

BTI 2012 | Iraq Country Report

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More on the BTI at <http://www.bti-project.org>

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Key Indicators

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|--------------------------|--------|-------------|--------------------------------|--------------|----------------------|----|-------------|
| Population | mn. | 32.0 | HDI | 0.573 | GDP p.c. | \$ | 3562 |
| Pop. growth ¹ | % p.a. | 3.0 | HDI rank of 187 | 132 | Gini Index | | - |
| Life expectancy | years | 68 | UN Education Index | 0.491 | Poverty ³ | % | 25.3 |
| Urban population | % | 66.4 | Gender inequality ² | 0.579 | Aid per capita | \$ | 88.6 |

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

Executive Summary

Democratic development in Iraq during the last two years has been characterized by both positive steps and serious setbacks. While the provincial elections in 2009 marked the entry of Sunni Arabs into the political and institutional arena they had once boycotted, and indicated a decline in the sectarian propaganda that had dominated the years 2005 – 2008, they also triggered a fragmentation of the political landscape. The parliamentary elections in 2010 exacerbated these simmering conflicts and existing ethno-sectarian tensions. The agreement on a formula able to accommodate the dominant actors was a positive step. However, the blatant abuse of democratic institutions by those pursuing personal agendas is worrisome. Significant political fissures are opening again, especially those between the central government in Baghdad and the largely autonomous Kurdistan Regional Government (KRG) over territorial claims and distribution of oil revenue.

Although the work of state institutions is improving compared to previous years, they still suffer from a loss of human resources associated with the massive displacement of the Iraqi middle class. Institutional performance remains crippled by corruption. The government has stepped up its efforts to combat this problem, but the anti-corruption mechanisms in place remain ineffective in tackling undemocratic practices that are deeply entrenched at all levels, within state institutions and the business sector. Concrete improvements are hard to see at this moment. The Iraqi leadership faces many other structural constraints, such as infrastructural and security deficiencies that impede governance and economic development.

The volume of daily violence has generally dropped, but the incidence of deadly attacks rose again with the parliamentary elections. Acts of violence at locations crowded with civilians and assaults on minority communities continue. The Iraqi Security Forces (ISF) have improved in terms of their capacities and professionalism, but still lack cohesiveness and unified loyalty toward the state. It is therefore uncertain how far they will be able to fill the void that will emerge with the complete pullout of U.S. troops. This in turn will fuel animosities among groups

who cannot wait to see the U.S. forces leave, and might spark further acts of violence. The prevailing unpredictability in terms of security and stalled political development negatively affects potential investors' willingness to engage economically in the country.

Investments are being made in the oil sector and in infrastructure projects, and enhanced security is boosting wholesale and retail trade, thus producing some economic growth in the more stable provinces. The relatively stable KRG-administered provinces have already witnessed steady economic growth. However, the central and eastern provinces, which are more affected by violence, are still mired in economic stagnation. Wealth is distributed unevenly, and significant portions of the population struggle with extreme poverty. Economic policymaking is largely limited to the oil sector, while other productive sectors that could diversify the economy and provide jobs are neglected. Political stagnation, such as the delay in the formation of a government in 2010, leads to lower governmental spending, which in turn negatively impacts the economy.

On the civil society level, legislation has been passed that is conducive to civil society activity and restricts state intervention to a large extent. A multitude of associations are engaged in relief work and human rights advocacy. Some coordinated lobbying efforts to foster political and legal reform are also taking place. Nevertheless, the vibrancy of this civil society has not translated into the creation of social trust, the ability to overcome confessional cleavages or the anchoring of a civic culture in society.

History and Characteristics of Transformation

After the overthrow of the monarchy in 1958 and the installation of a republican government, a number of modernizing reforms were introduced, such as the progressive Personal Status Code of 1959 that replaced Shari'ah courts with state courts. In July 1968, army officers associated with the Ba'th party seized power over the course of two coups, and began to implement an authoritarian political system. Saddam Hussein used his control of the party and its security apparatus to assume sole control of the country in 1979, both as president and as chairman of the party's Revolutionary Command Council (RCC). The nation's power structures, increasingly dominated by members of Hussein's immediate circle, proved remarkably resistant to external shocks – chief among them the bloody eight-year war with neighboring Iran (1980 – 1988), the defeat by an international coalition in the 1991 Gulf War, and the comprehensive trade embargo imposed by the United Nations between 1991 and 2003.

The fate of the country changed with the overthrow of the regime by an Anglo-American coalition in spring of 2003. In the wake of the terrorist attacks of 9/11, the U.S. administration began focusing on Iraq's alleged WMD programs, and developed a grand design for transforming the Middle East as a whole. Despite uncertain findings during the mission of the new United Nations Monitoring, Verification and Inspection Commission (UNMOVIC),

American and British troops invaded Iraq in March 2003, a move illegal under international law. They managed to capture Baghdad a month later. The original U.S. intention was not to stay in Iraq, but to transfer power rapidly from the Coalition Provisional Authority (CPA) to an interim Iraqi authority and then to a newly elected Iraqi government. However, their expectations of being enthusiastically cheered by all Iraqi people proved deeply optimistic, and the institutional structures quickly collapsed. Under the Ba'ath regime, Iraqi ministries were far from being democratically organized, but had significant capacity. Looting, de-Ba'athification, the replacement of technocrats with party loyalists and relatives, the turnover of political control of ministries, and inadequate coalition planning and coordination wrecked this capacity. CPA policies which pushed for the further dismantlement of state institutions paved the way for Iraq's slip into chaos.

As the worst-case scenario increasingly turned into reality, plans for the rapid handover shifted to a longer-term 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 (a move approved by the United Nations), to ban senior Ba'ath party members from public posts, and to dissolve Iraq's army and security forces. The CPA managed to stabilize Iraq financially in terms of paying salaries, established the new Iraqi dinar (IQD), relaunched the banking system and reduced Iraq's debt burden. However, it did not manage to reform the state-owned enterprises that dominated the economy, and it phased out state subsidies for food, fuel and electricity. U.S.-led reconstruction was rushed, which led to wasteful and ineffective spending. An appointed Iraqi Governing Council (GC), composed of 25 Iraqi members, proved inefficient, and its operation under a condition of occupation prevented it from being accepted as a representative body. When the decision to transfer sovereign authority to Iraqis in June 2004 was formally made, the CPA abandoned its vision of transforming Iraq from the top down under direct U.S. control. Focus was instead put on improving the security situation and having a credible Iraqi authority for the handover. In the summer of 2003, an insurgency based in the Sunni Arab heartland of western and central Iraq gained strength, directed first against the occupation forces but increasingly also against government officials and institutions. Fighting between insurgents and government forces turned more and more sectarian over the course of 2005.

Elections for an interim parliament took place in January 2005, although most Sunni Arabs chose not to vote. This boycott led to the marginalization of the Sunnis in the process of drafting the new constitution, which essentially turned into a back-room deal between a small number of political actors. The final version, which was endorsed in a referendum in October 2005 despite adamant opposition from the Sunni Arab community, contained ambiguous compromises between Shi'ite and Kurdish factions, and has lacked legitimacy ever since. This set the stage for the December 2005 elections in which Iraqis chose their first constitutional government. The elections institutionalized the sectarian dynamic and pitted a Shi'ite Islamist-led government against a Sunni-based insurgency. Following the destruction of the al-Askari mosque in Samarra in February 2006, the country descended into a full-fledged civil war. Iraqis were displaced by the millions, many thousands murdered, infrastructure and reconstruction targeted, and political

institutions turned into fiefdoms. Little more than a collection of militias remained of the central government. All of this further diminished the capacity of Iraqi institutions, which already had been in a sorry state.

A series of events in 2007 and 2008 turned the tide, including the U.S. “surge” policy of increased troop strength and the adoption of a viable counterinsurgency strategy, the mobilization of Sunni Arab “Awakening Councils” in the fight against al-Qaeda, and a ceasefire order by the Mahdi Army, the populist militant group led by Shi’ite cleric Muqtada al-Sadr. In the period of relative stability that resulted from these developments, the Iraqi Security Forces (ISF) grew rapidly in numbers and capability. The United States and Iraq signed a Status of Forces Agreement (SOFA) that went into effect on 1 January 2009, transferring a substantial measure of sovereignty to the Iraqi government.

However, the political tension between the central government in Baghdad and the KRG over territorial claims and oil revenue distribution has remained unresolved. Kurdish forces (peshmerga) crossed the Green Line that de facto separates the Kurdish provinces from the rest of Iraq during the security vacuum of post-invasion Iraq. Since summer 2008, Prime Minister Nouri al-Maliki’s government has started to push back against peshmerga influence in areas the Kurds deem part of their historic patrimony. The result has been a steady rise in tensions. The conflict is mainly centered in Kirkuk, which is home to Arabs, Kurds, Turkmen and smaller minority groups, and contains massive oil and gas reserves.

The Iraqi economy is dominated by the oil sector, which historically has generated more than 95% of export earnings and more than 60% of GDP. With the nationalization of the long-established Iraq Petroleum Company (IPC) in 1972 and the sharp rise in world oil prices the following year, the state reaped significant returns that strengthened its ability to shower patronage on selected population groups. In contrast, agricultural productivity continuously declined. The heavy war burden from the Iran war plus the 1990 U.N. embargo brought Iraq’s economic self-reliance almost to a halt. The oil-for-food program, launched in 1996 to allow Iraq to export limited quantities of oil and use most of the revenues to import food, medicine and other essential goods, was tainted by corruption.

