deficit and public salary expenditures, increase electricity tariff collection and modernize the banking system. Specific reforms targeted Iraq's digital infrastructure, transportation regulations, private sector job growth and the establishment of a unified pension system. Furthermore, the White Paper included policies to reform water supply, school construction, social security and pensions, health insurance laws, governance enhancement, e-governance and border smuggling reduction.

Question  
Score

Prioritization

4

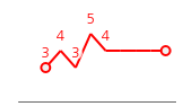
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Implementation

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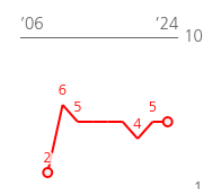


However, during al-Kadhimi's tenure, significant progress in economic reform was limited. The surge in oil prices boosted Iraq's GDP, arguably lessening the urgency of the White Paper reforms. While the White Paper did alleviate the fiscal crisis, it fell short in terms of job creation, poverty reduction and private sector development. Some analysts argue that al-Kadhimi, despite apprehending certain government officials on corruption charges, failed to curb corruption effectively in the country. This was particularly notable given that the architect of the White Paper himself faced corruption allegations, which al-Kadhimi perceived as a conspiracy against his government.

A specific government commission is tasked with evaluating and monitoring the government's performance and facilitating policy learning. However, the effectiveness of its work and reporting seems to be limited. During the review period, the government has shown little adaptability in addressing the country's structural challenges, such as the fiscal deficit. Despite this, the public sector remains weak, and no government has managed to bring about substantial improvements. For instance, efforts to combat corruption, boost the country's economy, and enhance the public sector, including the electricity sector, have yielded little in terms of policy learning. The persistent issues of corruption and financial constraints consistently impede the ability to learn from past experiences. The political system itself appears to be a barrier to effective policy learning.

Policy learning

5



## 15 | Resource Efficiency

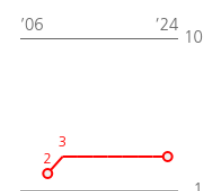
Despite annual growth rates that have, at times, exceeded 10% due to increases in oil prices, Iraq continues to grapple with significant challenges, including financial and administrative corruption, poverty and security threats.

There is a notable absence of development and reform programs, as well as effective economic plans, which could contribute to improving living standards and bolstering the state's institutional strength. Previous governments, including al-Kadhimi's administration with its White Paper as an example, have undertaken commendable efforts to revitalize the industrial and agricultural sectors and efficiently manage budget resources. However, none have successfully achieved the intended objectives of these policies due to Iraq's enduring legacy of persistent crises. These crises include ongoing security and political instability, authoritarianism, a heavy reliance on oil in the economy, and a weak public administration where employment is based on political and sectarian affiliations rather than merit.

Despite being constitutionally designated as a federal state, Iraq operates with a highly centralized decision-making system. Even in the Kurdistan Regional Government (KRI), although it often seeks decentralization from Baghdad, it predominantly follows a centralized governance model. Greater decentralization

Efficient use of assets

3



could have potentially enhanced Iraq’s administrative capabilities. However, during al-Maliki’s second term in 2010, decentralization encountered persistent opposition. Elected provincial councils in Iraq gradually ceded authority to the central government in Baghdad, which became the primary source of power.

The government’s ability to carry out long-term plans is intricately tied to its financial capacity, which heavily relies on income generated from global oil sales. Shortages of funds are a significant reason for the lack of plan implementation. To address this fiscal challenge, the previous al-Kadhimi administration introduced the White Paper. This document aimed to establish balanced policy priorities, allocate responsibilities effectively, and prevent neglect and redundancy. While the paper led to success in mitigating the fiscal crisis, the policy coordination efforts outlined within it did not lead to a full resolution of the country’s challenges.

Since the unrest in 2019, a growing number of public servants and political figures have faced judicial actions during Mustafa al-Kadhimi’s premiership. Consequently, measures such as travel restrictions and arrest orders have been imposed on them.

