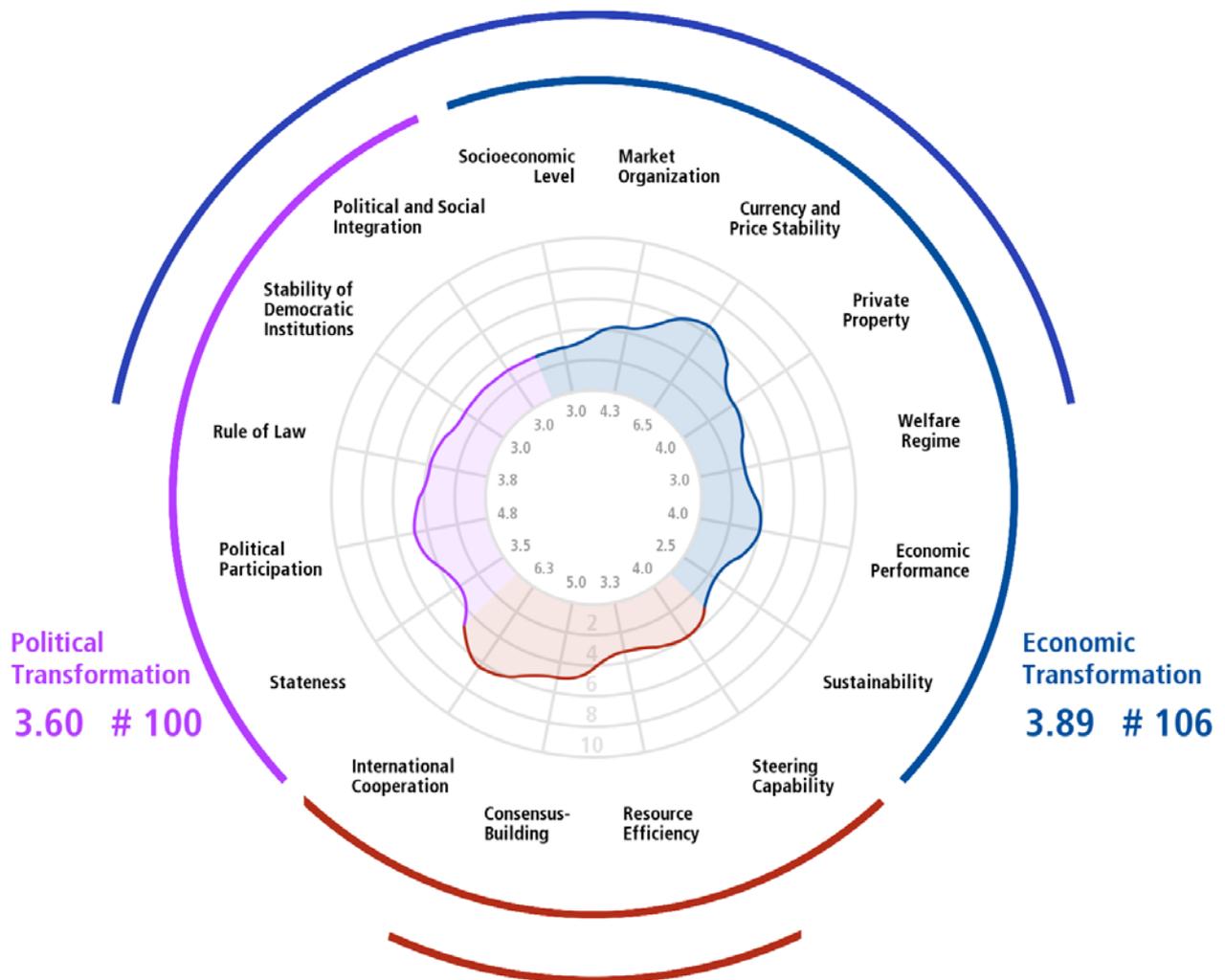


Iraq

Status Index

3.75 # 107

on 1-10 scale out of 129



Political Transformation
3.60 # 100

Economic Transformation
3.89 # 106

Governance Index

4.43 # 80

on 1-10 scale out of 129

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	37.2	HDI	0.649	GDP p.c., PPP \$	17354
Pop. growth ¹	% p.a.	3.0	HDI rank of 188	121	Gini Index	29.5
Life expectancy	years	69.6	UN Education Index	0.519	Poverty ³	% 17.9
Urban population	%	69.6	Gender inequality ²	0.525	Aid per capita \$	41.1

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The political process in Iraq is undergoing change. The country still suffers from the repercussions of U.S. Provisional Coalition Administrator Paul Bremer's entrenchment of sectarian cleavages in the constitution and the sectarian policies of former Prime Minister Nouri al-Maliki. The dramatic Islamic State (IS) group insurgency and takeover of large swathes of land and a number of key cities has dominated the political agenda in Iraq since 2014. The insurgency has led to a breakdown of the Iraqi security forces, which forced Prime Minister al-Abadi to increasingly rely on Shi'ite militias. At the same time, the Kurdistan Regional Government (KRG) has paused its push for an independent state until IS is defeated. Although the Kurds and the central government have agreed on an oil-sharing agreement, the legitimacy of the federal government remains questioned in Iraqi Kurdistan.

Prime Minister Haider al-Abadi, in office since 8 September 2014, has attempted to implement a more inclusive style of government and to reach across sectarian lines, but his ability to do so has been limited as he simultaneously struggles for influence with al-Maliki as well as Muqtada al-Sadr, leader of the influential Sadr movement. Most importantly a substantive reform and restructuring of the security forces have been stalled.

Citizens' rights violations have soared since 2013. Government forces, al-Hashd al-Sha'bi, and IS fighters carried out attacks which targeted or at least indiscriminately harmed civilians. IS has been particularly threatening toward religious and ethnic minorities in Iraqi territories under its control. As Iraqi forces increasingly retake IS-held territories, it remains unclear who should administer these areas and provide security in the future.

In addition to this, the number of internally displaced people (IDPs) and refugees surged; more than three million people have been internally displaced since the beginning of 2014. In Mosul alone, another 200,000 residents have been displaced. The IDPs and refugee issue will remain one of the major contributors to instability in the country.

Economically, Iraq remains highly dependent on its oil sector. A huge increase in government spending – due to the rise of military expenses in order to fight IS – and a sharp decline in world oil prices since the second half of 2014 are the proximate causes of Iraq’s current economic problem. However, its roots lie in recent financial mismanagement. In spite of this, the Iraqi economy is expected to recover from a low base in 2017 due to the slight increase in global oil prices and the implementation of the IMF program. On 7 December 2016, the Iraqi parliament approved the 2017 budget, which predicted a deficit of \$19 billion. The population is still suffering from poor services, especially in areas under IS control, and high unemployment rates. Investment and private business are hampered by security concerns, outdated legislation, widespread corruption, and crumbling infrastructure.

History and Characteristics of Transformation

After the monarchy’s overthrow and the establishment of the Iraqi Republic in 1958, a number of modernizing reforms were introduced, such as the progressive personal status code of 1959. In July 1968, the military wing of the Ba’th Party overthrew President Abdel Rahman Arif and seized power. The deputy president at that time, Saddam Hussein, used his control over the party and its security apparatus to seize power in 1979 and became president of the republic. The rise in oil prices channeled significant returns that strengthened the regime’s ability to shower patronage on selected population groups. Indeed, Hussein’s dual strategy of redistribution of privileges to loyalists and repression of opponents proved successful, given the regime’s resilience to external shocks: the war with Iran (1980 – 1988), defeat by an international coalition in the 1991 Gulf War, and the embargo imposed by the United Nations between 1991 and 2003.

The fate of the country changed with the removal of the regime by an Anglo-American coalition in March 2003. Plans for rapid handover of power to Iraqis turned into a longer-term U.S. takeover. This shift was exemplified by the first three orders that U.S. administrator Paul Bremer issued after he became head of the Coalition Provisional Authority (CPA) in May 2003: to designate the CPA as an occupying authority, to ban senior Ba’th Party members from public posts, and to dissolve Iraq’s army and security forces. The CPA managed to stabilize Iraq financially by paying salaries, establishing the new Iraqi dinar and re-launching the banking system. Yet the collapse of state coercive and administrative capacities, and the coalition’s inability to reconstruct them, lies at the heart of Iraq’s chaos after 2003. An Iraqi interim government replaced the CPA on 28 June 2004, but its operation under occupation prevented it from being accepted as a representative body.

Elections for an interim parliament took place in January 2005, although most Sunni Arabs chose to boycott the vote. This boycott led to the marginalization of Sunnis in the process of drafting the new constitution. Its final version was endorsed in a referendum in October 2005, despite adamant opposition from the Sunni Arab community. This set the stage for the December 2005 elections in which Iraqis chose their first parliament and established their first constitutional government. The elections institutionalized sectarian dynamics, given the parties’ organization into ethnosectarian blocs to maximize their electoral power. Ethnicity and sect were used to mobilize citizens for

voting purposes. Following the destruction of the al-Askari mosque in Samarra in a terrorist attack in February 2006, the country descended into a full-fledged civil war between the Sunnis and the Shi'ites. As a result, millions of Iraqis were displaced; thousands were murdered.

In 2007 and 2008, a period of relative stability prevailed due to the adoption of a viable counter-insurgency strategy and the mobilization of Sunni Arab "Awakening Councils" (majalis al-sahwa) in the fight against al-Qaeda and its affiliated groups. Following the 2010 elections, Prime Minister Nouri al-Maliki further consolidated power, at the cost of plunging the country into a real stalemate with his authoritarian drift. This sparked demonstrations in Sunni areas against the government in December 2012. Demonstrations were met with force and 50 protestors were killed in the Hawija district of West Kirkuk province in April 2013, and government forces demolished the Sunni protest encampment in Ramadi in December. The army's harsh response to these peaceful sit-in camps pushed protestors to organize militarily and thus gave various Sunni insurgent groups, most importantly the current dominant group IS, a basis for action. This eventually resulted in the occupation of large sections of territory.