With the fall of the Saddam regime in 2003, the trend in Iraq has been toward decentralization and the deepening of a market economy. A series of authorities have faced multiple economic problems that to date have been only partially and generally insufficiently addressed. Iraq remains highly dependent on its oil sector, led by its state-owned oil company, with oil exports generating most government revenue and being the primary source of foreign currency reserves. In the years following the regime change, efforts were concentrated on rebuilding the dilapidated infrastructure to bring oil production up to its optimal performance levels. However, this high dependency on volatile oil prices and production levels makes national budgeting subject to instability in terms of planning and expenditure. In contrast, other economic sectors that could play an important role in boosting Iraq’s economy, especially the agriculture and industry sectors, have received less attention. Privatization of the many state-owned enterprises (SOEs) constitutes a serious challenge, since the thorough assessment of efficiency issues, social costs

and best solutions will require solid technical know-how and management capabilities. Despite recent efforts to create a better climate for investment, the private sector is still relatively small, does not contribute significantly to income generation, and fails to absorb and contain unemployment. A weak financial sector and the lack of unambiguous, business-friendly investment laws remain challenges for the development of the non-oil sector. Recent improvements in economic growth and gains have to date failed to translate into welfare gains for Iraq's population.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

The ratification of the Status of Forces Agreement (SOFA) at the end of 2008 sparked heated controversy, as in the eyes of its critics, it does not establish Iraq as completely independent from military occupation and give it sovereign decision-making power on security matters. SOFA established the withdrawal of U.S. combat forces from Iraqi cities by June 2009 (though the actual pullout was completed only in August 2010) and the withdrawal of all U.S. forces by the end of 2011. The complete drawdown is likely to be delayed as well. As of the time of writing, 50,000 U.S. troops remained in Iraq, officially for the “non-combat” purposes of supervising and training the Iraqi Security Forces (ISF). With the ratification of SOFA, the independent operations of foreign private security companies and contractors, feared by many for their thuggish behavior, has not been ended entirely. U.S. contractors working for U.S. troops are now subject to Iraqi criminal law, but those assisting the State Department and other U.S. agencies retain their immunity. Although the majority of Iraq’s population and political actors welcome the withdrawal of U.S. troops, there are serious concerns as to whether the Iraqi forces will be able to fill the void. Despite additional recruitment, the Iraqi army’s chief of staff has publicly voiced his worries over the army’s capacity to handle the security situation.

Monopoly on the
use of force
4

Apart from the U.S. forces’ continued military presence, there are local, albeit very diverse, actors that pose challenges to the state’s monopoly on the use of force:

The status and definition of the Kurdish peshmerga forces that hold de facto control over the three Kurdish-Iraqi governorates and act as the army of the Kurdish Regional Government (KRG) is subject to disagreement. In particular, their expansion beyond the borders of the Kurdish governorates into the disputed areas of Ninewa, Diyala, Kirkuk and Salaheddin is regarded by the central government as a serious infringement on its claim to nationwide territorial control. The government led by Prime Minister Nuri al-Maliki favors the integration of the peshmerga into

the main body of the Iraqi forces, and as of the time of writing, negotiations were said to be underway with the KRG. The Kurds' main concern is related to the peshmerga's status as guarantor of a modicum of autonomy vis-à-vis Baghdad; while the Iraqi constitution includes provisions for the integration of secondary armed groups into the national military apparatus, the new Kurdish constitution passed in summer 2009 granted the KRG president supreme power over peshmerga deployment.

A further challenge is represented by the uncertain future of the Sunni tribal combatants, the so-called Awakening Councils (as-Sahwa). Once paid and trained by the U.S. army, and now taken over by the Iraqi authorities, they were instrumental in the fight against terrorist organizations affiliated to al-Qaeda in Iraq. Realizing the potential risk of simply ceasing support for this group, Baghdad offered government and police jobs to 20% of the Sahwa (at its peak a 100,000-man-strong armed force), while paying others to provide security in Sunni areas. However, their loyalty is uncertain, especially in light of recently reported defections to the ranks of an al-Qaeda that has offered financial rewards and is believed to be regaining some of its strength.

In certain areas and territorial pockets, militias still wield significant influence. The Mahdi Army of the Sadrist movement is the strongest armed non-state actor. Despite the movement's partial transformation into a political party and its participation in government, holding 40 seats in parliament and heading eight ministries, its leader Muqtada al-Sadr publicly threatened to use violence against U.S. troops in January 2011 despite the Iraqi government's agreements.

The most difficult question, however, is the extent to which the ISF themselves constitute a potential threat. While it is true that they have become more professional, they still lack cohesion and reflect Iraq's fractured polity. As both the army and the police are characterized by fragmentation and uncertain loyalties, the border between regular and irregular armed forces remains blurred. The tendency shown by al-Maliki to assert his personal control through clientelist networks within the security apparatuses, even going so far as to create new bodies accountable only to himself, is worrisome.

In general, Iraqi citizens, with the exception of some marginal political groups, do not question the legitimacy of the nation-state. Iraqi society has traditionally been characterized by a high number of intersectarian marriages and mixed neighborhoods. The ethno-sectarian "cleansing" of the years 2006 – 2008 have diminished this blend. There is also a widespread perception of unachieved citizenship. Sunni communities previously complained of being politically sidelined, but voter turnout within Sunni majority provinces was relatively high during the last parliamentary elections in 2010. In fact, the proportion of Sunni parliamentarians today has significantly increased. Iraq's diverse minorities

State identity

5

continued to be targeted on the basis of religion and ethnicity during 2009 and early 2010. Violent attacks targeting minority communities, ranging from targeted assassinations to car bombs aimed at achieving a large number of casualties, demonstrate the presence of forces that strongly reject the idea of an Iraqi nation-state that embraces diversity and accommodates all social and ethnic-confessional communities under the umbrella of Iraqi citizenship. Remaining members of minority groups such as the Christians, Yazidis, Shabak, Sabean-Mandaeans and others, many of which fled in large numbers during the sectarian conflict as they found themselves without armed protection, are today caught between the dominant nationalisms and identity blocs. Nevertheless, eight out of 325 parliamentary seats and 18 out of 440 provincial council seats are reserved for minorities, and the current government includes one Christian minister. Still, fears remain at a high level, and have led to further migration. The displacement of minorities has resulted in a drastic and probably irreparable loss of diversity within Iraqi society.

The results of the provincial elections of January 2009 were largely perceived as a shift in the political landscape, indicating a broad disenchantment with parties that promote sectarianism and a growing support for actors that pursue a nationalist discourse. The provincial elections also signified a decline of the sectarian-based federalist project among Shi'ite Iraqis, an idea which has long been advocated by the Islamic Supreme Council of Iraq (ISCI) and the Basra-based Fadeela party. While parts of the Kurdish population and leadership may still hold the ambition of achieving an independent state in the long run, it is widely understood that promoting separation now would be counterproductive to its potential realization in the future. Nevertheless, Kurdish and Arab nationalisms have clashed politically in a struggle over power and resources, especially in disputed territories such as Kirkuk and Ninewa.

Current political parties and actors with a strong religious vision generally use rhetoric that supports the modern nation-state. Their particular vision is mainly played out in the societal sphere – that is, through shaping public morality and defining gender (especially women's) roles in religious terms – and by demanding that certain domains such as personal status issues be handed back to religious authorities.

The new Iraqi constitution of 2005 declares Islam to be the official religion of the state, stipulating that no law can be passed that contradicts Islamic principles. The same article states that a law that contradicts the principles of democracy or basic rights and freedoms is equally unconstitutional. The decision over constitutional questions lies with the Federal Supreme Court, which is staffed with judges of diverse backgrounds and headed by Judge Midhad Mahmud, who is known for being secular. The constitution stipulates that the court will be partly staffed by

No interference of
religious dogmas

5

Islamic clergy; however, as of the time of writing, no information could be obtained to verify that this has actually happened.

The text of the constitution was formulated in vague terms that require further legislation for implementation. The relative strength of religious and secularly minded actors in parliament will hence impact the interpretation of these provisions. Article 41 of the constitution, for example, vaguely stipulates that Iraqis should be free to choose their personal status courts according to their sectarian affiliation. In practice, that means that should religious actors again gain upper hand, religious personal status courts might be established for the various sects, replacing the existing state personal status courts. A heated debate that emerged over the Personal Status Law not only reflects disagreement on family-related matters and women's rights and roles, but also a broader struggle over how to define the relation between religion and state.

During the past two years, the state and its institutions have remained largely secular. Iraq's civil and criminal court systems have not undergone any substantial changes. In practice, however, they are often avoided by parts of the population, who depending on social class and financial means, resort to tribal and religious figures for the settlement of disputes and private matters. Religious endowments constitute an exception to secular state institutions. After the Ministry of Religious Endowments was dissolved in 2003, the prime minister's office now 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.

Basic administrative structures are weak. The delivery of basic services has improved compared to the chaos that reigned during the period of severe violence between 2006 and 2008, but is still highly insufficient. The targeted killings of academics and professionals and the massive displacement of the educated middle classes have deprived the country of valuable human resources, and have taken a heavy toll on sectors such as health, education, and higher learning. The consequences will be felt over the long term. The state administration has still not managed to restore smooth electric power generation, with the result that the population struggles with persistent electricity cuts. In addition, relatively large parts of the Iraqi population are not connected to sewer systems, and lack adequate water supplies. The political emphasis on security, which is also reflected in the national budget, has rendered this sector larger, better-equipped and more effective than others. However, law enforcement 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.

Basic
administration
4

2 | Political Participation

Two major elections took place during the reporting period: the January 2009 provincial elections and the March 2010 parliamentary elections. The provincial elections established more confidence in the government's capabilities to hold elections and affirmed security improvements. However, the parliamentary elections saw a resurgence of tension. While the parliamentary elections' legitimacy was mostly acknowledged, disagreements on the elections law prevailed. There was a delay of five weeks due to disagreement over the electoral law, the administrative status of Kirkuk and out-of-country voting, as well as a dispute over the disqualification of candidates who were alleged to have been senior members of the outlawed Ba'th party.

Free and fair
elections

7

The Independent Higher Electoral Commission of Iraq (IHEC), which prepared and supervised both elections, enjoys a generally positive reputation but is not considered fully impartial. Local civil society watchdogs noted a number of administrative irregularities, including discrepancies in voter registers, the use of religious institutions for campaigning, nontransparent campaign funding, bribery and vote buying. A major challenge was the registration of internally displaced persons (IDPs) as voters; despite assistance by the UNHCR, only a sixth of the approximately 2.8 million IDPs ultimately cast ballots. As the majority of political parties lack party programs, support for parties was often based less on democratic choice than on patronage networks and/or group affiliation. Extreme examples were tribal voting and the reported abuse of the women's quota, as women were encouraged to run for office on behalf of male relatives.

In several instances the Supreme Federal Court was able to assert its authority on constitutional questions. When al-Maliki challenged election results which showed that his main opponent, Iyyad Allawi and his Iraqiya list, had won the elections by two seats, the Supreme Federal Court ordered a manual recount that confirmed the results. It also ended a dispute over the ambiguous formulation of Article 76 (1) of the constitution, which stipulates that the "largest parliamentary bloc" should be tasked with forming the government. While Allawi maintained that the largest bloc is the list with most seats, al-Maliki claimed that it should be the largest bloc in parliament. The court decided in favor of al-Maliki's interpretation. After a fierce seven-month-long tug-of-war over forming majority coalitions, al-Maliki finally succeeded in forming the largest coalition, and was officially given the right to form a government.