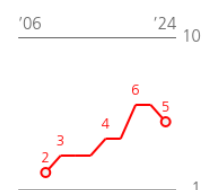
The White Paper recommended addressing corruption and inefficiencies at both state and legislative levels. It also emphasized the need for new policies focused on disclosure, monitoring and transparency to tackle the deficit. However, the challenge lies in the fact that political dynamics are heavily influenced by patron-client relationships and corrupt practices within the rent-based economy. The economic reforms proposed in the White Paper thus pointed to the need for political reform as a means to combat corruption.

The shocking revelation of the “theft of the century” in 2021 exposed not only the entrenched nature of corruption among Iraq’s economic and political elite but the sheer audacity of their activity in this regard. In response to complaints, Acting Finance Minister Ihsan Abdul-Jabbar initiated an audit into the largest tax fraud in the country’s history. However, many investigators chose to remain anonymous and undisclosed to the public due to fear of reprisals. This illustrates the immense challenges Iraq faces in its ongoing battle against corruption.

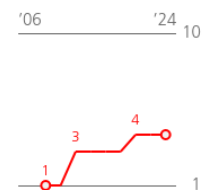
**16 | Consensus-Building**

While Iraq’s level of democracy remains low, it doesn’t easily fit the classification of an authoritarian republic. Despite some ruling political parties occasionally abusing their power and displaying authoritarian tendencies, they come to power through elections. Most of them exercise power based on the votes they receive. Thus, Iraq can arguably be defined as a hybrid regime where elections, despite occasional irregularities, play a decisive role but where government dominance results from flaws in the political culture. Consequently, Iraq’s political forces tend to support the country’s democratic system as long as it serves their interests.

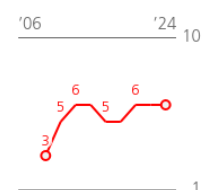
Policy coordination  
5



Anti-corruption policy  
4



Consensus on goals  
6



This support primarily stems from the consensus-based power-sharing system, where the state's democratic institutions are counterbalanced by the anti-democratic actions of groups like the IS, PMF and certain political parties. It's worth noting that even though some of these parties, particularly Islamic ones, may exhibit authoritarian tendencies at times, they maintain a belief that power can only be achieved through democratic means.

Weak institutions of accountability allow corruption to thrive. Both affluent business figures and influential policymakers engage in a form of clientelism or crony capitalism, where businesspeople often hold political positions and have connections with influential figures within the political system.

Official audits are circumvented through informal power networks, with 'wasta' (nepotism) being the primary conduit through which economic networks operate in Iraq. This encompasses informal relationships that benefit both parties, often serving as the basis for economic interactions. This doesn't imply a rejection of market economic principles; instead, it reflects a systemic monopoly over market activities. Political elites, lawmakers and bureaucrats, both at the federal and regional levels, frequently obstruct contracts and tenders unless they stand to personally gain from the proposed projects.

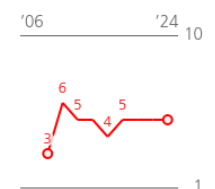
Democratic forces in the country are generally weak and have struggled to counter the anti-democratic practices of powerful political parties and actors. The threat posed by IS and the collapse of the army in Mosul in the summer of 2014 have contributed to the proliferation of non-state armed groups, which now pose a significant challenge to democracy. The PMF has faced accusations of war crimes and ethnic cleansing in Sunni areas, often carried out under the pretext of counter-terrorism operations. Some leading political coalitions, such as the Framework Coordination, which is dominated by Iran-aligned forces, frequently resort to populist politics to expand their support base. This can sometimes run counter to the imperative of reform and hinder democratization efforts.

In the Kurdistan Region of Iraq (KRI), the Kurdistan Regional Government (KRG) wields significant authority through its ministries, which oversee critical areas such as foreign affairs, security agencies and the Peshmerga armed forces. However, policies are often influenced by party officials, and party affiliations play a pivotal role in matters such as employment opportunities and business ventures.