Iraq is a rentier state. Its economy has been dominated by the oil sector, which historically has generated more than 99% of export earnings and 80% of foreign exchange earnings. In contrast, agricultural productivity has continuously declined. The heavy burden of the war with Iran, plus the 1990 U.N. embargo, brought Iraq's economic self-reliance almost to a halt. With the fall of Saddam Hussein's regime in 2003, the trend in Iraq has been toward decentralization and the deepening of a market economy. Yet, the private sector remains relatively small, does not contribute significantly to income generation and fails to absorb and contain unemployment.

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

Following a coordinated offensive by the government, allied militias and the Kurdish Peshmerga, IS continues to control substantial territory in its “Islamic Caliphate,” including parts of Mosul, though it is losing ground. For instance, the forces managed to retake the University of Mosul from IS in January 2017.

Prime Minister Haider al-Abadi has been pushing for security sector reform to rebuild the Iraqi security apparatus. He decided to integrate the Nineveh Guards (previously known as the National Mobilization Force), a predominantly Sunni militia, into al-Hashd, (i.e., the People’s Mobilization Forces). However, several Sunni blocs were opposed to the al-Hashd due to the atrocities committed against Sunni civilians. Therefore, the Shi’ite National Alliance has been trying to pass the “al-Hashd legal immunity” bill in order to protect the militia forces from prosecution. The Sadrist Movement strongly advocates an amnesty law for military and police personnel who abandoned their posts in Mosul, expected to be implemented in 2017. The decision was taken in response to the operations launched to liberate Mosul from IS control.

Both the army and the police continue to reflect Iraq’s fractured polity and lack of cohesion. The dismantling of the Iraqi army after 2003 and Maliki’s policy aimed at asserting his personal control through clientelistic networks within the security apparatus – even going so far as to create new bodies accountable only to him – have led to the current security forces’ crisis. The legalization of al-Hashd seems to indicate a continuation of these policies under al-Abadi and a limited will for far-reaching reform and restructuring.

Various local militias dominate the scene. Most importantly, the Peshmergas hold de facto control over the three Kurdish-Iraqi provinces and act as the army of the KRG. The exact standing of the Peshmerga within the Iraqi army is still disputed between the federal government and KRG. While the former insists the Peshmerga is under central command, the latter insists they are under Kurdish control and are deployed

Question
Score

Monopoly on the
use of force

4

'06 '18 10



only within KRG borders. Fighters of the Kurdistan Workers' Party (Partiya Karkerên Kurdistanê, PKK) have been active against IS in the Sinjar mountains.

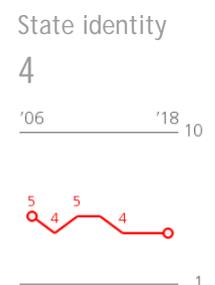
Jamal Al Ibrahim, leader of the Hezbollah Brigades, one of the main militias in Iraq and designated as a terrorist organization in 2009, is also deputy chairman of the al-Hashd al-sha'bi (People's Mobilization Forces, PMF), which comprises some 40 mainly Shi'ite militias. Since the Iraqi parliament legalized al-Hashd as a state's entity, the militia fighters will have salaries and pensions like their counterparts in the police and the military. In August 2016, several militia leaders met in Beirut with Canadian, European and Australian diplomats in an attempt to gain international recognition.

From abroad, Iran's influence has skyrocketed, as it has sent military advisers and troops to Iraq to fight IS, conducted air strikes, and armed and funded some of the Shi'ite militias which have joined the PMF. Iran's influence further increased in 2016 after al-Hashd's successful military campaign against IS in Anbar province.

Since August 2014, a U.S.-led coalition has been conducting air strikes against IS. By September 2016, former President Obama had sanctioned the deployment of 600 troops to support the Iraqi forces in their fight to retake Mosul.

Since the establishment of sectarian politics, Sunnis feel marginalized. According to the ArabTrans project of the University of Aberdeen, only 50.9% of the Sunnis identified themselves as Iraqi in 2014. Protests have been portrayed by the authorities as "Sunni protests," despite the fact that some of their demands reflected common grievances among Iraqis (such as security and services). IS militants took advantage of Sunni frustration when conquering northern and western Iraq. At the beginning of its insurgency, IS was backed by other local Sunni armed groups seeking to topple al-Maliki. In fact, almost 25% of Sunnis remain supportive of IS, while their support of the central government appears low. As a result, Prime Minister al-Abadi appointed Khaled al-Obeidi as Defense Minister in 2014, in an effort to increase Sunni representation in the government.

The sense of shared Iraqi identity also declined among the Kurds. The IS offensive gave the Kurds the opportunity to take control of long-desired parts of northern Iraq (the contested areas that are included in article 140 of the constitution). The unprecedented tension between Baghdad and Erbil erupted midway through June 2014 when the Peshmergas seized Kirkuk and its nearby oil fields. Relations between Baghdad and Erbil improved after an agreement on sharing oil revenues was reached in December 2014. Nevertheless, in early 2017, KRG President Barzani reiterated his intention of holding a referendum on Kurdish independence.



Islam is the official religion of the state according to the constitution's article 2, and no law can be passed that contradicts the established provisions of Islam and the principles of democracy. The Federal Supreme Court Act, currently under discussion, would place four Islamic scholars on the Supreme Court. Should this pass, the influence of religious dogma on policy could increase substantially, especially if these Islamic scholars should get a veto on decision relating to Islamic law.

For now, given the constitution's sometimes vague articulation, the religious and secular minded parliamentarians will impact the interpretation of these provisions. Article 41 of the constitution, for example, vaguely stipulates that Iraqis are free to choose their personal status courts according to their religions, beliefs and sectarian affiliation, which could mean that religious actors could gain the upper hand, and religious personal status courts might be established for the various sects, replacing the existing state personal status courts. This would further deepen sectarian rifts.

Heated debates that have emerged over the Ja'afari Personal Status Law not only reflect disagreement on family-related matters and women's rights, but also a broader struggle over how to define the relationship between religion and state.

Following the abolition of the Ministry of Religious Endowments in 2003, the prime minister's office oversees three distinct endowments, one for Shi'ites, one for Sunnis, and one for Christians and other religions. They receive state funding, and the private flow of funds to the endowments was liberalized. Due to abundant funding, the Shi'ite endowment, in particular, has emerged as a powerful religious and political actor with regional connections.

In practice, Iraq's civil and criminal courts are often avoided by parts of the population, who, depending on social class and financial means, resort to tribal or religious figures for the settlement of disputes and private matters. Lately, in areas under IS control, Shariah courts have been established and security agencies (including the infamous religious "Hisbah" police) patrol the streets to ensure that the group's harsh interpretation of Islamic law is enforced.

Despite his prior announcement to retire from politics in 2014, Muqtada al-Sadr continues to be the most influential Shia cleric in Iraq, and still wields strong influence on Iraqi politics.

The delivery of basic services remains weak all over Iraq. In territories under IS control, services are even more poorly provided (water, electricity, fuel and medicine are in low supply). The state administration has still not managed to restore consistent electric power generation, so the population struggles with persistent shortages. Large parts of the Iraqi population are not connected to sewer systems and lack adequate water supplies.

The targeted killings of academics and professionals and the massive displacement of the educated middle classes have deprived the country of valuable human

No interference of religious dogmas

3

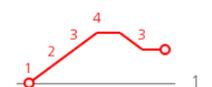
'06 '18 10



Basic administration

3

'06 '18 10



resources; they have taken a heavy toll on sectors such as health, education, and higher learning.

The political emphasis on security is reflected in the national budget allocation. Law enforcement nevertheless remains constrained by the lack of necessary capacities and by rampant corruption. Tax authorities exist in Iraq, but no statement about the scope of their functioning can be made.

In the Kurdistan region (KR), the issue is different. Before June 2014, electricity was delivered almost constantly, with few outages. Yet, the surge of IDPs and refugees from Syria changed this, especially in the province of Duhok. According to a KRG report, the region hosts almost 1.8 million IDPs and refugees, which equals 40% of all displaced Iraqis and 97% of the Syrian refugees in Iraq. Most of KR's refugee camps have water and electricity, which led to a decrease in the hours in which water and electricity are accessible overall. Furthermore, the continued low oil prices have led to budget deficits which have forced the KRG to reduce many government programs.

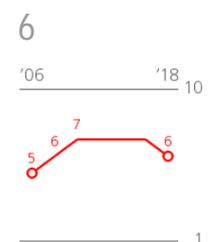
2 | Political Participation

General elections took place on 30 April 2014 amidst unstable security conditions particularly in the al-Anbar and Nineveh provinces, where elections were held two months later. Prior to the elections, the Independent High Electoral Commission (IHEC) protested against political and judicial interference in the electoral process. The overall participation rate of 60% was still remarkable given the low turnout in al-Anbar and Nineveh.

In 2016, Muqtada al-Sadr called for the dissolution of the IHEC because its members were chosen based on their sectarian affiliation. The petition was signed by nearly 100 members of parliament from the Ahrar bloc (affiliated with the Sadrist movement). He also demanded the replacement of the current electoral law. Al-Sadr supporters claim that the law encourages more sectarian division. However, the Sadrist movement has not presented an alternative yet. The amendment of the electoral law was one of the main conditions for the Ahrar bloc to remain in the Shi'ite National Alliance.

In the Kurdistan region, elections were scheduled to take place in 2013 but were delayed to 2015 as a result of an agreement between Masoud Barzani's Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK) of Jalal Talabani. President Barzani decided to further delay the elections, which has been met with violent protests and provoked a constitutional crisis. Elections are now scheduled for September 2017, but there are indications that a further delay might happen.

Free and fair elections



Despite al-Maliki's "State of Law" coalition winning the 2014 parliamentary elections, increasing tensions from other parties – backed by the U.S. – eventually forced al-Maliki to give up his premiership, becoming one of three vice-presidents instead. In this, he managed to maintain strong networks in parliament and with Tehran, and effectively torpedo many of new Prime Minister al-Abadi's policies. For instance, the State of Law coalition repeatedly forced al-Abadi to change several of his cabinet members, as al-Abadi attempted to mend ties with the Kurds and the Sunnis by forming a technocratic government not dependent on the quota system. Occasionally, members of his own Dawa party demanded al-Abadi's resignation.