Despite the technical "success" in holding elections, the controversies point to vulnerabilities within Iraqi democracy. The sobering impression prevails that elections in Iraq, carried out in the absence of a national dialogue process, magnify

negative trends, exacerbate power struggles and deepen polarization instead of strengthening democratic culture.

Veto power is practiced – even though not formalized – in various forms. Despite the establishment of SOFA, the United States still wields substantial influence over security matters thanks to its continued military presence and financial and logistical support to the ISF. External powers such as Iran, Syria, Saudi Arabia and Turkey use existing political leverage through diplomatic interference and pressures. The intensive travel by Allawi and other politicians to other countries in the region in the run-up to the parliamentary elections showed that Iraqi political elites depend not only on their constituencies, but also on political backing and approval from abroad.

Effective power to govern

4

Internally, actors can exert informal veto power by threatening to withdraw from the political process, or by bluntly invoking the use of force. The Sadrist movement, whose armed branch experienced serious blows in violent confrontations with the Iraqi army, regained political leverage during the reporting period. Despite their proven ability to negotiate positions of power within the new government, the Sadrists have not refrained from publicly and repeatedly announcing their willingness to use force. Widely respected top Shi'ite cleric Ayatollah Ali al-Sistani, who no longer publicly engages in politics, is still regarded as kingmaker, and main political figures make sure to get his consent and approval for their nominations and major political decisions.

The right to assembly is enshrined in the constitution. In general there are no outright prohibitions on civil society activity in Iraq.

Association / assembly rights

7

After considerable lobbying, Iraqi civil society groups managed to influence the draft NGO law in their favor, securing minimal government interference in their affairs. The Law on Non-Governmental Organizations was passed by parliament in January 2010. According to the International Center for Not-for-Profit Law, it is a significant improvement compared to previous regulations established by the Coalition Provisional Authority (CPA) and the first draft law prepared by the Iraqi government in March 2009. While the 2009 draft prohibited Iraqi NGOs from receiving foreign funding or from “affiliating” with any foreign entity without prior approval of the government, these provisions have been removed. In the previous draft, an application for registration could be rejected for any reason, while the new law instead requires that the denial of registration be tied to a specific provision in law. Criminal penalties contained in the March draft have been removed, including imprisonment for up to three years for being a member of an improperly registered NGO. The ability to audit or inspect an NGO office is granted only with cause, and the suspension of an NGO and confiscation of its property requires a court order.

Trade unionism is still a controversial issue. In 1987, all trade union activity was banned in the public sector. Iraq today still lacks a legal framework that meets International Labor Organization (ILO) standards; however, trade unions such as the Iraqi Journalists Syndicate and the Iraqi Teachers Union do exist and operate despite the lack of clarity on their right to independence. The constitution calls for a new labor law that defends the rights of workers to unionize and bargain collectively. To date, the Iraqi parliament has not taken up a Labor and Social Security Law proposal written by the ILO. Instead, perhaps as a signal to potential foreign investors, ministerial orders have closed union offices. The most recent order was issued in July 2010, and was levied against unions attempting to operate in the electric power industry. Workers and trade union leaders were threatened with incarceration under Iraq's Anti-Terrorism Act of 2005 if they tried to protest the shutdowns. The order came only months after the government banned trade unionists from travelling abroad without an "internal visa" issued by the Supreme Ministerial Committee. Some trade union leaders were arrested or transferred to remote locations because they led protests against cuts to salaries, food rations or social entitlements.

Generally, against the backdrop of weak civil society traditions, making use of the right of assembly in order to advance a common cause does not seem to be a significant characteristic of contemporary Iraqi society. In addition, limitations to the use of these rights are often imposed by society itself where conservative values and norms govern daily life, and government institutions prove either unwilling or unable to protect groups that might wish to assemble and advocate their rights.

The Iraqi constitution ensures freedom of expression, and media pluralism exists. In practice, however, Iraq is considered a high-risk, hostile environment for journalists. Iraqi authorities have to date failed to try perpetrators in any of the numerous killings of journalists since 2003, ranking Iraq first worldwide on the Committee to Protect Journalists' (CPJ) impunity index. Government harassment and legal action have today supplanted deadly insurgent violence as the most common work-related risks for journalists. Some local and international journalists who have reported on nepotism or increased authoritarianism in the prime ministry have been subjected – in some cases in absentia – to very high monetary fines. Journalists reporting on corruption are intimidated to the point of resorting to self-censorship. Further taboo topics include security issues, violations of human rights, criticism of leading politicians, religious matters and gender relations.

A number of draft laws are in various stages of consideration by parliament. Laws inherited from the Ba'th regime are still operative, including the Iraqi penal code passed in 1969 which allows for prison terms on the basis of defamation for journalists and publishers. But recent developments are also worrying: The reported decision of the Federal Supreme Court in summer 2010 to establish a new press court to examine offences such as defamation, libel, and press freedom violations

Freedom of
expression

5

was criticized as being unconstitutional. A law proposed by the Iraqi Journalists Syndicate in 2009 also sparked critique. Although it was designed to provide compensation for injured journalists and ensure their access to government information, it also narrowly defined a journalist as a person working for an established media outlet and being affiliated with the syndicate. This provision was therefore conceived by some as imposing a licensing system. In summer 2009, the Ministry of Communications declared its plan to regulate online media and block websites that “affect the manners and the security of the country.” Independent media outlets argue that the semi-governmental Iraqi Media Network (IMN), the national public service broadcaster that was established by the CPA and remains funded by the parliament, threatens their financial survival, and have called for laws banning the network from advertising on behalf of the state.

The CPA also established the Communications and Media Commission (CMC), which holds the exclusive authority to license and regulate broadcasting, telecommunications and information services. The CMC is governed by a Board of Commissioners, is administratively and financially independent of the government, and is subject only to limited oversight by parliament. The constitution names the CMC as one of Iraq’s independent national commissions, making Iraq a unique example in the region with this independent media regulator. However, the body was largely inactive from April 2008 until August 2009, which made the regulation of communications subject to government influence. In September 2009, the government appointed a new board, and the UNDP Iraqi Media Program launched in 2009 is active in capacity building, and has provided advice on legislative reform that would enable an independent and professional media.

3 | Rule of Law

Officially, the separation of powers is provided for and is institutionally in place. In practice, however, boundaries between the executive, the legislature and the judiciary are blurred. The nature of the political party system, with a few big parties governed by small, powerful elites and lacking internal democratic decision-making processes, does not contribute to settling conflicts of interest between the branches of government.

The country’s power-sharing formula, necessary to balance ethnic and sectarian divisions, interferes to a certain extent with the checks and balances traditionally exerted by separated branches of government. This constant balancing of power inhibits real political change, and blurs the lines between the executive and legislative branches. It entails a process in which state institutions are “given” to one or another power group, so that none ends up without its own portfolio; this leads in turn to the inflation of the state apparatus. This was evident during the negotiations and intense lobbying by U.S. Vice President Joe Biden and two U.S.

Separation of
powers

6

ambassadors after the 2010 parliamentary elections, which resulted in the establishment of a new governmental body, the National Council for Strategic Policies, in order to create a post for Allawi. This 20-member body will reportedly be tasked with overseeing al-Maliki's major security and foreign policy decisions. However, as of the time of writing, parliament still had to decide on the scope of power that would be given to the new council.

A push toward decentralization combined with the January 2009 enactment of the Provincial Powers Law, which defines the relationship between Iraq's 18 provinces and the central government, has led to improved separation of powers between Baghdad and the provinces.

The Iraqi federal judiciary, which includes the judges sitting on the Federal Court of Cassation, appellate judges, trial judges, investigative judges and prosecutors, is placed under the authority of the Higher Judicial Council (HJC), the administrative body that also oversees the affairs of federal courts and court staff according to Article 91 of the constitution. The federal court system comprises the ordinary civil, labor, personal status and criminal courts, including the Central Criminal Court. It does not include the Federal Supreme Court, military courts, the administrative court function of the Shura Council, or the Iraqi High Tribunal.

Independent
judiciary

5

The Iraqi judiciary is in principle still the same institution in terms of professional standards, practices and legal framework as that which existed under Saddam Hussein's regime. The independence of the judiciary is guaranteed by Article 87 of the 2005 constitution.

Most recently, the Federal Supreme Court's ruling that the parliament's failure to convene and select a new Iraqi president and speaker of parliament was unconstitutional testifies to the fact that the judiciary has the ability to stand above political manipulations. The court's decision came in response to a lawsuit by a consortium of civil society groups known as the Civil Initiative to Preserve the Constitution, as reported by the Los Angeles Times. However, many judges have been pushed out or assassinated, and replaced by loyalists to the current parties in power. Civil courts, which were not as politicized as criminal courts under Saddam, and retain that status today, have a better reputation for transparency, independence and efficiency.

Chief Justice Judge Midhad Mahmud simultaneously heads the Iraqi Higher Judicial Council, the Federal Supreme Court and the Federal Court of Cassation. While the politically balanced, secular and well-experienced Mahmud enjoys an excellent reputation in international and local circles, and is explicitly supported by Iraqi civil society, technically speaking the fact that he holds three judicial positions at the same time raises separation of powers questions within the judiciary itself. Additionally, women are severely underrepresented in the judiciary (a problem

openly identified by Mahmud), and especially in the Federal Supreme Court that oversees the constitution. Civil society groups criticize the fact that women are officially barred from heading personal status courts.

Even apart from its sheer scope, corruption in both the public and private sectors seems endemic. The results of the provincial elections in January 2009 were seen as a strong statement by the people against corrupt actors. Judging by comments in the local press and opinion polls results, concerns over rampant corruption and its exorbitant social and human costs have largely replaced security worries.