Recently, the ruling Kurdish parties in Kurdistan have engaged in anti-democratic practices, including restrictions on freedom of speech and constraints on the work of journalists. Additionally, the division within the Peshmerga forces, based on party lines, could be considered undemocratic. Efforts to unify the Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK) Peshmerga forces have been ongoing without a resolution. Achieving such unity would require a strong political commitment. In response to these challenges, the Multinational Advisory Group

Anti-democratic actors

5



(MNAG), comprising the United States, the Netherlands, Germany and the United Kingdom, has expressed their support for consolidating Units 80 of the KDP and Units 70 of the PUK into a unified force under the supervision of the Ministry of Peshmerga (MoP).

Iraq's political cleavages are evident in its ethno-sectarian politics. While most political parties in power have had the opportunity to reduce structural conflicts, they have instead used the country's political instability to consolidate their power and advance their own interests. Consequently, these parties are seen as proponents of the status quo.

In the summer of 2022, supporters of influential religious leader Muqtada al-Sadr turned Baghdad's Green Zone into a battleground by engaging in an armed confrontation with security forces and rival militias. These supporters left the diplomatic zone in response to al-Sadr's command, sending a warning to his adversaries and the entire political establishment.

In the Kurdistan Region of Iraq (KRI), tensions between the Kurdistan Democratic Party (KDP) and Patriotic Union of Kurdistan (PUK) have escalated recently, triggered by the assassination of Colonel Hawkar Abdullah Rasul, also known as Hawkar Jaff. Rasul, a former PUK intelligence officer who had defected to the KDP and relocated to Erbil, was killed. The Counter Terrorism Group (CTG), based in Sulaimani, denied involvement and called on the Kurdistan Regional Government (KRG) to conduct an impartial investigation while withholding the names of the perpetrators, as reported by local media.

In summary, Iraq serves as an illustrative case study for the "greed thesis" within the political economy of conflicts. The structural changes needed to de-escalate conflicts and establish the rule of law often clash with the interests of powerful political parties that dominate economic activities. This is why al-Kadhimi, in his efforts to restore the state's authority in the face of non-state actors, faces significant challenges posed by these influential political parties.

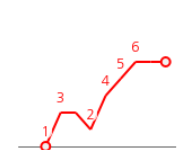
Genuine consultations in the sense of an unbiased search for information have been rare in Iraq, especially when considering their ultimate impact on actual policymaking. The new government, which has been in office since October 2022, recently concluded Iraq's annual consultation talks with the IMF on January 27, 2023. Workshops, typically funded by international donors, are regularly organized and feature the participation of both national and international experts. However, their actual influence on policymaking appears to be limited.

The underlying issue lies in Iraq's highly polarized and partisan political landscape, where sectarian interests often take precedence over evidence-based decision-making. External consultations tend to be used more as a symbolic gesture to meet the expectations of donors, whether at the governmental level or within political

Cleavage /  
conflict  
management

6

'06 '24 10



Public  
consultation

5

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parties. Additionally, the fragile security situation makes it challenging for civil society to participate, as civil society activists have sometimes been targeted in assassination operations, often carried out by militia members.

While the need for reconciliation in Iraq is evident, it's apparent that the al-Sudani government, like its predecessors, has made limited efforts in this regard. The challenge lies in the fact that achieving reconciliation in Iraq requires addressing the issue of transitional justice, an area where Iraq has made limited progress thus far.

While some alleged members of IS have faced fair trials, the lack of judicial integrity has resulted in potentially innocent individuals being subjected to unfair trials based on unfounded accusations. Simultaneously, certain defendants may benefit from the controversial General Amnesty Law 27/2016, which aimed to alleviate Sunni-Shi'a tensions by allowing pardons for those whose crimes didn't involve death, rape or disablement. Critics have argued that this law was primarily intended to release corrupt elites from prison. Some individuals have not had a fair chance to defend themselves, while others have escaped punishment altogether. IS specifically targeted the Yazidi minority, abducting or killing over 6,400 people and forcibly separating children from their parents, according to the Kidnapped Yazidi Rescue Office.