In 2016, the Sadrist Movement returned to the Shi'ite-dominated National Iraqi Alliance with 14 conditions expected to be implemented. However, many of Muqtada al-Sadr's conditions have not been fulfilled yet. Additionally, Iran has been pressuring the Islamic Supreme Council and the State of Law coalition to accept the Sadrist Movement, in order to assure the victory of the Shi'ite militias in the upcoming battles against IS.

The Federal Supreme Court's decision to reject the prime minister's decision to remove the three Vice-Presidents Osman al-Nujaifi, Iyad Allawi and Nouri al-Maliki, shows how influential al-Maliki is in the political system.

The NGOs Law passed by the parliament in January 2010 secures minimal government interference in their affairs and marks major improvements compared to the 2009 draft. The law eased restrictions on foreign funding. The registration of an NGO can only be rejected if justified by a specific provision in the law, and its suspension or confiscation of its property requires a court order. There have been no major changes in recent years. The Law on the National Fund to Support NGOs in Development Projects, originally under discussion in 2013, has still not been tabled in Parliament.

Trade unionism is still a controversial issue. The constitution calls for a new labor law that defends the rights of workers to unionize and bargain collectively, although Iraq still lacks a legal framework that meets International Labor Organization (ILO) standards. A number of Hussein era anti-trade union laws remain in place, and trade unions are outlawed from several sectors entirely. Some trade unions such as the Iraqi Journalists Syndicate and the Iraqi Teachers Union do exist despite a lack of clarity on their right to independence.

While freedom of assembly is enshrined in the constitution, there have been real setbacks to the assembly rights attained. Iraqi authorities have responded to protests with violence, intimidation and threats. In October 2014, a draft Law on the Freedom of Expression, Assembly, and Peaceful Demonstration was returned to parliament. The law allows officials to restrict freedom of assembly to protect "the public interest" and "general order or public morals," without defining what those terms

Effective power to govern

4

'06 '18 10



Association / assembly rights

6

'06 '18 10



concretely encompass. Opponents believe it undermines civil liberties and contradicts the Iraqi Constitution.

Since al-Abadi took power 2014, protests have been a recurrent theme in Iraqi politics. For example, in 2016 the Sadrist and the secular movements protested in Baghdad against corruption and sectarian bias in the government.

While the constitution ensures freedom of expression and media pluralism, in practice Iraq is considered a high-risk, hostile environment for journalists. Many foreign and local journalists have been killed or severely attacked. Iraq ranked second after Somalia on the Committee to Protect Journalists' 2016 Impunity Index. A 2016 International Federation of Journalists report considered Iraq the deadliest country in the world for journalists.

Laws inherited from the Ba'th regime are still operative, including the 1969 penal code that criminalizes defamation, and the 1968 Publications Law, which allows prison terms on the basis of defamation for journalists and publishers.

The Iraqi authorities have repeatedly closed down media outlets. In June 2014, the Iraqi Media and Communication Commission sent a list of directives to be respected by the media. Internet has been intermittently disconnected, and a number of anti-government blogs and local websites have been shut down by the state.

The Kurdish region remains a hostile environment for independent media and news outlets as well. Security forces affiliated with the KDP harassed several news outlets, including NRT TV and KNN TV.

3 | Rule of Law

In Iraq's republican parliamentary system of government, the prime minister is in the more influential position vis-à-vis the mostly representative president. Separation of powers is formally enshrined in the constitution (Article 47), though boundaries between the executive, the legislative and the judiciary are blurred in reality.

After the uncompromising actions of al-Maliki, with attempted interferences into parliament's and the judiciary's powers, some progress has been made under Haider al-Abadi. The role of parliament is much stronger now, though this is partly rooted in the strong opposition of al-Maliki's State of Law coalition to al-Maliki. In 2016, parliament managed to remove two ministers from al-Abadi's cabinet, Defense Minister Khaled al-Obeidi and Finance Minister Hoshyar Zebari.

In the KRG, the separation of powers has been increasingly undermined by the constitutional crisis caused by Barzani's decision to delay the agreed upon 2015 elections for another two years. Since then the influence of the Iraqi Kurdistan Parliament has been negligible.

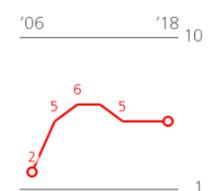
Freedom of expression

3



Separation of powers

5



Despite constitutional stipulations that guarantee institutional independence, much of Iraq's judiciary is said to still follow the professional standards and practices of Saddam Hussein's times. The 2005 constitution established the Federal Supreme Court which has exclusive jurisdiction to interpret the constitution; oversees the constitutionality of laws and regulations; settles accusations directed against the president, the prime minister and the ministers; and settles disputes between the federal government and the governments of the regions (Article 93). However, laws are often inconsistently applied and judges are sometimes prone to corruption, according to the U.S. Bureau of Democracy, Human Rights and Labor. Political interference happens occasionally, also within the KRG territories.

By means of controversial court rulings, key institutions such as the Integrity Commission (anti-corruption) and the central bank fell under direct control of the cabinet rather than the parliament. The court has also been accused of particularly issuing arrest warrants against Sunni politicians and holding trials that do not guarantee minimum rights to suspects. In 2016, it dismissed al-Abadi's request to remove Vice-Presidents Iyad Allawi, Nouri al-Maliki and Osama al-Nujaiifi, prompting Muqtada al-Sadr to call for demonstrations. This shows the limited influence the executive has in at least some cases over the judiciary.

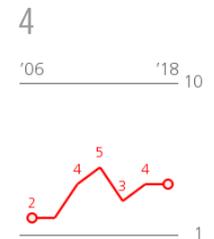
At the beginning of 2013, parliament passed an act banning the chief of the Federal Supreme Court from simultaneously heading the Higher Judicial Council. The latter supervises the whole federal legal system.

Fighting corruption has "officially" been at the top of successive Iraqi governments' agendas since 2006. However, there has been no holistic anti-corruption approach at all administrative and political levels, nor in the business sector. In the absence of systematic prosecution of office abuse, officials have no real incentive to give up the prospect of personal gains. Some isolated anti-corruption actions against influential political actors were either used to convince the public of the government's commitment to fight corruption or to target opponents. A complaint was lodged by the former chief of the Iraqi Integrity Commission in late 2014 calling for the prosecution of former Prime Minister al-Maliki on various charges, including corruption and office abuse, but no progress has been made.

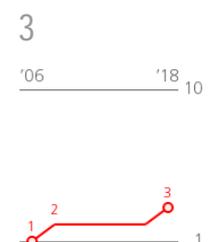
A particular challenge is the sharing and distribution of political positions according to ethnosectarian quotas—the so-called Muhasasa system. This means that the Prime Minister cannot make appointments or dismiss ministers independently, but is dependent on back-room deals between the different ethnosectarian groups.

Prime Minister al-Abadi introduced a plan to reform the security sector, starting with the replacement of some army and police commanders and firing the 50,000 "ghost soldiers" uncovered on the army's payroll. These efforts are considered by al-Abadi's

Independent judiciary



Prosecution of office abuse



critics as necessary but insufficient because a structural reform is needed to address Iraq's security sector.

The al-Abadi administration entered into cooperation with UNDP in summer 2016 to train and assist Iraqi auditors. As civil servants' salaries were cut, the problem of corruption seems to be on the rise. This reaches the highest ranks, as even many cabinet members still embezzle from government contracts and collect the paycheck of factory ghost workers. In July 2016, parliament's Integrity Commission demanded the arrest of over 2,000 people on charges of bribery and embezzlement. Six members of parliament suspected of corruption received a travel ban by the government in August 2016.

The constitution and several by-laws guarantee civil rights, however the de facto situation is a much bleaker picture.

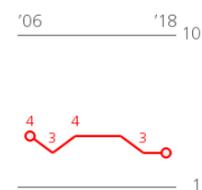
Torture of prisoners is widespread, and the Ministry of Interior follows a generous policy of impunity even in case of fatal malpractice. The Iraqi Human Rights' Ministry, dissolved in 2015, had declared 20 deaths in custody resulting from torture in the first six months of 2013 alone.

According to Human Rights Watch, pro-government militias (mostly Shi'ite) kidnap, execute, arbitrarily arrest and torture Sunni civilians. In 2015 the Hashd movement killed more than 70 Sunnis in the village of Barwana in Diyala, causing 3,000 civilians to flee their homes. Several reports confirm that a certain number of IDPs were forced to join the militia. The International Organization for Migration (IOM) identified nearly three million internally displaced individuals, mostly from al-Anbar, Nineveh and Salaheddin provinces (dating from January 2014 to February 2015). Additionally, al-Hashd forces committed several human rights violations in Mosul's liberation operations, including the recruitment of child soldiers from IDP camps and organized summary executions.

IS has committed countless crimes against civilians, with many of them still undiscovered. Recently discovered mass graves give some impression of IS' cruelty. Religious and ethnic minorities (Yazidis, Christians, Shi'ite Turkmen and Shabaks) were at particular risk. Hundreds of women, many of them still teenagers, were forced into marriages, sexual assault and slavery.

Civil rights

3



4 | Stability of Democratic Institutions

Starting from an overall low level of efficiency, democratic institutions have improved their profile during the evaluation period. The government under Prime Minister al-Abadi at least tries to be more professional and responsible in its actions than under predecessor al-Maliki. The parliament, meanwhile, has also gained a higher profile, though this is partly due to the attacks of the oppositional State of Law coalition that opposes al-Abadi's attempts to outbalance the former strong Shia patronage network.

The efficiency of government institutions, as well as public administration, suffers from a distribution of positions according to ethnosectarian lines, which inhibits meritocratic job allocation. As a result, positions are often filled with unqualified personnel who use these positions to sustain neo-patrimonial networks. Local councils are generally known for being slow, burdened with bureaucratic procedures, and staffed by relatively inexperienced personnel. Local government has to be re-established in areas previously occupied by the IS, and the government has yet to formulate a vision for how to do so. Until then, the liberated areas are under de facto control of al-Hashd militias. Institutions in Iraqi Kurdistan are currently caught up in a constitutional deadlock, which inhibits effective governance.