The degree of corruption existing on all levels, from small bureaucrats to the highest political echelons, suggests that the few existing anti-corruption mechanisms are having little impact. The government has launched a national campaign and introduced some mechanisms to coordinate anti-corruption efforts better. However, there is no holistic approach to fighting corruption at all administrative and political levels as well as in the business sector, and there has therefore been no drastic change in the overall culture of corruption. In the absence of systematic prosecution of office abuse, officials have no real incentive to give up the prospect of personal gains. Some spectacular anti-corruption actions against influential political actors attest to the courage of anti-corruption institutions such as the Commission on Public Integrity (CPI); however, these are also criticized as isolated cases, used to convince the public of the government's commitment to fighting corruption. In May 2009, a Jordan-bound plane carrying former Trade Minister Abdul-Falah al-Sudani, who had resigned under pressure from parliament following allegations of corruption, was ordered to return to Iraq. He was summoned for questioning before the parliament – the first time that parliament had taken this type of oversight role – and underwent trial. In April 2010, however, a Baghdad court dismissed the charges for lack of evidence, a blow for both al-Maliki, who needed to show success in the anti-corruption fight, and for the CPI, which declared it would appeal the acquittal. The case as a whole was tainted by reports that al-Sudani was used as a scapegoat, and that his arrest was politically motivated.

The Iraqi constitution guarantees civil rights, and legal frameworks and a Ministry of Human Rights exist. However, the de facto situation provides a much bleaker picture.

Amnesty International estimates that 30,000 detainees are held without trial, in Iraq and there is evidence of torture and the use of prewritten confessions. Thousands of people remain in detention even though judicial orders for their release have been released and a 2008 Iraqi Amnesty Law requires the release of detainees who remain uncharged after six to 12 months. Long term detentions are also practiced in the northern Kurdistan region by the Asayish-Kurdish security police.

Prosecution of
office abuse
2

Civil rights
4

The post-2003 security situation has given the governments of Iraq (starting with Allawi's decision to reintroduce the death penalty in 2004) a pretext to suppress civil rights in the name of counterterrorism. Most of those sentenced to death have been accused of terroristic acts. In June 2010, a report issued by the local al-Hayat Organization for Human Rights claiming that al-Maliki's government had issued 12,000 death sentences in the past four years stirred a discussion on huge discrepancies in official records on death sentences. The Ministry of Justice presented much lower figures, which were subsequently strongly contested by civil society. The Ministry of Human Rights was unable to confirm any exact number and instead stated that Iraq had the highest number of executions per year after Iran.

In theory, equality before the courts of law is enshrined in the constitution. However, access to justice is not equal to all. With extreme poverty existing in many areas in Iraq, the costs of going to courts are for many a significant deterrent. The loss of trust in government institutions is also a reason why many disputes over material and family matters are handled by local tribal and religious figures rather than by courts. Cases that do reach the courts depend on the judges' ability to withstand political influence and social pressure. Judges have little awareness of international conventions on human, women and minorities' rights. To many, the relationship between international and national Iraqi law is unclear, so that when legal systems conflict, very few base their rulings on principles of international law. For instance, even though Iraq ratified the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in the 1980s, punishment for the murder of a woman under the pretext of restoring family honor (so-called honor crimes) is still lenient. During the period under review, the Kurdish parliament amended some laws in order to strengthen women's rights, and increased the punishment given for "honor crimes." In February 2010, the Kurdistan government's Directorate Against Violence sentenced 20 people to death for murdering women.

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, but nepotism and politically motivated appointments hamper their efficiency and credibility. The parliament, public administration, judiciary and local councils are generally known for being slow, burdened with bureaucratic procedures, and staffed by relatively inexperienced personnel. Some ministries function as fiefdoms rather than as true state institutions, and some were created without clear mandate and direction. Several important institutions were established only after significant delay, such as the High Commission for Human Rights (created in December 2009), which is linked to parliament and tasked with monitoring the extent to which the government is abiding by international conventions and treaties on human rights endorsed by the

Performance of
democratic
institutions
4

legislature. There is yet not much expertise on how to make such institutions work, or on how to coordinate with other institutions that have similar mandates (in this case the Ministry of Human Rights). Much legislation required by the constitution that would clarify the working of democratic institutions has yet to be drafted. In addition, officials, including judges, require tight security protection, which further slows down the effective functioning of institutions.

The parliament was paralyzed for seven months during 2010, and failed to hold a session to announce the president and the speaker of parliament within the constitutionally mandated period following the announcement of the March election results. The delay was caused by disagreement over interpreting the constitution's instructions on who has the right to form the government, and a tug-of-war between the main political parties. Parliament ultimately convened a constitutional session that ended the seven months of paralysis only after prodded by a court ruling in a lawsuit filed by a constitution-focused civil society group.

The recently emerged political actors perceive democratic institutions as a necessary vehicle for achieving and maintaining power. Although the commitment to democratic institutions and procedures often constitutes little more than rhetorical lip-service, actors increasingly seem to accept the fact that they cannot entirely circumvent the democratic process. The level of commitment might also depend on the relative position of these actors within the current power structures (i.e., whether they benefit from democratic procedures or not), and might thus be unstable over time. In practice, it is clear that almost all forces are ready to use informal channels to pursue their interests, and thereby undermine the democratic institutions.

It is difficult to assess whether radical actors and movements such as the Sadrists and their leadership acknowledge democratic institutions more strongly than before. Their participation in the government forces them to at least comply with minimum standards of due process. This might have a positive impact on the general acceptance and legitimacy of such institutions in the future and might lead to a, albeit probably limited, learning process among such actors.

The constitution, which should serve as the main reference for the role of democratic institutions and citizens' rights, enjoys substantial international legitimacy. Nevertheless, it lacks legitimacy to a large extent within Iraq, especially among those actors who were marginalized in its drafting process, as it was a product of negotiations between only a small number of political actors. Moreover, the civil war has only recently come to a close, ending a period in which many state institutions sometimes functioned as allies of conflict participants rather than as institutions. As a consequence, state institutions have a long way to go before achieving democratic legitimacy, and distrust remains widespread among the population.

Commitment to
democratic
institutions

5

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 clientelist networks within geographic or sectarian boundaries. Only a few Iraqi parties (such as Dawa, the Patriotic Union of Kurdistan (PUK), the Kurdistan Democratic Party (KDP), the Sadrists 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. The sheer number makes the party landscape confusing; the January 2009 elections, for example, were contested by 500 parties. Parties devoid of any program, and which used religious or sectarian slogans attract voters but remained otherwise without a well-defined political identity, have generally lost momentum. Nevertheless, the party system remains fragmented and the level of polarization high.

Party system
3

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 this 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). The negotiations to create a parliamentary majority generated alliances between parties whose visions, outlooks and constituencies are diametrically opposed. This shows that voters can not yet rely on political blocs of like-minded parties to cooperate in order to further a common vision and the sociopolitical interests of their constituencies. 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 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 ethno-sectarian 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, 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 the state and community, and represent communal interests. Accordingly, a wide

Interest groups
3

range of cultural and socio-political matters remain neglected and without articulation or support. Despite the multitude of NGOs, it remains unclear whether there is significant cooperation, coordination and a common strategic assessment of needs and planning aimed at making operations useful and effective.

Public consent to democratic norms cannot be properly assessed, as reliable data from opinion polls or similar sources is not available.

Approval of
democracy

n/a

Due to the recent years of civil strife and infighting, it can be safely assumed (even in the absence of reliable data on the issue), that citizens maintain rather low trust in each other, especially toward members of other communities that might be supportive of political foes. It is reported that in contrast to the country's former wars and crises, such as the Iraq-Iran war and impoverishment during the embargo years, solidarity and social trust have decreased dramatically with the massive breakdown of society after 2003, especially between 2006 and 2008.

Social capital

3

The establishment of voluntary associations in the cultural, social and environmental fields has been rather sporadic and individually driven. Fields which are generally not considered of high priority in conflict-ridden societies, such as the environment, show little in the way of intensive voluntary activism. Other fields, such as humanitarian aid or informal education, may display higher degrees of voluntarism.

Due to largely absent basic state services, it can be assumed that traditional solidarity networks, such as support through extended family networks, tribes and religious charities are indispensable for the survival of individuals and communities.

II. Economic Transformation

6 | Level of Socioeconomic Development

Question

Score

The level of socioeconomic development in Iraq is, despite improvements in some areas, still characterized by an intense degree of deprivation. Large shares of the population live under severe conditions of deprivation as defined by the United Nations, particularly in the areas of education (32% of the population), health care (20%) and shelter (5.2%).

Socioeconomic
barriers

3

Around 25% of Iraq's population lives below the poverty line, living on less than \$2.2 per day. Poverty is higher in rural areas and varies regionally, with relatively higher poverty rates in the central and southern governorates (highest in Muthana: 49%, Babil: 41%, Salaheddin: 40%) as compared to the three Kurdish governorates

(Duhok: 10% live below the poverty line, Erbil and Suleimaniyeh: 3%). The high poverty rates are generally attributed to the high unemployment rate, the decline in the education level and the effects of corruption. The World Food Program estimates that some 930,000 Iraqis are currently food-insecure, with a further 6.4 million at risk of becoming food-insecure in the event of the failure of the Public Distribution System (PDS).

Gross enrollment in education for both sexes is 60.5%, with only 5.6 years of average schooling years for adults, and 9.7 expected schooling years for children. The U.N. Human Development Report's Gender Inequality Index shows that in 2010, only 22% of females (ages 25 years and older) and 42.7% of males had pursued secondary education. The illiteracy climbed to 20% in 2010, and is today among the highest in the region. The illiteracy rate among women in some communities is as high as 40% to 50%, and one in five Iraqis between the ages of 10 and 49 cannot read or write a simple statement related to daily life.

In November 2009, Internet penetration was below 3%, with the use of the Internet being mainly limited to urban elites. It has been estimated that raising the Internet penetration rate (currently below 3%) by 10% would increase GDP by 1.5%. But Iraq is the fastest-growing market for mobile telephony in the region, with 18 million cellular subscribers at the end of 2008.

At just 14.2%, the labor force participation rate for women is low, compared to 71.5% for males. However, women have a crucial part in the reconstruction effort. Approximately 11.2% of Iraqi households are headed by women, thanks to the high numbers of widows in Iraq as a consequence of more than 30 years of continuous war and conflict.