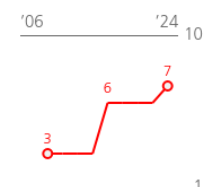
Even after the 2017 victory over IS, Iraq continued to witness abuses and human rights violations. The PMF, despite its role as a peacekeeping group, has been responsible for atrocities against civilians. Thousands of war crimes cases and alleged IS members are imprisoned and subjected to torture. Such severe counterinsurgency measures and human rights violations could potentially lead to the resurgence of IS.

A few reconciliation initiatives have taken place, notably in Nineveh, where families of IS members – particularly those who were not involved in killings – were allowed to return to their areas. However, reconciliation efforts remain localized and are often spearheaded by tribal leaders, even though it should be a nationwide, comprehensive process.

Additionally, in March 2021, the Council of Representatives (CoR) ratified the Yazidi Survivors Law, which aims to provide reparations to individuals who have suffered persecution and harm at the hands of IS. This includes females, including minors, who have endured sexual assault, as well as those who were victims of child abduction and have since reached adulthood. The legal framework extends its scope to encompass not only Yazidi survivors but also Christian, Turkmen and Shabak minorities, offering reparations in the form of regular compensation, land or housing, educational assistance, medical care and other forms of support.

## Reconciliation

7



## 17 | International Cooperation

Iraq actively collaborates with the international community to uphold and implement international laws and conventions related to counter-terrorism, terrorism financing and money laundering. The primary international organization operating within the country is the United Nations, represented by the United Nations Assistance Mission for Iraq (UNAMI). UNAMI plays a pivotal role in Iraq's efforts toward reconstruction and stability. The mission has been instrumental in providing advice and assistance across various areas to both the Iraqi government and the public, including promoting dialogue and reconciliation. Additionally, UNAMI consistently offers guidance and support to the Iraqi government and the Independent High Electoral Commission.

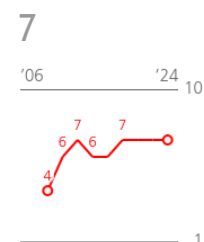
UNAMI's visibility increased notably during the surge of protests in October 2019. Jeanine Hennis-Plasschaert, the mission's chief, engaged with protesters and interacted with Iraqi political factions to facilitate political dialogue and quell the ongoing unrest. Furthermore, UNAMI occasionally takes on a political role by intervening in the Federal Court's interpretations of the constitution, particularly when such interpretations conflict with the perspectives of certain political groups. UNAMI also played a significant role in the most recent cabinet elections.

Iraqi armed forces receive ongoing and intensive counter-terrorism training led by coalition forces, with a significant contribution from the U.S. army. The Iraq-NATO cooperation training program, established in 2012, continues to be in operation.

Following the shock of IS activity in the country, al-Kadhimi's government emphasized three key pillars in its foreign policy: sovereignty, balance and a cooperative approach with neighboring countries and the international community. Iraq gradually regained its diplomatic standing, especially after the Tishreen protests of October 2019, thanks in part to support from international partners. Diplomatic visits at the ministerial level were conducted with Kuwait, Jordan, Saudi Arabia, Finland, France and Greece, which proved beneficial.

Prime Minister al-Sudani has reaffirmed his support for the United Nations, its agencies, and the EU Assistance Mission (EUAM). He has also maintained a delicate balance in Iraq's relations with the United States and China, given that China is currently Iraq's largest partner in the energy sector. Additionally, Iraq has continued to engage with the GCC countries and Iran.