“Democracy is accepted as long as it brings benefits” – this formula can be easily applied to the Iraqi polity. Almost all forces are ready to undermine the democratic institutions for private interests. At the same time, the widely defunct state institutions do not generate the trust needed, so the widespread “help yourself” attitude is hardly a surprise.

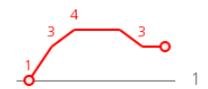
Even the 2005 constitution itself lacks legitimacy, especially among Sunni actors who were marginalized in its drafting process and during al-Maliki's reign. The Kurds were more interested in their own autonomy and therefore mostly protected their own interests when acting on the federal level.

Al-Abadi's more inclusive approach has raised hopes that Iraq's central actors would show more support for its democratic institutions. However, critics erupted over the al-Abadi government's inability to impose its authority and hold Shi'ite al-Hashd al-Sha'bi militias responsible for crimes committed against civilians. The decision to legalize the forces, which passed parliament in November 2016, further reveals Al-Abadi's dependence on al-Hashd and his inability to fully control them. Another bill proposed to parliament would lead to immunity for crimes committed by militia members. This would be a clear violation of the constitution, which only guarantees immunity for members of parliament. Should the bill pass, it would be virtually impossible to hold the forces accountable for crimes committed before 2016.

Performance of democratic institutions

3

'06 '18 10



Commitment to democratic institutions

3

'06 '18 10



The legalization of al-Hashd forces will give the militias easier access to funding and weaponry, while the government attempts to reassert control over these groups. At the same time, as a part of the official security apparatus, al-Hashd will at least in theory be excluded from openly participating in electoral politics.

5 | Political and Social Integration

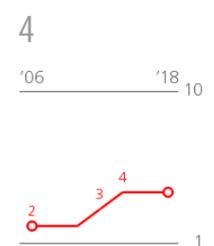
In Iraq's political landscape a multitude of entities have emerged that call themselves political parties but operate as community-based organizations based on clientelistic networks within geographic or sectarian boundaries. The party system remains fragmented and the level of polarization high. Only a few Iraqi parties (such as Dawa, the Patriotic Union of Kurdistan (PUK), the Kurdistan Democratic Party (KDP), and a few others) are socially rooted and enjoy a broad popular base. Few have a clear party program or action plans on which voters can base informed decisions.

Even the major parties cannot be considered to be modern political parties, as they do not play a significant role in forming opinions and political will, but are rather organizations active in the service of interest groups or the party leader, who has typically gained his position by inheritance, social status, and/or rubber-stamp elections. There are a few exceptions, including smaller ideological parties such as the Communist Party (which, however, has lost much of its influence). As a large number of parties' function on the basis of clientelism, it can be anticipated that this will continue to serve as the dominant feature of any future party system, especially in the absence of accountability mechanisms.

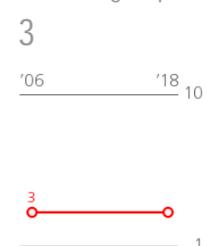
In preparation for the elections in 2017-2018, two trends can be observed. First, new parties with a secular label have been founded. The elections will show if there has indeed been a shift in public opinion regarding the role of religious parties. Secondly a number of militias are planning to participate in elections, either in cooperation with civilian and sometimes even secular forces, or by cooperating with other militias. The latter appears to be the case for those militias close to Iran. This aim of militias may be stalled due to their recent official inclusion in the state's security sector, which forbids them from participating in the election.

In Iraq, the political space available to social and political organizations based on common interests is very narrow, while an entrenched patronage network has deep roots and encompasses political clientelism, nepotism, and tribal and family ties. This can be seen in the absence of broad civil society movements able to bridge existing cleavages and aggregate citizens' interests beyond ethnosectarian affiliations. There are numerous interest groups, crossing the spectrum from community organizations, religious associations and charities, to professional associations, trade unions, advocacy associations and service-providing NGOs in the "modern" sense. However,

Party system



Interest groups



few are able to aggregate societal interests on a large scale. Their activities and reach also depend on the scope of funding, the priorities of domestic or international donors, and local capacities. Therefore, it is often community leaders, religious figures or political strongmen who mediate between state and community and represent communal interests. Accordingly, a wide range of cultural and socio-political matters remain neglected and without articulation or support.

An anomaly is the Sadrist movement, which has both links to parliament and militias. Nevertheless, recent cooperation between secular forces and anti-corruption protestors with the Sadrist movement puts it in a place where it effectively mediates between society and the political system. However, the strong overlap between the public and political sphere, and the unpredictability of Muqtada al-Sadr's plans, make this arrangement neither sustainable nor particularly constructive.

A 2014 National Democratic Institute poll, conducted prior to the elections, revealed that 65% of Iraqis considered democracy to be “the best form of government” and 72% regarded elections a “good thing” for Iraq. The results also showed that 75% of Iraqis were more “enthusiastic about voting” in the 2014 elections than in previous ones. This enthusiasm was much more tempered in the western Sunni-dominated provinces, with 58% “questioning the legitimacy” of the 2014 parliamentary elections.

According to the 2014 Arab Transformations Report on Political, Economic and Social Attitudes, Iraqis are overall dissatisfied with the performance of their government. 78.5% of Iraqis say that they are dissatisfied with the way the government performs its duties. Dissatisfaction is particularly high among Sunnis in central Iraq. 72.5% consider the political system as very bad, which is a substantial decline over 2009, when only 55.9% shared this opinion. Nevertheless, only 15.5% believe that democracy is unsuitable to Iraq, and 87.2% believe that democracy is the best form of government.

However, the reliability of this survey remains highly questionable. Public consent to democratic norms cannot be properly assessed in Iraq, as reliable data from opinion polls or similar sources are scant in a country going through a period of political turmoil. Furthermore, according to the World Value Survey, even if Iraqis support democracy in principle, they do not necessarily understand democracy along the lines of Western liberal democracy. Among other factors, Iraqis give higher relevance to the role of religious figures within the political sphere.

Citizen's trust toward others remains, if at all, within the margins of the own religious or ethnic community. A sense of “belonging together” beyond those boundaries hardly exists since the dramatic breakdown of society after 2003. The conquest of IS and the parallel failure of the Iraqi army has further undermined trust in the state, and pushed families and clans to help themselves instead.

Approval of
democracy

n/a

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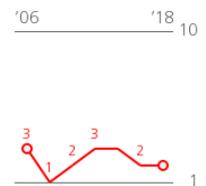
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Social capital

2

Volunteer work has developed to certain extent, mainly in the field of humanitarian support, but remains underdeveloped in other areas. In November 2016, UNDP organized a workshop in order to encourage social cohesion as a central goal for local NGOs.



II. Economic Transformation

6 | Level of Socioeconomic Development

Iraq's socioeconomic development is characterized by a high degree of deprivation. The prolonged war against IS and the sharp decline in oil prices since 2015 has significantly deteriorated the standard of living and increased poverty rates. Poverty rates in Iraq reached an estimate of 22.5% nationwide in non-IS territories. Poverty is higher in rural areas and varies regionally, with relatively higher poverty rates in territories under IS control, as well as the central and southern governorates.

Question
Score

Socioeconomic
barriers

3



High poverty rates are attributed to political instability, massive bureaucracy, high unemployment rate (16.4% in 2014), a decline in education level and rampant corruption. Another factor contributing to high poverty rates is internal displacement, with an estimated three million IDPs (UNICEF 2016 est.). In 2016, mass displacement continued to surge. Around 85,000 people were internally displaced during the recapture of Fallujah, and an estimate of 200,000 people displaced from Mosul. This exacerbated the socioeconomic situation in Iraq, and put further pressure on the Iraqi government to provide basic services and support to IDPs. In July 2016, a donor conference co-hosted by the U.S. government promised a total of \$2.1 billion for 2016-2018 to help alleviate the humanitarian crisis in Iraq. Moreover, in an effort to reduce poverty, the Iraqi government launched a new poverty-targeting program in April 2016, aiming to enhance and modify the targeting efficiency of its social security network.



The adult literacy rate for both sexes is 79.7% (as of 2014), with an illiteracy rate among women reaching almost 26.3% (2015 estimates). Only 53.1% of both sexes are enrolled in secondary schools and 16% in tertiary education; the ratio of female to male enrollment shows that women have much lower access to both secondary (74.8%) and tertiary (59.8%) education (as of 2013). Such uneven access to education is also reflected in the relatively low percentage of the female labor force, which reached 15% in 2014. Furthermore, the conflict in Iraq imposed restrictions on women's movement, limiting their access to education, health care, and employment. In UNDP's 2016 Human Development Index, Iraq occupied a score of 0.649, ranking it 121 out of 188 countries.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	234648.4	234648.4	179640.2	171489.0
GDP growth	%	6.6	0.7	4.8	11.0
Inflation (CPI)	%	1.9	2.2	1.4	-
Unemployment	%	15.1	15.0	15.5	16.0
Foreign direct investment	% of GDP	2.2	2.0	1.8	0.1
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	22590.3	24427.8	4121.3	-
Public debt	% of GDP	31.2	32.0	55.1	66.9
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-	-2.7	-	-
Tax revenue	% of GDP	-	0.9	-	-
Government consumption	% of GDP	21.0	18.1	22.3	23.9
Public education spending	% of GDP	-	-	-	-
Public health spending	% of GDP	3.7	3.3	-	-
R&D expenditure	% of GDP	-	0.0	0.0	-
Military expenditure	% of GDP	3.3	3.0	5.3	3.6

Sources (as of October 2017): 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

Though Iraq has embraced market-based principles, significant parts of industrial companies and banks remain public or semi-public and – together with the public administration – provide most of the country's jobs. The network of state-owned enterprises (SOEs) operating in Iraq is given privileged status and enjoys preferential treatment, which in turn hinders the growth and development of the private sector. The SOEs are regarded as the main employers in Iraq (around 550,000 employees with a 30 to 50% estimate of excess labor). Iraqi SOEs are inefficient given that only

Market-based
competition
4

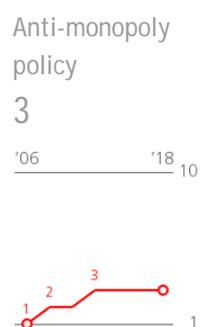
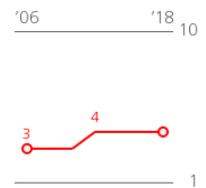
one-quarter of all Iraqi SOEs are profitable and a large portion of the budget funding for SOEs goes to employee wages.