Although some improvements are visible, Iraqi health facilities are still struggling to cope. Access to health services is limited and geographically extremely uneven, with a strong urban-rural gap. The World Health Organization compares that rural births are 17% less likely to be attended by skilled health personnel than are births in urban areas. In rural areas, 60% of children below one year of age receive immunization from measles compared to 76% of those in urban areas. Access to treatment for non-emergency medical problems is still severely deficient. While 34,000 physicians were registered with the Iraqi Medical Association in the 1990s, by 2008 there were only around 16,000. Despite a government appeal in 2008 for medical staff to return to the country, this decline has not yet been reversed. There are only 12.3 nurses or midwives, 1.5 pharmacists and 1.4 dentists for every 10,000 Iraqis.

| Economic indicators | | 2007 | 2008 | 2009 | 2010 |
|---------------------------|----------|---------|---------|---------|----------------|
| GDP | \$ mn. | 56989.9 | 86530.1 | 65192.7 | 82150.3 |
| GDP growth | % | 1.5 | 9.5 | 4.2 | 0.8 |
| Inflation (CPI) | % | -10.1 | 12.7 | 6.9 | 2.9 |
| Unemployment | % | - | - | - | - |
| Foreign direct investment | % of GDP | 1.7 | 2.1 | 2.2 | 1.7 |
| Export growth | % | - | - | - | - |
| Import growth | % | - | - | - | - |
| Current account balance | \$ mn. | 15519.3 | 27133.4 | - | - |
| Public debt | % of GDP | 181.0 | 110.5 | 143.1 | 112.3 |
| External debt | \$ mn. | - | - | - | - |
| Total debt service | \$ mn. | - | - | - | - |
| Cash surplus or deficit | % of GDP | - | - | - | - |
| Tax revenue | % of GDP | - | - | - | - |
| Government consumption | % of GDP | - | - | - | - |
| Public expnd. on edu. | % of GDP | - | - | - | - |
| Public expnd. on health | % of GDP | 3.5 | 3.2 | 3.9 | - |
| R&D expenditure | % of GDP | - | - | - | - |
| Military expenditure | % of GDP | 2.9 | 5.3 | 5.4 | - |

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Iraq has continued to decentralize its governance structures and make progress toward a market-based economy. However, significant parts of the industrial and banking sectors are still public or semipublic, and the private sector's contribution to total investment remains low. The hydrocarbon sector and the public sector account for the majority of employment in the country. The state-led oil sector alone accounts for 66% of Iraq's GDP, 89% of government revenues and 45% of employment. The private sector is characterized by very few large companies, a

Market-based
competition

4

number of small and medium-sized enterprises (SMEs) and a relatively large number of micro-enterprises and small private businesses.

Investment regulation is not purely done at the federal government level, as the Kurdistan Regional Government (KRG) also has tremendous influence in these affairs. Generally, investment and the establishment of private businesses are hampered by outdated legislation and lack of regulations, inconsistent and discretionary rule implementation, conflicting interests between public servants and private investors, corruption, and insufficient progress in strengthening regulatory institutions. Private sector growth is also impeded by the lack of rapid access to financial services and investment credits, an inefficient network of branch banks, a stock market that lacks developed financial rules and principles, lengthy procedures and above-average prices in regional comparison for company registration, and a dilapidated infrastructure.

The KRG passed a Kurdish investment law in July 2006 which allows foreign investors to own land. Federal Investment Law 13 of 2006, which does not cover the oil and financial services sectors, was amended in 2010 (Law No. 2 of 2010) to enable ownership of land by Arab and foreign investors for housing projects and investment partnerships with state-owned enterprises (SOEs). Article 23 of the Iraqi constitution prohibits expropriation in Iraq, unless it is “for the purpose of public benefit in return for just compensation” and stipulates that this standard shall be regulated by law. This might grant investors some protection, but the standards have not yet been set by law. Article 12 of the National Investment Law also guarantees “non-seizure or nationalization of the investment project covered by the provisions of this law in whole or in part, except for a project on which a final judicial judgment was issued”; but as concrete implementation regulations are still missing, application of the law is still uncertain in practice. Effective protection from expropriation that meets international standards will depend on the domestic implementation of legislation.

Competition and consumer protection laws that are critical for controlling unfair business practices in the market still need to be drafted, passed and implemented. The Iraqi Products Protection Law specifies mechanisms to protect Iraqi products and industry from harmful practices such as dumping, unjustified increases in import volume, and the import of subsidized products, hence not only setting quality standards but also providing consumer protection and incentives for local production. Other relevant laws are the Investment Law for Refining Crude Oil, No. 64 of 2007, and Law No. 29 of 2007 on the Accession of the Republic of Iraq to the Multilateral Investment Guarantee Agency, which supports the establishment of an environment conducive to investment.

The press reported that during 2010, the government's share of total investment was 9%, the local private sector's share was 2%, and foreign sources, mainly in the oil sector, accounted for a significant majority with 89%.

In March 2010, Iraq adopted a law aimed at encouraging competition according to market mechanisms and preventing the creation of monopolies (Competition and Monopoly Prevention Law No. 14 of 2010). The law provides for the establishment of a Council for Competitiveness and the Prevention of Monopoly, and is intended to encourage the private sector, promote its productivity and contribution to GDP, improve the quality of products, and decrease production costs and prices. In practice, the formation of monopolies and cartels is rarely regulated or impeded.

Anti-monopoly
policy
3

The Iraqi government has embarked upon the process of foreign trade liberalization. In 2004, a committee was established to study the country's application to the WTO. In November 2010, the Iraqi chief negotiator stated that the committee was nearing its final stages of activity, and that hopes were high for Iraq's timely accession. As of the time of writing, there was no information available as to whether any impact assessments on local production and subsidies (such as welfare programs) had been conducted.

Liberalization of
foreign trade
6

In theory, 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 10 years. Institutions in the health and service sectors are granted additional exemptions from duties and taxes on imports of furniture and other furnishings. The exemption increases to 15 years if Iraqi investors own more than 50% of the project.

Iraq is a signatory to 32 bilateral and nine multilateral investment promotion and protection agreements within the Arab League. These agreements include clauses on profit repatriation, access to arbitration and dispute-settlement mechanisms, fair expropriation rules, and compensation for losses. In addition, Iraq has bilateral free-trade area 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). Of the four geographic areas

designated as free zones, only one (Ninewa/Falafel zone) operates as a significant loci for investment or trade.

While the law of domestic arbitration is fairly well developed in Iraq, international arbitration is not sufficiently supported by Iraqi law. Iraq is a signatory to the League of Arab States Convention on Commercial Arbitration (1987) and the Riyadh Convention on Judicial Cooperation (1983), but it 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). Domestic arbitration is provided for in Articles 251 – 276 of the Iraqi Civil Procedure Code, which require arbitration agreements to be in writing. Panels of arbitrators are available through the Iraqi Union of Engineers, the Iraqi Federation of Industries, and private arbitrators' offices.

The banking system in Iraq is generally weak (“underbanked,” as expressed by the U.S. State Department), and the majority of its operations are limited to basic consumer transactions.

Banking system
4

The seven public banks (with Rafidain and Rasheed being the two largest) account for 96% of banking sector assets. The 32 private banks and six Islamic banks are more numerous, but much smaller in importance: 450 of the 550 bank outlets across the country belong to one of the public banks. In addition, 11 foreign banks are active in Iraq. No core banking system exists that would facilitate electronic interbank communications. The limited role of the banking sector within the economy makes it difficult to pursue any effective monetary policy.

The Central Bank of Iraq (CBI) and the Ministry of Finance have committed themselves to setting up a Bank Reconciliation Unit (BRU) to deal with inherited past external liabilities of the two main public banks, with the goal of restructuring their balance sheets under the supervision of a Restructuring Oversight Committee (ROC) constituted of the CBI governor, the minister of finance, and the chairman of the Board of Supreme Audit. The Ministry of Finance is committed to modernizing these two banks through the implementation of existing plans for operational restructuring, thus driving them toward operation on a fully commercial basis, on a market basis.

The Trade Bank of Iraq (TBI) was established as an independent government entity under CPA Order No. 20 in 2003. It mainly provides financial and related services to facilitate import trade, and functions as the financial backer of government procurements tendered by Iraqi government ministries and state-owned enterprises. It is currently working with the private sector banks to distribute letters of credits

(LCs) through private Iraqi banks. The TBI intends to establish branches in Beirut, London and Istanbul, and to add another nine domestic branches to its currently existing 15 branches inside Iraq.

8 | Currency and Price Stability

The government's monetary policy since 2003 has focused on maintaining price stability and exchange rate predictability. According to the U.S. State Department, "Banks may engage in spot transactions in any currency, but are not allowed to engage in forward transactions in Iraqi dinar for speculative purposes." Trades of foreign exchange are neither taxed nor subsidized. The increase in goods and services imports has reduced inflationary pressure, allowing the central bank to pursue a monetary and exchange rate policy that successfully tempers inflation. Consequently, inflation remained in the low single digits during the period under review, and the exchange rate remained stable. With the core inflation rate hovering around 3%, the CBI lowered its policy interest rate from 7% to 6%, and reserve requirements to 20%. The country's international reserve volume also remained broadly stable.

Anti-inflation /
forex policy

7

Given the low inflation rate and the strengthening of the U.S. dollar, the CBI has kept the dinar steady at IQD 1,170:\$1 since January 2009. The CBI will continue to aim at keeping inflation low, predominantly through the continuation of its exchange rate policy.

The CBI has sought to manage liquidity in the economy more effectively through the introduction of an interbank market, a basic lending rate, minimum reserve requirements, a daily currency auction and a government securities market. The CBI is additionally slated to improve its internal audit function in line with the IMF's safeguard assessment, completed in June 2010. There will also be a review of the memorandum of understanding between the CBI and the Ministry of Finance with regard to IMF disbursements, debt service obligations and the operational controls over government accounts.

The independence of the CBI suffered a setback in January 2011, when Prime Minister al-Maliki won a court ruling that placed independent institutions, including the CBI, under the control of the cabinet. Under the provisions of the constitution, these institutions are to be monitored by the parliament. The CBI had warned that such a court ruling could expose its international assets to seizure by Iraq's creditors.

In the short run, the volatility of oil prices poses considerable downside risks. According to the IMF, an updated debt sustainability analysis indicates that Iraq's external and public sector debts are projected to decline rapidly with the country's

Macrostability

6

steady increase in oil production, provided that agreements are concluded with non-Paris Club creditors. However, this outlook remains vulnerable to oil-production and price shocks. Non-oil GDP is still recovering very slowly, and with oil exports in 2010 being lower than expected, overall GDP growth was estimated at only 2.5% for the year.