Effective use of support



Given the government's overall weakness, both domestically and diplomatically, and the ongoing fragility of security in multiple regions, Iraq has not been widely regarded as a credible actor. Human rights continue to be largely unprotected, as state and non-state actors freely engage in wrongful arrests and detainment. In addition, prisoners are subjected to torture, enforced disappearances and extrajudicial executions.

However, on the international stage, Iraq's record is relatively favorable. As a founding member of the United Nations, it has signed nearly all international conventions. Among the conventions related to crimes, Iraq has signed the Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment, the Optional Protocol of the Convention against Torture, the International Covenant on Civil and Political Rights, and the Second Optional Protocol to the International Covenant on Civil and Political Rights, which aims to abolish the death penalty.

Iraq has garnered international trust, particularly after the defeat of IS in 2017. The country actively collaborates with multiple states and organizations in the fight against terrorism and is an active member of the international coalition against IS, known as the International Coalition for Operation Inherent Resolve. Iraq's central bank has cooperated in freezing the assets of several individuals and companies suspected of involvement in money laundering and having connections to extremist groups.

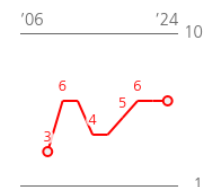
To a significant extent, Iraq also adheres to the regulations of the International Labour Organization (ILO). Efforts have been made to improve working conditions and eliminate child labor. However, over 50% of the labor force remains in unregulated informal employment, and a significant number of children still work in hazardous conditions.

Iraq has signed international agreements such as the Paris Climate Agreement, the United Nations Framework Convention on Climate Change, the Stockholm Convention on Persistent Organic Pollutants, and the United Nations Convention to Combat Desertification.

Iraq has emerged as a regional diplomatic hub under al-Kadhimi's leadership. His government has proactively worked to enhance stability, ease tensions and propose solutions to regional issues through strengthened regional cooperation. The Baghdad Conference, held on August 28, 2021, marked a significant milestone in establishing Baghdad as a key player in regional affairs. Subsequent meetings, such as the one in Amman in December 2022, further advanced regional collaboration, particularly between Saudi Arabia and Iran. These efforts have helped Iraq overcome isolation and regain its position in regional and international arenas. These developments have also strengthened Iraq's relationships with Arab, regional and Western countries. Moreover, the 25th Arabian Gulf Cup (Khaliji25), which took place in January 2023 in Basra, provided Iraq with an opportunity to reconcile with the GCC countries and rebuild trust that has been strained since its invasion of Kuwait in 1990/1991.

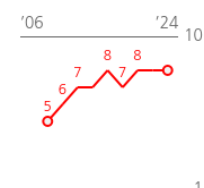
## Credibility

6



## Regional cooperation

8



However, Iraq's government remains in a delicate position within the Iran-Iraq-United States triangle. While Iraq's central bank froze Iranian assets in response to U.S. sanctions, the government openly condemned the U.S. assassination of Qasim Soleimani, the chief of the al-Quds forces, and PMF chief Abu Mahdi al-Muhandis in Baghdad in January 2020. Al-Sudani, the current prime minister, has made diplomatic visits to Iran and most of the GCC countries, expressing his commitment to bringing stability to Iraq and unifying efforts for the country's reconstruction.

Unlike his predecessor, al-Sudani enjoys strong support from the Council of Representatives (CoR). Since taking office, the number of PMF attacks on American targets, including the U.S. embassy in Baghdad, has significantly decreased. In contrast to previous debates regarding the presence of U.S. troops in Baghdad's political circles, al-Sudani has consistently expressed support for the U.S. army's continued presence in the country.

While Iraq has not indicated any intention to normalize relations with Israel, it did establish economic ties with Jordan and Egypt in 2021. This marks a significant achievement after decades of distancing and mistrust in the region.