Furthermore, the hydrocarbon sector accounts for two-thirds of the country's GDP, more than 90% of government revenues, 99% of total exports and 80% of foreign exchange earnings. The hydrocarbon sector employs roughly 1% of the total workforce. Yet the Iraqi dinar is still not convertible in most of the world, and various consumer prices remain administered, including fuel.

The private sector, meanwhile, is marked by a small number of large companies, a number of SMEs and a relatively large number of micro-enterprises. Its activities are hampered by the lack of security and political stability, outdated legislation, lack of regulations and executing authorities, inadequate access to financial services and investment credits, difficult processes for the registration and closure of businesses, and a shortage of qualified human resources. The private sector also suffers from dysfunctional infrastructure and energy supply, insufficient knowledge on global and regional markets, an absence of constructive public-private sector dialogue, red tape, widespread corruption, and unfair competition from the public sector. The Kurdish private sector faces similar structural barriers which hinders its development. These hardships have led to the expansion of informal labor activities in many sectors. As a result, the private sector in Iraq is making an inadequate contribution to the GDP and currently lacks the capability to contribute sufficiently to economic diversification or job creation.

In 2016, the Kurdish government introduced a three-year plan to boost the Kurdish economy by shrinking the role of the public sector and allowing greater involvement of the private sector in various sectors.

The Council for Competitiveness and the Prevention of Monopoly was established in 2010 with Law No. 14 to encourage competition, raise productivity, and provide better quality of products at reduced costs and prices. The Kurdistan Regional Government has managed to implement the law by passing Law No. 9 of 2010. However, the council and its auxiliary units still have to be established by the government. For instance, a specialized court for competition disputes is still missing. Therefore, cartels and monopolies are hardly prevented, involving unfair business practices such as bid rigging, abuse of strong market positions, exclusive dealing and price-fixing.



Tariff Law No. 22 of 2010 introduced a new tariff schedule based on the Harmonized Classification System-HS coding with tariffs ranging from 0 to 80%. On 19 January 2016, a new customs tariff was introduced imposing 30% of custom duty on all imported goods passing through Iraqi ports. This, in turn, decelerated business at the country's main port of Umm Qasr in Basra and filled the port with uncollected cargo containers.

There are a number of non-tariff barriers, often leading to lengthy and unpredictable delays when clearing customs. Exports are also often subject to long delays and companies must expend funds to get certificates of origin for their products.

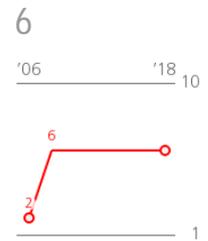
Iraq has bilateral free-trade agreements with 11 Arab countries in line with the Free Zone Authority Law No. 3/1998. In theory, capital, profits and investment income from projects in a free zone (FZ) are exempt from all taxes and fees throughout the life of any project. However, goods imported through FZs are still subject to Iraq's 5% tariff when they leave the zone (except for re-export).

In 2014, U.S. exports to Iraq reached \$2.1 billion, while Iraqi exports to the United States – mainly oil and gas products – for the same period amounted to \$13.7 billion. Due to oil imports, bilateral trade between Iraq and the European Union amounted to over €16.6 billion in 2015. Furthermore, India and China continue to maintain mutually beneficial trade relations with Iraq.

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 United Nations Convention on Recognition and Enforcement of Foreign Arbitral Awards (1958) and the attendant rules and procedures established by the U.N. Commission on International Trade Law (UNCITRAL).

The National Investment Law allows domestic and foreign investors alike to qualify for incentives. Foreign investors are allowed to trade in shares and securities listed on the Iraqi Stock Exchange (ISX). The Iraqi authorities confirm that in practice there are no restrictions on current account or capital transactions involving currency exchange as long as the underlying transactions are supported by valid documentation. It remains unclear whether currency convertibility is entirely free from exchange restrictions. The National Investment Law contains provisions that would allow investors to bank and transfer capital inside or outside of Iraq. It also allows investors who hold an investment license to enjoy exemptions from taxes and fees for a period of ten years.

Liberalization of
foreign trade



Generally regulated by the 2003 Banking Law and the 2004 Central Bank of Iraq (CBI) Law, Iraq's banking system is both weak and small, its adjusted asset to GDP ratio is 73% compared to 130% for the MENA region. Among a total of 65 banks, the six state banks with 86% of the banking sector assets are much bigger than the 24 private, 19 foreign and 16 Islamic banks. Public banks are politically favored over private banks, which are restricted in their business possibilities by the 2004 Banking Act No. 94.

Banks mostly do not abide by the international transparency recommendations and are often used for financing national priorities and public spending. The two largest public banks, Rasheed and Rafidain, have not been audited according to the International Financial Reporting Standards (IFRS) since 2006.

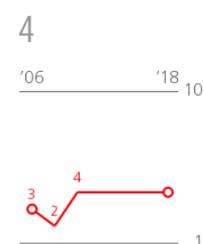
Efforts to modernize the financial system have focused on the reform of state-owned banks, primarily through the establishment of a Bank Reconciliation Unit (BRU). As well, CBI is pressing ahead with the reform by preparing new legislation concerning the central bank, commercial banks, money laundering and the financing of terrorism. Also, CBI is expected to impose a minimum capital requirement of banks of 250 billion Iraqi dinar, a level to which all private banks, except one, have increased their capital.

8 | Currency and Price Stability

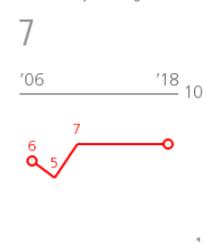
The government's monetary policy since 2003 has focused on maintaining price stability and exchange rate predictability. The inflation has remained in the low since 2010. According to the CBI, the inflation rate is 1.4% (2015 estimates), while the World Bank estimates 2015 at -1.2%, and the country's international reserve volume also has decreased due to the sharp decline in oil prices. The independence of the CBI suffered a setback in January 2011 when former Prime Minister al-Maliki won a court ruling that placed independent institutions, including the CBI, under the control of the cabinet. In January 2012, the CBI raised the exchange rate of the Iraqi dinar to \$1.19, causing a huge crisis that led the Supreme Judicial Council to issue an arrest warrant for CBI governor Sinan al-Shabibi in October 2012 on charges of corruption. Al-Shabibi received a seven-year prison sentence in absentia 2014, shortly before being acquitted of all charges. The difference between the official and parallel exchange increased from three percent in 2015 to nine percent in May 2016. The CBI introduced a number of policies to keep inflation low. The dinar remained widely stable and was worth \$1.71 in early 2017.

The reduction of Iraq's debt to a sustainable level, along with debt relief negotiations, has been a CBI priority since 2003. This led to an 80% reduction of the Paris Club debt (approximately \$800 million annually), while negotiations with non-Paris Club creditors are still ongoing. In an attempt to ease the financial burden on Iraq, members of the Paris Club agreed to postpone debt from Iraq until the end of 2019. Iraq's

Banking system



Anti-inflation / forex policy



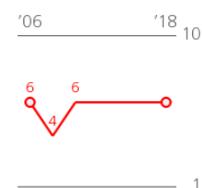
Macrostability

6

external debt was reduced to \$58.13 billion at the end of 2014. Meanwhile, Iraq's public debt continues to increase, reaching 61.4% of GDP in 2015, leaving total reserves of \$50,990.8 million (World Bank 2016 data).

The proximate causes of Iraq's current economic problem are a rise in military expenses in order to fight IS and recapture territories under its control (\$13.1 billion in 2015; total government expenditures reached 22.4% of GDP in the same year), and a sharp decline in world oil prices. However, its roots lie in longer-term financial mismanagement.

On 7 December 2016, Iraq's parliament approved the 2017 budget, which predicts a deficit of \$19 billion, after a revision of the expected oil price from \$56/barrel to \$42/barrel, with an expenditure of 100.7 trillion dinars, about 6% lower than the 2016 projected spending. The government intends to finance its budgetary deficit through treasury bills, government bonds, austerity measures, loans from local banks and the IMF.



9 | Private Property

The constitution guarantees personal property rights and bans expropriation, except for the purpose of a higher public benefit (which has never been clearly defined) and in combination with just compensation, which must be determined by law. Similarly, investment projects cannot be nationalized or seized, except pursuant to a judicial judgment (2006 Investment Law, Article 12).

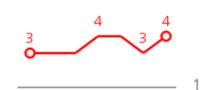
Iraq has signed a number of intellectual property conventions such as the World Intellectual Property Organizations (WIPO) Convention and Paris Convention for the Protection of Industrial Property.

According to the 2016 World Bank Development Indicators, registering a property in Iraq requires 51 days and around five procedures, which places Iraq in an average position.

Since the IS offensives in summer 2014, both government forces and armed groups (IS fighters as well as Shi'ite militias) have been responsible for indiscriminate attacks on civilians, including the seizure, destruction and setting fire to private properties in disputed areas. According to Human Rights Watch, the burning and looting of homes, for instance in the Christian town of Bakhdida or the mixed Sunni Christian town of al-Khidir continued even after Mosul was partly retaken from IS.

Private companies are permitted and regulated in Iraq by Company Law No. 21 of 1997, as amended in 2004. However, in practice, their establishment faces many challenges, from dilapidated infrastructure to weak framework of legal provisions and regulations for consumer protection or production standards and investment incentives. Regulatory protection is dependent on the implementation of national

Property rights



Private enterprise

4

legislation which is often nontransparent, arbitrary, and subject to abuse by public officials pursuing their own personal interests. The greatest challenge today for private business in Iraq is security and political instability, alongside a lack of basic economic data and a bureaucracy rampant with corruption. The 2016 World Bank's indicators found that an entrepreneur would require 34.4 days and the completion of nine procedures to start a business in Iraq. Private sector growth could reduce the reliance on the oil sector and create more jobs for Iraq's growing working force.

In February 2015, the Iraqi government launched a Private Sector Development Strategy 2014-2030 in an attempt to improve the private sector. The strategy aims to stimulate growth and create jobs through diversifying the private sector and promoting investment.