The Iraqi government agrees on the need to reduce the budget deficit in 2011 to below 10% of GDP as a step toward regaining fiscal sustainability. In addition to an expected rise in tax revenues, newly issued mobile licenses from the fast-growing cell phone telephony market are expected to bring billions of dollars to the Iraqi treasury over the next few years.

Under the framework of Iraq's IMF stand-by agreement, the Iraqi authorities were able to clarify the ownership of the bulk of the accounts in the banking system that were classified as central government deposits. This review also enabled banks to make steady progress in reassigning accounts previously classified as CBI deposits to the accounts of public enterprises and institutions. In the area of fiscal reporting and transparency, the final fiscal accounts for 2008 were submitted to the Board of Supreme Audit, and government spending units have improved their monthly financial reporting.

9 | Private Property

As of the time of writing, the last amendments to private property laws in the Iraqi civil code were evidently made in 2002, prior to the fall of the former regime. Article 23 of the Iraqi constitution of 2005 guarantees the protection of personal property and that the "proprietor shall have the right to benefit from, exploit and utilize personal property within the limits of the law." It further states that no expropriation can take place, except for the purpose of a higher public benefit and in combination with just compensation, which must be organized by law. However, no rules or standards for this process have yet been set, and there has been no definition of what the "public benefit" might entail or who might set the criteria. It is therefore uncertain what this article might mean for the population, for example when it comes to investors' interests in the expropriation of land for oil drilling or other large projects.

The issue of property loss suffered by the estimated 5 million displaced Iraqis (of which about 2.8 million are internally displaced) remains challenging. Under the previous regime, many Iraqis were denied their property rights for political, ethnic or other reasons. In order to address this problem, the Commission for the Resolution of Real Property Disputes (CRRPD) was established in 2003 as an independent agency of the Iraqi government with the aim of providing a legal mechanism for resolving property disputes. The CRRPD's operations are governed

Property rights
4

by the Statute of the Commission for Resolution of Real Property Disputes, which as of March 2006 defined the CRRPD's mandate as property acts between 17 July 1968 and 9 April 2003.

In order to address the property and compensation issues related to the massive displacement crisis that occurred after 2003, the International Organization for Migration (IOM) created the U.S.-funded Iraqi Property Claims Program (IPCP), partnering with the Iraqi government, specifically CRRPD and the Ministry of Displacement and Migration, as well as with several U.N. and international organizations. Through this program, IOM provides legal advice and technical support to the CRRPD. This situation also complicates business development and negatively impacts lending and banks' ability to execute against property accepted as collateral on loans.

Private companies are permitted in Iraq. In practice, the establishment of private companies faces many challenges, ranging from a lengthy and comparatively costly registration process to a weak framework of legal provisions and regulations for consumer protection, production standards and investment incentives. Regulatory protection is dependent on the implementation of national legislation which is often non-transparent, arbitrary, and subject to abuse by public officials pursuing their own personal interests.

Private enterprise
4

In October 2010, the chairman of Iraq's National Investment Commission announced that the government planned to initiate a privatization process that would involve the restructuring of around 200 state-owned enterprises (SOEs) in the industrial sector over the next three to four years.

There is concern that such an initiative is too complex for the current government's capacities. Iraqi entrepreneurs and investors, according to the Financial Times, support an aggressive policy of stock-market privatization, such as that which took place in the United Kingdom during the 1980s. According to the Iraqi Stock Exchange's chief executive, the Iraqi government needs to provide incentives such as tax breaks to induce companies to list on the exchange, thus providing the wider business community with greater transparency with regard to their accounts and operations. The dominant opinion among Iraqi entrepreneurs seems to be that SOEs should be entirely shut down, except for a few better-managed ones which could be privatized.

As yet, no assessments have been made of such suggestions' likely impact on social welfare and workers' rights, especially given that trade unionism is repressed. Nor have projections been made of the risks this path might entail in a country that is continuously affected by conflict, and whose increasing levels of global integration have made it vulnerable to the volatile dynamics of the international market.

10 | Welfare Regime

Some government social safety net programs exist, but according to the World Food Program (WFP), they are poorly targeted and unable to protect vulnerable groups. The only significant social safety net provided in Iraq is the Public Distribution System (PDS), though other initiatives exist, such as Family Care Allowance payments, and cash transfers which are small relative to the government budget and provide quite modest benefits. Iraq's pension system has structural problems in terms of financial sustainability, efficiency and equity. Though the delivery of basic social services has been improved, noticeable welfare gains are not yet visible.

The PDS is the main source of food for poor people, and has gained more relevance with the onset of droughts, low crop yields and rising food prices. It provides a monthly nine-item food ration that many Iraqi families have come to depend on since its establishment in 1991. The WFP estimates that 9.4% of the Iraqi population (about 2.8 million individuals) qualifies as extremely dependent. However, the program is hampered by poor internal controls and accountability, and inefficiency in supply-chain management. PDS costs are high (\$3.6 billion was budgeted for the PDS in 2009, representing 7.8% of the government's operational budget), but its benefits limited. A survey conducted in 15 governorates by the Ministry of Planning and Development Cooperation in 2009 found that a considerable share of those qualifying for the benefits failed to receive the food ration for a period of time (18% did not receive benefits for 13 months, 31% for between seven and 12 months). An average PDS beneficiary receives only 51% of the recommended daily food allowance of 2,200 kilocalories per person, and concerns over the quality of food were repeatedly voiced. It also creates adverse effects on markets, as it creates disincentives to local production. In the various national strategy documents that guide Iraq's development programs, the government has prioritized the reform of the PDS and other social safety nets in order to better protect vulnerable groups. Article 29 of the 2010 Budget Law tasks the government with suggesting reform plans for the PDS, with the prime focus on alleviating poverty. Widespread dissatisfaction with the management of the PDS was allegedly one motive behind former Trade Minister Abdul-Falah al-Sudani's corruption charges in 2009.

Despite the existence of some government-provided basic health care services, the availability and quality of which are open to question, Iraq does not have a social health insurance scheme. Individual out-of-pocket expenditure accounts for 22% of total health care spending.

While the constitution provides for equality of opportunity for all, large groups within Iraqi society are practically excluded from participation in society as equal members. Widespread poverty, a decline in the educational level, nepotism and

Social safety nets
3

Equal opportunity
3

corruption, and a security situation that remains very fragile in a number of regions are the main causes for this inequality. The situation is worse in rural than in urban areas. The three Kurdish governorates are considered to be better off in this regard than the other 15 governorates. Trade unionism is subject to repression. Externally and internally displaced Iraqis are excluded from various political processes and from services. Ongoing targeted attacks against minorities add to the vulnerability of whole population groups, cutting across social classes. Conservative social norms and the domination of religious values across communities in Iraq pose obstacles to women's effective participation in various aspects of social life. The years 2009 and 2010 saw controversial debates over abolishing the 1959 Personal Status Law – under which women across confessions enjoy relative equality – and substituting for it a number of personal status laws grounded in the country's various faiths. Such laws would not only regulate divorce, custody and inheritance, but also the distribution of powers within a family; thus, different configurations could give male relatives different extents of power over the life and therefore the participation of female family members in society. This heterogeneous legal environment would not only enable women to be discriminated against as compared to men, but also allow women to be treated differently according to their confessional affiliations.

11 | Economic Performance

Overall economic performance in 2010 took a positive direction. Oil production and exports turned to an upward trend by the end of 2010, with oil export receipts constituting 98% of total export earnings. Oil prices were higher than originally budgeted for in the 2010 government budget, and even though oil exports failed to reach the desired volume, the budgetary effect was positive. However, due to the seven-month-long failure to form a government following the March 2010 elections, government spending turned out lower than planned. Since the overwhelming majority of federal revenue comes from oil income, oil prices and production are the key assumptions on which Iraq's budgetary revenue calculations are based. Eleven major oil deals were signed in 2009, and are expected to boost Iraq's oil production and GDP. However, deficiencies in energy and transportation infrastructure within the oil sector pose serious challenges with respect to meeting these expectations.

In 2010, several factors hampered the further improvement of economic performance. The government has in principle decided to replace the centralized economy with a market-based economy, but has struggled with the structural adaptations associated with this chosen path. Moreover, reforms take place against the background of dilapidated infrastructure, an outdated and rigid legislative

Output strength
5

framework that has hindered the emergence of a strong local private sector, a lack of labor market policies, and inefficiency within government institutions meant to provide necessary services.

According to the Economist Intelligence Unit, nominal GDP in 2010 increased to \$91.6 billion, in comparison to \$74.7 billion in 2009, with real GDP growth reaching 5.5%. The agriculture, industry and services sectors respectively contributed 5%, 4.8%, and 7.1% to this real growth.

According to projections contained in the Iraq National Development Plan 2010 – 2014, tax revenues will increase at a rate of 15% per year, the treasury's share of non-oil company revenues will increase at a rate of 15% per year, and non-tax revenues increase by IQD 1.8 billion per year.

External debt (debt stock) decreased from \$73.0 billion in 2009 to \$52.6 billion in 2010, with debt service of \$2.7 billion due in 2010. The trade balance turned positive, increasing from \$5.1 billion in 2009 to \$7.8 billion in 2010.

12 | Sustainability

In Iraq's National Development Plan 2010 – 2014, issued by the Ministry of Planning and Development Cooperation, point 1.4 reads: "The environmental dimension of development has not received the requisite attention in Iraq over the past decades, neither on the national strategy level nor on the project level. Iraq also lacks comprehensive systems to track and address environmental issues. This has led to clear and tangible pollution of all environmental elements, namely air, water, and soil. This has been compounded by use of banned weapons in wars, particularly radioactive uranium, as well as bombing and destruction of military installations. Addressing environmental problems and spreading societal environmental awareness is considered a major challenge." Unfortunately, despite this statement, the plan's allocation of anticipated investment does not explicitly include investment in environmental issues. Furthermore, the overall 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 able 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 in fact happening, and as to whether clear criteria for evaluation have been created. The strength of the Iraqi oil

Environmental
policy

2

sector and the rising role of international oil corporations suggest that environmental concerns will be a very low priority when it comes to signing promising investment deals, particularly with corruption rampant in both the private and public sector. That said, service contracts signed with major international oil companies in 2010 did stipulate the protection of the local environment.