## Strategic Outlook

Iraq faces a multitude of challenges, with corruption topping the list. Corruption, which directly or indirectly contributes to poverty and social inequality, remains widespread despite commendable efforts by Prime Minister Al-Sudani's government. This pervasive issue is perpetuated by influential political figures within the country. To address this, Iraq is strongly encouraged to actively implement the strategies outlined in the "White Paper" to combat corruption effectively.

Another policy to alleviate poverty is enhancing the Public Distribution System (PDS). This system, in place since 1991, should be expanded to include a wider variety of food commodities to help eradicate or at least reduce poverty levels.

Simultaneously, the government must modernize the Iraqi army and boost its capabilities with support from NATO mission partners. It should also resolve the Peshmerga issue by reaching an agreement with the Kurdistan Regional Government (KRG) to integrate them into the state's security apparatus. Additionally, the government needs to exercise greater control over factions within the Popular Mobilization Forces (PMF), particularly those engaged in cross-border military operations in Syria, and ensure their adherence to military codes of conduct.

Improving public services, especially in areas formerly held by the "IS," is another top priority to pave the way for normalcy and potential reconciliation. This entails focusing on electricity and water provision, which may involve the gradual introduction of electricity and water taxes. Furthermore, the weaknesses in Iraq's health care sector, highlighted by the COVID-19 pandemic, necessitate the construction of new hospitals and the modernization of existing facilities.

Another key aspect of the government's strategy is to continue its support for the judiciary. Both the Council of Representatives (CoR) and the government have expressed unwavering support for an independent judiciary in Iraq to protect it from political interference.

Iraq must diversify its economy and identify new revenue sources. To achieve this, the government should promote the country's exports, particularly agricultural commodities. Modernizing the financial sector and banking system will be essential to enhance transparency, combat money laundering, stimulate the private sector, and attract foreign direct investment (FDI). Additionally, improving the education sector to equip the youth with marketable skills will contribute to revitalizing the private sector. While diversification away from an overreliance on oil is crucial, Iraq must also increase its oil and gas production to support future strategic projects.

Iraq is ranked as the world's fifth-most vulnerable country to climate change. Thus, the country must address this issue by striking a balance between its oil and gas production and ensuring sustainability. This involves providing water and sanitation, reducing air pollution, safeguarding ecological systems and implementing climate change policies in collaboration with international partners.

The previous administration implemented strategic measures to enhance trade with neighboring nations. The current administration is encouraged to maintain and strengthen these relationships, potentially leading to the establishment of Special Economic Zones (SEZs) with Iran, Türkiye, Jordan and Egypt in the future.

At the social level, reconciliation remains a significant challenge for the government. With the support of the United Nations, the government must continue endorsing and facilitating local peace processes to achieve transitional justice and lasting peace within the country. This endeavor also includes the government's ongoing commitment to ensuring the right to reparation for victims of armed conflicts.

The government is advised to sustain the regional cooperation that former Prime Minister Mustafa al-Kadhimi excelled with neighboring countries, thereby restoring Iraq's regional position. Iraq recently completed the payment of the remaining compensation to Kuwait for the 1990 invasion, marking an important step toward regional stability. This includes finalizing the demarcation of the Kuwait-Iraq borders and reaching an agreement on sea navigation in the Gulf waters, especially in light of the rivalry between Iraq's Grand Faw Port (Umm Qasr) and Kuwait's newly opened Mubarak al-Kabir Port.

Iraq must assert its independence and address violations of its sovereignty by Türkiye and Iran. Negotiations with neighboring countries such as Türkiye, Syria and Iran concerning water rights are essential. As Saudi Arabia and Iran achieve détente, Iraq is expected to benefit from this regional realignment. Lastly, Iraq should continue to strengthen its strategic relations with the United States as part of the Strategic Framework Agreement for a Relationship of Friendship and Cooperation. Simultaneously, the country should enhance its ties with China, particularly in the energy sector, given China's status as Iraq's top oil buyer. However, Iraq must also diversify its energy partners to maintain strategic leverage in future scenarios.