10 | Welfare Regime

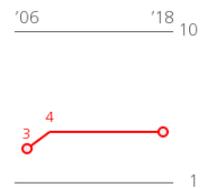
While public social assistance is often offered in erratic and unstructured ways, family and tribal bonds have gained increasing importance as a private substitution. The main public social program is the Public Distribution System (PDS), which provides monthly basic food rations since its establishment in 1991. Also, due to PDS' low efficiency, a new poverty-targeting program was introduced in April 2016 aiming to increase the coverage ratio and improve efficiency.

The delivery of basic social services has been clearly affected by the security situation in northern and western Iraq. Around half of Iraq's wheat production came under IS control, obliging the government to buy crops from IS in order to later distribute it as milled flour as part of Iraq's PDS. However, distribution in certain areas was temporarily halted due to insufficient security.

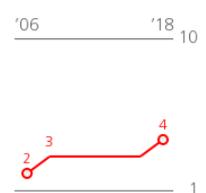
Public expenditure on health is 5.5% of GDP (2015). Access to health services is limited (1.3 hospital beds per 1,000 Iraqis as of 2012) and geographically extremely uneven, with a strong urban/rural gap. The latest UNDP report (2015) indicates that life expectancy at birth in Iraq is 69.4 years. Adult mortality rate, i.e. the rate of dying 15 to 60-year olds', among 1,000 citizens is 203 for males and 104 for females. For the elderly, Iraq's pension system has structural problems in terms of financial sustainability, efficiency and equity.

Various forms of discrimination are omnipresent in Iraq. Displaced war victims are excluded from basic rights and services, and attacks against minorities add to the vulnerability of these groups across social classes.

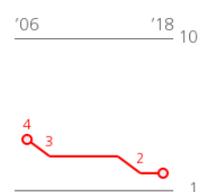
Women suffer particularly from exclusion from various aspects of social life. Girls are less likely to be enrolled in school than boys (ratios of 0.8 in primary and secondary education, and 0.6 in tertiary education), and female literacy rate is as low as 73.8%.



Social safety nets
4



Equal opportunity
2



The debated faith-based personal status laws would abolish the comparatively progressive stipulations of the 1959 Personal Status Law which granted women relative equality. Already, women constitute only 17.7% of the labor force (as of 2014). The state ministry for women's affairs, formed after 2003, is poorly funded and remains mostly ceremonial. Iraq has not yet ratified the Optional Protocol on Violence Against Women.

11 | Economic Performance

The overwhelming majority of federal revenue comes from oil income. Thus, the sharp decline in world oil prices since the end of 2014 has dealt a heavy blow to the Iraqi government's growth expectations. The loss of fertile land in areas under IS control in northern Iraq massively impacted the production of wheat and other crops. Violence and ongoing fighting have disrupted trade as many roads to Turkey and Jordan have been cut off. The expected oil price recovery for 2017 should help the government consolidate its budget and reduce the budget deficit. Nevertheless, oil production growth is expected to decrease in 2017, as production is expected to stabilize at 4.3 million barrels per day (mbpd) as part of the production quota imposed by the OPEC members on 30 November 2016.

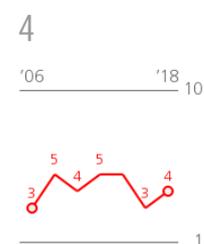
Moreover, more than three million people have been internally displaced since the beginning of 2014. Therefore, unemployment rates are believed to be skyrocketing, (estimates speak of 25%, but reliable data are not available). Inflation remained low at 1.4% in 2015.

Despite the spike in violent acts and tense political situation, the Iraqi government managed to increase oil production by 20%. From January to August 2016, Iraq produced 4,478 million barrels per day (4.2 mbpd programmed in 2016), and exports reached 3.75 mbpd, including 250,000 bpd from the Kurdish region. The introduction of two authorized oil grades for export and reactivation of a number of pipelines helped increase the amount of oil exported. At the same time, the non-oil economy continued to contract (oil GDP decreased by 1% year-on-year during the first half of 2016) due to various factors, such as population displacement, infrastructure destruction, inefficient bureaucracy and rampant public corruption. Gross foreign exchange reserves decreased from \$53.7 billion (2015) to \$47.6 billion (2016). The fiscal deficit (5.7% of GDP) and the non-oil deficit (17.6% of non-oil GDP) were lower than anticipated (approximately 10.9% of GDP and 26.9% of non-oil GDP).

The Iraqi government introduced a new economic reform agenda, which aims to reduce the budget deficit and increase revenues by 20 to 33 trillion Iraqi dinar annually.

In July 2016, a number of administrative reforms were introduced, including amendments to transfer regulations and implementation of new taxes. In the same

Output strength



month, the IMF launched a support program, and approved a three-year \$5.4 billion loan for Iraq, with an initial release of \$1.24 billion.

The Iraqi government is expected to cut subsidies, reduce public employee wages and limit investment spending. The budget execution in 2016 was lower than expected due to difficulties in raising domestic financing.

On 7 December 2016, Iraq's parliament approved the 2017 budget, which predicts a deficit of \$19 billion, after a revision of the expected oil price from \$56/barrel to \$42/barrel, with expenditure of 100.7 trillion dinars, about 6% lower than the 2016 anticipated spending. Public debt further increased in 2016 due to the budget deficit. The current account balance deficit widened in 2016 but contracted in 2017.

12 | Sustainability

The dominant oil industry negatively affects air, water and soil quality – elements which have already been severely damaged by weapons used in the various wars, especially radioactive uranium used during the 1990-1991 Kuwait crisis. The latest military attacks by and against IS have brought further environmental degradation.

The situation is exacerbated by a widespread lack of awareness of environmental threats, the absence of a legal framework regulating economic activities on the basis of environmental concerns, and the general absence of political incentives to address such issues. Iraq's National Investment Commission (NIC), which is tasked with developing investment policies and creating an investment-friendly environment, is in theory required to submit investment project plans to the Ministry of Environment for evaluation on the basis of environmental sustainability. However, there is no information on whether this is actually happening or as to whether clear criteria for evaluation have been created.

The carbon dioxide emissions per capita reached 4.92 metric tons in 2013, according to the U.S.-based Carbon Dioxide Information Analysis Center. The 2013-2017 National Environmental Strategy and Action Plan (NESAP) attempts to preserve the environment and ensure safe living conditions and good health for Iraq's citizens.

Education opportunities are poor. Enrollment rates are sufficient only in primary education (108.1%), but fell sharply in secondary (53.5%) and particularly tertiary education (16.1%, World Bank 2016 data). In general, quality of teaching is often not ensured, as there are not enough teachers available either for financial reasons, or because they left after intellectuals and specialized professionals were systematically targeted, driven out of the country or killed during the different waves of violence.

Environmental
policy

2

'06 '18 10



Education policy /
R&D

3

'06 '18 10



Iraq's R&D expenditure is only 0.03% of GDP (as of 2011). The government's education budget is barely enough to bring education institutions and training facilities (universities, hospitals, etc.) up to acceptable modern standards.

Due to austerity measures implemented by al-Abadi's government, Iraqi students awarded government scholarships to pursue their studies abroad face a difficult situation. The Iraqi Ministry of Higher Education decided (in early 2015) to limit scholarships to three years. All new scholarships offered by other funding bodies such as the Higher Committee for Education Development in Iraq (HCEDI) have been indefinitely frozen.

After its seizure of Mosul in June 2014, IS radically imposed its backward vision on the city's universities and higher education institutes, banning the study of law, politics, arts, archaeology, sports and philosophy, and closing the schools for tourism and hotel business. Moreover, IS introduced a new school curriculum for children living in Mosul which promoted the ideology of the Islamic Caliphate and religious fundamentalism. Subjects like art, music, history, and literature were removed and replaced with subjects on Shariah law and jihad training. This in turn discouraged parents from sending their children to school. Protestors against these impositions have been executed. Currently, Save the Children has established learning tents for children, and UNDP's Funding Facility for Immediate Stabilization helps the Iraqi government in stabilizing the regions that have been liberated from IS.

Governance

I. Level of Difficulty

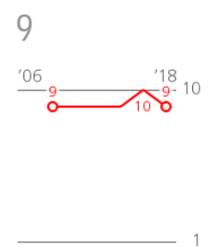
Iraq's high dependence on oil income saw the country suffer from low global prices for oil, and fuels corruption more broadly as well as "diversification fatigue." Infrastructure and human capacities are still underdeveloped since the 2003 war, and were further destroyed by the IS invasion. Much of the state budget goes into defense spending, while other important areas keep largely underfunded. The blatant violence has heavily impaired social peace and social capital, and a severe brain drain over decades has led to a lack of urgently needed specialists and immense underperformance in sectors such as education, health, agriculture etc. This is also partly due to the sectarian-based promotion scheme, meaning that candidates for new posts are selected less on their professional merits but on specific ethnic or religious affiliation.

Vast parts of the country have suffered environmental degradation, after chemical weaponry was used particularly during the 2003 war, but also due to severe droughts provoked by climate change or continued dam construction along the upper Euphrates and Tigris rivers in Syria and Turkey.

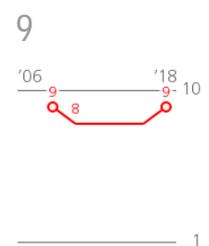
Decades of authoritarianism have hampered Iraqi civil society's engagement, with a slightly better picture in the Kurdish region where civil society organizations (CSOs) were established after achieving autonomy after the 1991 Gulf War. After 2003, CSOs also mushroomed in other parts of the country, albeit with little professionalism and little effectiveness. However, as popular partners for external donors they attracted important funds which then, due to a lack of control structures, fueled corruption. Islamic charities can be seen as an exception; they are often the only source of support for people in serious need. At the same time, cross-sectarian organizations face difficulties when trying to take root, and an influential civil society has not emerged.

Cleavages along both sectarian and regional lines define the often violently fought political contestations. The marginalization of Sunnis by the Shi'ite-dominated government of former Prime Minister al-Maliki contributed to the creation and full-scale insurgency of IS which brought roughly one-third of Iraq's territory under its control. Its unlimited atrocities against civilians left deep marks on society, and

Structural
constraints



Civil society
traditions



Conflict intensity
10

religious sites and cultural heritage were destroyed. Still, Shi'ite militias as well as Iraq's official army are accused of war crimes, including kidnapping, executions, arbitrary arrests and torture, especially in the direct aftermath of retaking control of IS-held cities in late 2016 and early 2017.