The quality of education and training in Iraq has not reached its potential. One reason for this is that government education spending accounts for only around 5.1% of GDP. The government's education budget is barely enough to bring educational institutions and training facilities (universities, hospitals, etc.) up to acceptable modern standards. In addition, according to statistics on school teachers, educational institutions have been depleted of their human resources, as intellectuals and specialized professionals were systematically targeted, driven out of the country or killed during the years of violence. Education and training reform plans across various sectors lack harmonization, and do not necessarily prioritize or even take into account the changes in educational needs and specializations.

In the training of legal professionals and judges, for example, the curriculum has not been updated to reflect Iraq's international obligations and the supremacy of international law over national legislation. Only those few who have undergone special training by the United Nations or NGOs are aware of these instruments and their consequences on practicing law on the national level.

Education policy /
R&D
3

Transformation Management

I. Level of Difficulty

The structural constraints on governance capacity in Iraq are high. Governing institutions are highly prone to corruption, and apart from the security sector, their performance remains weak. The process of rebuilding the severely damaged physical infrastructure and human capacities has been slow, and the population remains deprived of basic services. The systematic liquidation of academics and specialized professionals, especially in the education and health sectors, has resulted in a severe brain-drain and the lack of an educated labor force. For the period 2003 to October 2010, there were more than 450 recorded cases of academics being assassinated, all of which went unpunished. Teachers and medical personnel have left in high numbers; it is believed that of the 34,000 physicians in Iraq before the 2003 invasion, 12,000 have left and 2,000 have been murdered. All in all, around 40% of Iraq's professionals are believed to have fled, many with no desire to return. While Iraq boasted a record low illiteracy rate for the Middle East in the 1980s, this rate jumped to at least 20% in 2010 and is today among the region's highest. Corruption in the public sector has led to unqualified personnel being hired for sensitive positions. Arab newspapers reported that the Iraqi Ministry of Interior has admitted that more than 9,000 civil servants, including high-ranking staff in the prime minister's office, have provided fake university degrees.

Iraq has not generally been subject to natural disasters. However, human-made environmental and health problems, such as contamination by chemical weaponry used by the coalition forces, are abundant. Iraq is the fourth-worst offender in the world with respect to gas flaring (releasing 500 million cubic feet of natural gas per day). Government institutions are not prepared to respond to the current severe drought or the effects of climate change, which are leading to desertification in the central governorates and taking an associated toll both on agricultural output and rural labor (agriculture employs more than 20% of the Iraqi labor force, but has suffered from two consecutive years of poor rainfall). Desertification has been accelerated caused by dam building in Turkey, Syria and Iran, which has reduced the volume of water in Iraqi rivers that traditionally kept agriculture sustainable even during droughts. Currently, 50% of cultivable land in Iraq is not in production,

Structural
constraints
9

and the southern marshlands are drying out. In autumn 2009, Basra was declared a “disaster area,” as declining fresh water from the Euphrates and Tigris caused exceptionally high salinity levels in the Shatt al-Arab, rendering the water unusable for agricultural purposes. International organizations estimate that around 300,000 persons have been displaced due to lack of accessible drinking water, and warn that further water shortages have the potential to cause large-scale displacement.

Diarrhea has affected families in areas where water is particularly scarce, and today accounts for 15.9% of all deaths in children under five years of age in Iraq, making it one of the most urgent health concerns in the country. There is also evidence for the spread of pandemics such as cholera and tuberculosis. Poverty is widespread, with more than 25% of the population living below the poverty line. Unemployment rates seem to have improved slightly, but are still estimated at between 15% and 30% (sources vary greatly), while economic development is very uneven. The displacement crisis that forced millions of Iraqis abroad (2.2 million today) remains largely unresolved, and there are still 2.8 million internally displaced people in Iraq. The U.N. High Commissioner for Refugees has noted that Iraq is the world’s best-known conflict but the least-well-known humanitarian crisis, a statement that indicates the multitude of challenges that governance structures in Iraq do not currently have the capacity to cope with.

Despite a history of trade union activism that aggregated socioeconomic demands, as well as an early and influential women’s movement, after decades of authoritarianism that practically obliterated civil society the roots of civil society engagement today are weak. In the Kurdish governorates, civil society tradition reemerged earlier than in the rest of Iraq, as associations started functioning during the 1990s. After 2003, civil society organizations mushroomed in central and southern Iraq, but the level of professionalism and coordination remains rather low. Iraqi civil society activism is to a large extent dependent on outside funding, with international donor priorities influencing their fields of engagement. Donors’ comparatively limited ability to monitor the use of funds inside Iraq meant that desired developmental outcomes, such as the strengthening of Iraqi organizations’ managerial and strategic planning capabilities, have largely not been achieved. An exception to this is the religious civil society sector, especially Islamic charities, which are often overlooked by international donors but provide services on which many people depend for survival. It is likely that the general social and ethno-confessional fragmentation is mirrored in civil society, making it difficult for broad-based social movements to take root. For example, an attempt to provide a transectarian moral voice protesting the occupation, which sought as its model the ethos of Sunni-Shi’ite harmony and cooperation that swept Iraq in the first years of the British occupation, failed and was eventually drowned by the civil war that

Civil society
traditions

8

erupted in 2006. A growing civil society has therefore not translated into the creation of social trust, overcoming confessional cleavages or anchoring a civic culture in society.

Nevertheless, there are some strong associations that manage to combine grassroots service provision with influential political advocacy; some of these were active prior to 2003 in neighboring countries, and subsequently moved their operations to Iraq. The Civil Initiative to Preserve the Constitution, which monitored the parliament's constitutional obligations to form a new Iraqi government following the 2010 elections, offers another positive example of coordination. Initiated by four NGOs and subsequently joined by another 26, the initiative filed a lawsuit against the parliament at the Supreme Federal Court, and ultimately won its case.

Society and political elites continue to be split and polarized along factional, communitarian, ethnic, confessional and tribal lines. This state has been exacerbated by the fragmentation of the political landscape after the provincial elections in 2009, and in the run-up to the parliamentary elections in 2010. However, in opinion polling, the majority of the Iraqi public has consistently expressed opposition to ethno-sectarian identity politics. There has always been a sense of national identity, mainly among Arab Iraqis, that has not been represented by political parties tending toward ethno-sectarianism. The fact that Iraqis have formerly (2005 – 2009) voted for parties that leaned toward such politics is mainly because of the collapse of the state, and the emergence of well-organized social movements and militias drawing on ethno-sectarianism as a legitimizing discourse that stepped into the political void. With the rise of ethno-sectarian violence, many Iraqis found themselves reluctantly driven into the arms “their own” group for protection. None of this indicates a natural and permanent proclivity toward separate identity groups, however.

A positive development is that large parts of the Sunni population are now participating in elections. There is also party competition within sectarian communities. Although al-Maliki managed to pull together a Shi'ite bloc in order to form the government, this was not inevitable. Allawi, with his more Sunni-leaning list, had actually counted on the support of the Shi'ite Sadrists against al-Maliki. Allawi had also warned that should the Sunni community be sidelined again, Iraq would plunge back into sectarian violence. Although al-Maliki prevailed as prime minister, he was forced to accommodate his political foe. In November 2010, a government of national unity, bringing together the four largest winning groups, was agreed on. Arab-Kurdish tensions over claims in territory and resources remain high, and are mainly played out in the disputed areas of Diyala and Ninewa. Minorities such as Christians, Yazidis, Shabaks and Turkmen, which have historical roots in these areas, have been targets of much of the violence. The failure of the

Conflict intensity

8

government to investigate and prevent attacks against minorities has created fear and mistrust. The conflict among Arabs, Kurds and Turkmen in Kirkuk remains unresolved.

II. Management Performance

14 | Steering Capability

Question
Score

Since 2007, a number of guiding strategic planning documents were developed for Iraq with the assistance of foreign actors, mainly the United Nations. These include the National Development Strategy (2007 – 2010), the International Compact for Iraq (2009), the National Development Plan (2010 – 2014), and the United Nations Development Assistance Framework (2011 – 2014). However, these documents primarily constitute a recitation of desired actions and outcomes, containing only limited information on concrete steps or reform plans based on a thorough assessment of the individual sectors. While political actors and decision makers may nominally pay tribute to the outlined outcomes and objectives, the extent to which they actually have the technical and human capacities to work on translating these documents' visions into reality is highly questionable. In other contexts, long-term planning, strategic prioritization and guiding concepts in the various developmental and policy areas are rare.

Prioritization
3

The two primary national strategic priorities at the present time are decentralization and restoring oil sector functioning to optimal capacity. The decentralization of governance in Iraq is due to the pressure of United States policymakers, who have contended that a central government will not be able to govern Iraq, and that decentralization is the only way for a “durable political settlement.”

Given the significant contributions of the oil sector to GDP, employment and state revenue, and global oil companies' interest in accessing Iraq's vast oil reserves, the political leadership has pursued the goal of elevating Iraq to a role as one of the world's top oil producers. In 2010, Iraq awarded contracts to major oil concerns to refurbish its dilapidated oil fields after years of neglect, with the goal of expanding production capacity to 12 million barrels per day (bpd) in about six years, from a meager 2.5 million bpd today. However, observers agree that this target will be impossible to reach within the time period envisioned by the Iraqi leadership. Challenges ahead include the need for a complete reconstruction of the dilapidated energy and transport infrastructure, the drilling of 10,000 new wells, and the establishment of huge water injection facilities necessary for oil pumping. A decision on the long-delayed hydrocarbons law is still pending.

The lack of unified approaches within the government toward solving key issues shows the high degree of politicization of such issues. This, in addition to obviously diverging political priorities, makes it difficult to develop realistic solutions or strategies. Key outstanding tasks include the need to create coherence within the ISF and thus fill the security void left by future U.S. withdrawals; addressing the constitutionally mandated but postponed Kirkuk referendum; addressing the continued violence in the disputed areas and the attacks on minority groups; and rectifying the internal displacement with its legal and socioeconomic consequences.

As strategic priorities or clear policies are difficult to identify during the past two years, the assessment of the success of their implementation is equally challenging. The only areas in which determination seems to be more or less evident are the decentralization process and the security and economic fields, where some progress has been made. The government, as most major political actors, strives for security and for a market economy. Economic growth has taken place as investments in a range of oil and infrastructure projects have been made, and as improvements in security have boosted consumer demand and wholesale and retail trade. However, economic policy-making is still constrained by the weakness of central government control, and a planned federal hydrocarbons law still remains unenacted. It seems that the government's primary aim will be to improve project implementation, in part by encouraging greater local participation and cutting bureaucratic constraints.