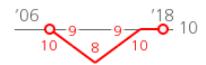
Prime Minister al-Abadi has attempted to work across sectarian cleavages, but found his ability to do so limited by his own power networks and his dependency on al-Hashd militias. Al-Abadi relies heavily on the Sadrist movement, which draws its influence mainly from its ability to mobilize large groups of Shi'ite protestors. Notably, he eased the unprecedented tensions between Baghdad and Erbil of 2014, when the Peshmerga seized Kirkuk and its nearby oil fields, by concluding an oil-sharing agreement in December 2014. This also temporarily eased the Kurds' calls for independence.

II. Governance Performance

14 | Steering Capability

The government's first priority became the reconstruction of the national army in order to repulse IS. Prime Minister al-Abadi's ambitious plan saw not only a replacement of various commanders in both the military and police, but also the firing of 50,000 "ghost soldiers" on the army's payroll who never worked as soldiers. While this sounds great on paper, the actual effects were limited, especially since Abadi was increasingly forced to rely on militias to fight IS. Al-Abadi's decision to legalize militias seems to indicate that he has in the short term given up on meaningful security sector reform. Another central question facing the government is who should administer the newly liberated areas and how to guarantee long-term security.

The maintenance of Iraq's territorial integrity is another widely supported priority of al-Abadi's government. Thus, reaching an agreement with the KRG over the distribution of oil revenues was considered necessary in order to quell Kurdish calls for independence. However, calls for Kurdish independence continue. Finally, macroeconomic stability and debt sustainability are among the goals set by al-Abadi's government and IMF. The government aims to bring spending in line with the available resources in 2016-2019. While the immediate priorities are relatively clear, and are broadly agreed upon between political forces and supported by foreign governments and donors, concrete policy measures to reach these priorities are widely contested, in particular along ethnosectarian lines.



Question
Score

Prioritization

3



The government decided to legalize al-Hashd, which undermines a true restructuring of the security forces. On the other hand, al-Abadi's government has managed to partly beat back IS, which might be considered his highest achievement to date. With a plan for the post-IS period still lacking, and the increasingly independent maneuvering of the KRG, simply keeping Iraq intact would be a victory for the current government. While the KRG appears to have accepted cooperation with the Iraqi government for now, this appears to be dictated by the struggle against the IS and not by a genuine acceptance of Kurdish membership in the Iraqi state. Further complicating the situation are the unstable security situation in neighboring countries, the unpredictable foreign policy of the new American government and the future of Iran-Saudi Arabia relations and their interference in Iraq. Similarly, al-Abadi's own power networks seem to counteract his reform intentions, so he must be careful to balance openness with his intention to bring more Sunnis into core decision-making positions, for instance.

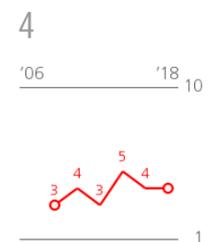
Progress has been made in monetary policy, however. The CBI has pursued a monetary and exchange rate policy that successfully tempers inflation. As a result, inflation has remained in the low single digits since 2010. With regards to debt sustainability, the Kuwaiti government accepted the Iraqi request to further postpone the payment of reparations imposed by the U.N. Security Council over its 1990 invasion until January 2018. The Iraqi government has to finance the 2017 budgetary deficit through treasury bills, new taxes and austerity measures. Challenges ahead include a complete reconstruction of the neglected energy and transport infrastructure to attract private sector enterprises.

Prime Minister Haider al-Abadi apparently has learned his lesson from his predecessor Nouri al-Maliki's and acts particularly less provocatively toward the Sunni minority as well as the Kurds. The agreement with the KRG about the share of oil income can be seen as al-Abadi's first success. His intention to restructure the security forces was an outcome of the army's blatant defeat against IS in 2014, and indeed, the Iraqi military seems to be much better prepared for their tasks now.

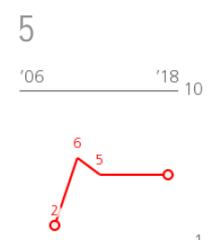
Thanks to comparative peace and stability in the Kurdish territories over the last decade, KRG successfully demanded and attracted international expertise, largely through cooperation programs with various donor organizations, also in the field of tertiary education, but most recently in international military cooperation, such as training programs for the Peshmerga by German troops.

Apart from this, few mechanisms for policy learning are in place on a structural level. Different U.N. bodies and agencies are in regular consultation with the government: first and foremost is the U.N. Assistance Mission in Iraq (UNAMI), which provides regular assistance on electoral processes, and the International Organization for Migration (IOM), which has been particularly active in the displacement crisis since 2014. USAID and other international donors offer training and support programs, and the U.S. Provincial Reconstruction Team (PRT) helps in financial management,

Implementation



Policy learning



budgeting, planning and budget execution. Systematic evaluations and monitoring of learning progress, meanwhile, are rare, making it hard to describe the exact level of policy learning.

15 | Resource Efficiency

Security concerns, vested interests and corruption hinder better use of resources at many levels. Weak institutionalization, competing competencies of ministries and conflicts between government and parliament hamper the efficient allocation of funds. Furthermore, the fight against IS continues to be a drain on resources, which are therefore not available for other government priorities. The federal budget's spending ballooned from \$59 billion in 2009 to \$119 billion in 2013, but decreased in 2016 due to the current crisis with IS and the decline in global oil prices. Total spending in 2016 was IQD 105.8 trillion (\$90 billion), and total revenue was IQD 81 trillion, with a deficit of IQD 24 trillion. The 2017 total spending is IQD 100.7 trillion with an expected deficit of \$19 billion.

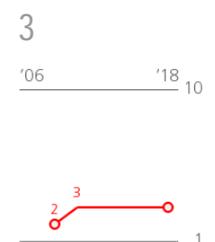
The public sector provides approximately 43% of jobs and around 60% of all full-time employment. Even if positions were given out on a meritocratic basis, the Iraqi state would find itself challenged due to the substantial brain drain and the fact that international organizations and foreign NGOs tend to pay substantially higher salaries. But more importantly, clientelism and ethnosectarian considerations hamper the development of a meritocratic culture in the state's administration. While some institutions have introduced competitive recruitment procedures, both recruitment and dismissals have been generally politically motivated.

Prime Minister al-Abadi has started a discussion about the 50,000 "ghost soldiers". Their removal from the army's payroll could be a first step in the reduction of public spending, but risks triggering further social tensions. So far, al-Abadi has not been able to actually crack down substantively on this phenomenon. The legalization of al-Hashd creates a further financial burden, as militia members' salaries and equipment are now to be paid out of the state budget.

There are several institutions which audit the Iraqi government like the Commission of Integrity, but unfortunately their role is extremely limited. Most importantly when the Commission investigates cases of misappropriation, it has difficulties passing these on successfully to the judicial system.

The Iraqi coalition government not only experiences typical coalition challenges, like opinion differences and internal disputes but also faces some additional country-related obstacles. Effective government coordination was largely absent under former Prime Minister Nouri al-Maliki. A political stalemate was triggered by the unwillingness/failure of political blocs to agree on a coherent power-sharing agreement and by al-Maliki's centralization of power. The targeting of Sunni

Efficient use of assets



Policy coordination

4

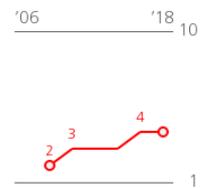
politicians and the resignation of a number of Sunni, Sadrist and Kurdish members of cabinet and parliament, aggravated the crisis. Despite the more inclusive and collegial leadership of al-Maliki's successor, Prime Minister al-Abadi, it is still difficult to assess whether there is a substantive tendency toward greater policy coherence and a clearer division of tasks in order to avoid friction between government branches. In an attempt to reform the government, al-Abadi dissolved 11 cabinet positions. However, protests led by al-Sadr against corruption in 2016 forced al-Abadi to change the whole cabinet with the exception of the Interior and Defense Ministers. At the same time, pressure from the State of Law coalition resulted in Prime Minister al-Abadi dismissing his Ministers of Finance and Defense. Cooperation between different ministries and agencies on all levels remains low.

Iraq's legal framework is not sufficient to fight corruption effectively; the country also shows a lack of will to engage, and a lack of human and financial resources. The authority of anti-corruption institutions, such as the Iraqi Commission on Public Integrity (CPI), the Joint Anti-Corruption Council (JACC), the Inspector General's Offices (IGOs) within the ministries, and the Board of Supreme Audit (BSA), remain vague in relation to courts, and their personnel are subject to intimidation and political influence.

The Integrity Commission is an independent political body supervised by the parliament to combat corruption. According to its vague mandate, the commission ensures that elected representatives disclose their financial records to guarantee transparency. The main goal of this strategy is to re-establish trust between Iraqis and their government. The commission comprises several units including the Education and Public Relations office. Its main goal is to spread awareness and encourage citizens to participate in the fight against corruption. However, the lack of good relations between the Commission and law enforcement agencies impedes the implementation of follow-up efforts.

Oil smuggling has become a prime concern. Due to the inability of the executive to contain it, oil is the top commodity on the black market, and the high profits generated by oil smuggling have dragged the oil ministry's staff and prominent political and religious figures into a cycle of corruption linked with mafia networks and criminal gangs. Recently, the situation has become even worse with the rise of IS, which depends on oil smuggling to fund its activities.

Prime Minister al-Abadi launched a campaign to root out corruption in the security sector, starting with the dismissal of some army and police commanders as well as "ghost soldiers" and police officers. These efforts are considered by al-Abadi's critics to be necessary but insufficient. So far, al-Abadi has not made substantive progress in regards to this phenomenon. Moreover, in 2016, the Iraqi government executed a memorandum of understanding with UNDP. The memorandum stated that UNDP



will help the Iraqi government investigate corruption cases and provide assistance to the bodies involved in investigating corruption.

As an attempt to strengthen the capacity of its anti-corruption institutions, the KRG introduced a set of laws that increase the anti-corruption agency's control and supervision of investigations.

16 | Consensus-Building

While political actors across the board (with the notable exception of the IS quasi-government) would agree on market-based democracy as the most suitable policy model for Iraq, differences exist regarding fundamental aspects such as equal citizenship, civil liberties, secularism and the use of violence as a political means. As the constitution has been formulated in rather vague terms, all details about Iraq's exact polity are still not settled. One litmus test for the seriousness of support for democracy will be whether the 2017 local elections will be held or not.

All central actors follow the idea of capitalist market economy, though not always from a laudable motivation. Maintaining weak institutions of accountability allows corruption to thrive, and wealthy businessmen and influential policymakers alike are involved in crony capitalism. Official auditing is circumvented through informal power networks, and except minor actors such as the communist party or the trade union, no vocal criticism is voiced.

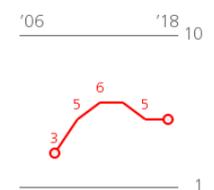
The arrival of IS has massively lowered the already narrow options for reformers to exclude anti-democratic actors. IS announced the establishment of an Islamic caliphate in territories under its control in June 2014, and temporarily controlled one-third of Iraq's territory. IS has been pushed back by an American-led alliance since 2015. The alliance succeeded in retaking major cities including Tikrit, Ramadi and Fallujah. The battle for Mosul is ongoing.

Other militias can also obstruct democratic processes. The Popular Mobilization Forces (al-Hashd al-Sha'bi), a group of 40 mostly Shi'ite militias, including the powerful anti-democratic paramilitary Asa'ib Ahl al-Haq, may turn into powerful veto actors. Recently al-Abadi legalized al-Hashd as an official state force in an attempt to control it, however, this has been difficult considering the human rights violations committed by the group.

Muqtada al-Sadr, head of the powerful Sadrist Movement, originally announced his retirement from politics in February 2014 but then continued his work when IS started its invasion. In February 2016, he openly threatened to violently attack Baghdad's diplomatic quarter, the Green Zone, if al-Abadi refused to change certain members of his cabinet.

Consensus on goals

5



Anti-democratic actors

5



After this did not happen – due to too much opposition by al-Abadi’s own comrades – hundreds of Sadrists stormed the Green Zone in April 2016, including the parliament.

Al-Abadi is trying to mitigate the deep sectarian rifts within Iraqi society, but so far with only limited success. Grievance and the fear of mutual revenge are deeply rooted, and actual cases of violence against Sunni residents in areas freed from IS control contribute to these dynamics. In 2016, al-Abadi appointed around 40,000 Sunnis to al-Hashd in an attempt to change the sectarian image of the group.

An important step was the agreement reached with the Kurds in December 2016 over the distribution of oil revenues, which is considered a first step toward bridging gaps. However, further improvements in terms of increasing cross-sectarian participation and a depoliticization of the state’s institutions are necessary. In particular, it remains unclear who should administer and provide security in Sunni-majority areas recently freed from IS control.

Involvement of civil society organizations (CSOs) in politics remains exceptional and erratic, due to a lack of will among authorities to open their nontransparent decision-making processes up to the general public. If at all, CSOs serve as service providers, for example on issues of elections, corruption monitoring or training. They are heard in outstanding cases, such as the vocal opposition against the draft of the Ja’afari Personal Status Law approved by the council of ministers in February 2014. The Iraqi Civil Society Solidarity Initiative (ICSSI), established in 2003 in opposition to the U.S.-led war, runs various activities with different foci, such as conflict resolution, gender equality and environmental protection.

While the Martyrs Foundation and the Political Prisoners Foundation provide reparations to victims of the Ba’th regime until 2003, in particular through convictions by the Iraqi Higher Tribunal, general impunity for political violence after 2003 prevents thorough coping with the past. Prime Minister al-Abadi initiated a national reconciliation project aimed at reconciling Iraq’s Sunnis with the federal government accused, under former Prime Minister al-Maliki, of pursuing sectarian agendas and marginalizing many. While Shi’ite politicians expressed concern about the National Guard project, Sunnis were enthusiastic about it as they normally distrust state institutions such as the army and national police, which had previously carried out indiscriminate arrests against Sunnis. However, they seem largely disappointed by the de-Ba’thification measures, which are considered insufficient.

The traumatic crimes committed by IS against minorities (particularly Yazidis) and which, according to the U.N. Human Rights Committee “amounted to genocide”, and the violence of the al-Hashd al-Sha’bi militias pose a specific challenge for Iraq’s future societal peace.

Cleavage /
conflict
management

5

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Civil society
participation

4

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Reconciliation

6

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17 | International Cooperation

The U.S. and Iran remain the most important international partners for Iraq. Both can be seen as a double-edged sword. While they both try to stabilize the current Shi'ite-dominated government, not least in its fight against IS, their massive support also increases corruption and crony capitalism. Billions of dollars meant to help reconstruct the country have disappeared in dubious channels.

The Iraq-NATO cooperation program, signed on 24 September 2012, launched a first training period for Iraq's security forces from April 2016 in Jordan. Since January 2017, trainings are also offered in Iraq. This seems highly necessary given the increase of terrorism since 2012 and the temporary collapse of the Iraqi army facing IS insurgents. At the same time, the Iraqi government profited from the support of the U.S.-led alliance against IS.

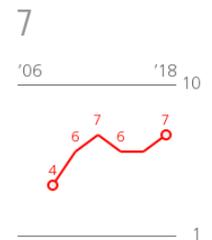
Support was also provided for the hosting of IDPs refugees, for instance through UNDP workshops in 2016. In parallel, workshops were offered to empower civil society organizations in the legislative process.

Critics complain that the Iraqi government still relies to a large extent upon international assistance while neglecting its own responsibilities.

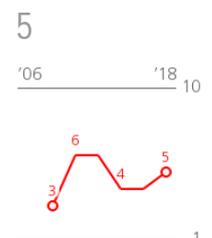
The IS conquest has largely undermined international trust in Iraq's stability, bringing it back to the brink of becoming a failed state. The 2016 Fragile State Index ranked Iraq 11 out of 178, sorting it into the category of high alert status. At the same time, the threat of state collapse clearly highlighted the need to strengthen the government of Prime Minister Haider al-Abadi. His efforts to tackle corruption and reduce sectarian tensions are widely recognized. Yet, many things remain of concern, including human rights violations and attacks on civilians by both the government and various armed groups, as criticized by Human Rights Watch in a 2016 report.

Iraq is a member in various regional organizations, most importantly the League of Arab States, the Organization of the Petroleum Exporting Countries, the Organization of Islamic Cooperation and the Council of Arab Economic Unity. Among its neighbors, Iran remains the staunchest supporter of the Iraqi government. In the fight against IS, Iran sent more than 1,000 military adviser and ground troops and was involved in air strikes. The involvement of General Qassem Suleimani, commander of the Iranian al-Quds force, in inner-Iraqi battles made headlines. Similarly, the U.S.-led alliance continued its fight against IS insurgents in close coordination with the federal and Kurdish regional governments. However, this did not prevent major internal disagreement between participating parties in autumn 2016 over how to counter IS and how to recreate administrative structures in the liberated territories once IS has been defeated. Bahrain, Jordan, Qatar, Saudi Arabia and the United Arab

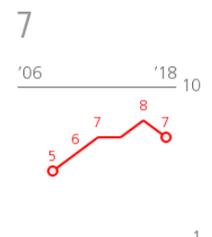
Effective use of support



Credibility



Regional cooperation



Emirates are among Iraq's neighboring countries that participate in the U.S.-led air campaigns.

Turkey has remained strongly involved in Iraq's economic activities, particularly in the Northern Kurdish territories. Relations became strained over Ankara's unclear position toward IS. 500 Turkish troops, dispatched to Bashiqa camp northeast of Mosul, were declared unwanted by Baghdad in October 2016. However, the first state visit of Turkish Prime Minister Binali Yıldırım to Baghdad in early January 2017 resulted from a speedy rapprochement during the previous months.

Kuwait accepted to defer the payment of Iraq's final installment of reparations imposed by the U.N. Security Council over its 1990 invasion until January 2018 in order to relieve Iraq's strained public budget.

Strategic Outlook

Iraq's predicament is rooted in an inability to overcome Saddam Hussein's legacy that created a culture of mutual distrust, further entrenched by constitutional choices during the American occupation. While the struggle against IS has led to some strategic cooperation between the KRG and the central government, the underlying rifts remain. Distrust between Sunni, Shi'ite and Kurds can only be fully overcome if the government creates a truly inclusive political order that treats all Iraqis as equal citizens. The government should refrain from marginalizing important political actors and large social segments, and ensure the interests of the population are represented. International support should accordingly focus on strengthening democratic institutions rather than propping up political strongmen who systematically prioritize their own quest for power.

Several problems continue to drive Iraqis apart and need to be addressed strategically. These key areas include the following:

- Structural reform of the security sector is needed. This entails a dismantling of various pro-government militias and their integration into the Iraqi security system, beyond legalization and relabeling. Another tough challenge is ending the militarization that occurred through popular mobilization to take up arms and volunteer on the front. Without these steps, the state remains vulnerable to individual militia leaders, and the monopoly of power remains challenged.
- While the state has succeeded in regaining territories from IS, the greater challenge will be holding them. Therefore, the government needs to find viable and sustainable answers to who should administer the newly regained territories and who should guarantee security. Viable federal structures may contribute in this regard. Furthermore, immediate recovery plans may help tackle the lack of trust many citizens have for the government.
- To overcome distrust between citizens, and in particular Sunni distrust of a Shi'ite-dominated government, better implementation of the rule of law and a stronger civil society are of central importance. To stabilize the country in the mid-term, leadership should engage in a committed and concerted effort to combat corruption, and to enhance transparency and accountability within all state institutions. In addition, infrastructure development, macroeconomic stability and job creation should be a priority. The government should enable state institutions to provide basic services.
- The status of the Kurdish region needs to be addressed and resolved. The current situation with a continuing threat of national dissolution affects all other aspects of Iraqi statehood, government and federal organization. The Iraqi government should seek an agreement with the KRG which would keep the region as part of Iraq on a long-term sustainable basis.