Economic strategy seems to be limited to the oil sector, which accounts for around 90% of the state's revenues, while chiefly neglecting other sectors. In November 2010, Hussein al-Shahristani, the outgoing oil minister, was proposed to fill the post of deputy prime minister for energy affairs. Al-Shahristani is credited with having created a successful and transparent oil strategy. Although the legality of the contracts that he signed was questioned, as they were ratified by the cabinet instead of parliament (due to the absence of a hydrocarbons law), consensus on the contracts among political actors was reached due to al-Shahristani's vigorous lobbying and negotiating. The office is likely to be given substantial executive powers, allowing al-Maliki and al-Shahristani to retain strong influence in strategic energy matters.

A few mechanisms for policy learning are in place. Consultation with international organizations such as U.N. agencies takes place on a regular basis. This has included, for example, a cooperative venture between UNDP and the Integrity Commission on the fight against corruption; assistance by the United Nations Assistance Mission in Iraq (UNAMI) on electoral processes; assistance by International Organization for Migration (IOM) on the displacement crisis; several international projects to support and build judicial capacity; training for parliamentarians on policy and rights issues; and training and facilitation by USAID and the U.S. Provincial Reconstruction Team (PRT) on financial management, budgeting, planning and budget execution. However, not all of this takes place in a

Implementation
3

Policy learning
5

concerted manner, and activities are often rather sporadic. This is not only a result of deficient planning on the Iraqi side, but also due to a lack of coordination among international donors and advisory institutions, as well as changes in their strategies. Systematic evaluation and monitoring is rare. Politicians, including al-Maliki himself, have proven flexible in adapting to new circumstances; al-Maliki, for example, changed his image from that of a leader of a religious party to a defender of a regime of strict “law and order.” However, this ability is a signifier of political tactics rather than of serious attempts at policy learning.

15 | Resource Efficiency

The government’s use of available human and economic resources has improved, but remains far below effective levels. Progress is hindered and delivery of services undermined by vested interests and corruption. Better security should eventually lead to an upgrade in basic services, such as electricity and water, even though no significant progress was observed during the reporting period. The public sector is relatively large in contrast to the private sector, providing approximately 43% of all jobs and around 60% of all full-time employment. This raises a general question as to the efficiency of the public sector, especially when the high number of civil servants is compared with the deficient provision of services by government institutions. Clientelism hampers the development of a meritocratic culture in the state’s administration. Whilst some institutions have introduced competitive recruiting procedures, recruitments as well as dismissals are politically motivated.

Concerns have been raised with regard to budgetary allocation to the various sectors; the budget of the security sector in particular is bloated at the expense of other ministries. Iraq spends around 8.6% of its GDP on the army, ranking fourth on the CIA’s worldwide list of national military expenditure. With the support of the IMF, the budget deficit was decreased to 19% of GDP in 2010, and the government has committed itself to lowering the deficit further to below 10% of GDP in 2011. Expenditure reporting by government units has improved, with the Ministry of Finance issuing further instructions to these units, including the need to provide more detailed information on advances and letters of credit. The final fiscal accounts for 2008 were submitted to the Board of Supreme Audit (BSA), while the BSA completed the audit for the 2005 – 2007 fiscal accounts and submitted these to parliament. In 2010, the actual revenue from oil was higher than expected, but the political deadlock that left Iraq without a government for seven months resulted in underspending.

Efficient use of
assets

3

Due to the prolonged period of government formation that lasted through much of the period under review, effective government coordination was largely absent. It is therefore difficult to assess whether there is any tendency toward greater policy coherence and a clearer division of tasks in order to avoid friction between government branches.

Policy
coordination
3

There seems to be some improvement in coordination and consultation between Iraqi institutions and the provincial reconstruction teams (PRTs), which had long operated without clear permission from the top of the Iraqi government and without briefing Prime Minister al-Maliki on their activities. There are also signs of clearer coordination between the central government and the provinces.

Faced with mounting demands that corruption should be addressed as one of the main threats to governance in Iraq, the government stepped up its efforts in 2008 with a first national initiative that is supported by several international bodies. In March 2008, Iraq joined the United Nations Convention Against Corruption (UNCAC). The country has also joined the Stolen Asset Recovery Initiative (StAR) launched by the World Bank and the United Nations Office on Drugs and Crime (UNODC), seeking to recover Iraqi money that has been stolen or smuggled abroad.

Anti-corruption
policy
3

Various consultations with international agencies have made it evident that Iraq's legal provisions and institutional arrangements are not sufficient to tackle corruption effectively, and that the few anti-corruption mechanisms in place lack coherence and the human and financial resources necessary to have any significant effect. The complexity of the Iraqi penal code renders it often confusing. Corruption, for example, is regarded a criminal offence, while bribery, embezzlement, breach of trust and fraud are defined as "dishonorable offences." There is no ability to collect systematic data on the scope and nature of corruption. The authority of anti-corruption institutions in relation to courts remains vague, and their personnel are subject to intimidation and political influence. The enforcement of anti-corruption measures and the prosecution of corruption therefore constitute major hurdles. Institutions tasked with addressing the issue include the Iraqi Commission on Public Integrity (CPI), inspector general's offices (IGO) within the ministries, and the Board of Supreme Audit (BSA). In order to demonstrate political commitment on the issue, the Joint Anti-Corruption Council (JACC) was created in the prime minister's office, and tasked with coordinating the various other bodies' efforts. On the legislative level, there is a Parliamentary Committee on Integrity, but its mandate is unclear. The CPI, supposedly the cornerstone of Iraq's institutional anti-corruption framework, is generally considered the most "toothless" of all Iraqi institutions. In 2009, in an attempt to finally show its muscles, it began to use the media to exert pressure on recalcitrant officials, reached out to civil society, and sought the assistance of the International Press Federation to train Iraqi journalists to report on corruption. During the period under review, the president submitted his financial statements for the first time. The most reluctant to

abide by transparency rules have been members of parliament themselves: In early July 2009, only around 17% of parliament members complied. The CPI increased its pressure by suspending officials in noncompliance. As a result of these measures, the CPI received more than 4,000 reports from high-level public officials in 2009, while in previous years it received only around 2,000 to 2,500 reports.

There is little oversight on the distribution of resources intended to benefit the population, on the large reconstruction and development funds provided by the United States and other donor countries, or on the expenditure of domestic oil revenues on reconstruction and economic recovery. The government still lacks the means to contain oil smuggling. Oil is the top commodity on the black market, and the high profits generated by oil smuggling have brought oil ministry staff and prominent political and religious figures into a cycle of corruption linked with mafia networks and criminal gangs.

16 | Consensus-Building

All political actors agree in principle on the vision of a market-based, power-sharing democracy. But although democracy as an abstract principle has more or less been adopted by the main political actors, there are important aspects that continue to be contested, on which attitudes diverge strongly. These include the understanding of egalitarian citizenship, the relationship between the state and religion, and the acceptance of violence as a political means. There is a strong sense among a broad range of actors that democracy as it is practiced in the West does not work in Iraq. Some political actors who promote formal democracy, for example, regard women's rights and the freedom of expression to be domains where cultural and/or religious values should take priority over democratic principles and personal freedoms. Accordingly, all those who promote these principles or freedoms are regarded as being compromised by Western interests. The hybrid nature of the constitution and its numerous vague articles suggest that there are still central questions pertaining to Iraqi democracy and citizenship where agreement has not been reached. The only actor that openly denounces democracy is al-Qaeda, but this group does not enjoy significant support among the population.

In the economic sphere, due to the dominance of the oil sector and the relative neglect of other productive sectors, clear objectives that might engender consensus or friction are rare. There seems to be agreement on the establishment of a market economy, while the degree of influence wielded by international corporations as well as the World Bank and other international institutions that promote structural adjustments and the integration of Iraq into the global economy has been criticized by various marginalized actors such as the communist party and trade unions.

Consensus on goals

6

Despite some initial controversy, consensus among the main political actors was reached on the huge oil deals that were recently signed by the government.

Only few outright anti-democratic actors continue to exist in Iraq, among them Salafist groups and actors affiliated to al-Qaeda. Yet, in the Iraqi context, it is difficult to draw neat lines between “reformers” and “anti-democratic veto actors.” Those who a few years earlier were hailed as “reformers,” such as Prime Minister al-Maliki himself, today display disturbingly authoritarian tendencies. The Sadrists, and their leader Muqtada al-Sadr also continue to pose an uncertain risk in terms of potential anti-democratic veto-powers. Although they are participating in the political process, the Mahdi army, the group’s military arm, has not been dismantled, and open declarations that violence will be used if necessary have raised considerable doubt as to their democratic and civic acculturation. The fragmented loyalties of the security apparatus, which makes some of its elements prone to political influence, as well as the close affiliation of some security services to specific political figures, also raises worries that these bodies might turn into powerful veto actors.

Anti-democratic
actors
5

Iraq’s political leadership is little capable of mitigating divisions and preventing cleavage-based conflicts; indeed, it has rather tended to worsen them. Competing agendas and parochial sectarian interests on the political level contribute to the deepening of rifts within society. The political dynamics are driven by each camp’s fear of marginalization should the other prevail. This fear fuelled the civil war, and continues to be used by political leaders for the mobilization of their respective constituencies. In addition, each camp sees itself as presenting the authentic national agenda, and perceives the other camp as a tool of external powers. There is a certain reality to some of these claims, as many political actors maintain strong relations with countries in the neighborhood such as Iran, Saudi Arabia and Syria. The formation of a coalition government might help as a first step toward bridging some of these gaps; however, holding it up as an example of national unity without serious improvement in terms of increasing cross-sectarian participation and depoliticizing state institutions, might lead instead to the opposite, a collapse of the government and further violence.

Cleavage /
conflict
management
3

The government largely ignores civil society when engaging in agenda setting, decision-making and the implementation of policies. Substantive civil society engagement with lawmakers remains rare. The three ministries that are mostly concerned with civil society issues, the Ministry for Civil Society Affairs, the Ministry for Women’s Affairs and the Ministry of Human Rights, are viewed with suspicion by progressive civil society leaders because of nontransparent recruiting, a lack of expertise, minimal civil society participation and their susceptibility to political influence. Civil society has taken over some service-provision roles, seeking to address the widespread poverty and deprivation. Some civil society actors have managed to force themselves onto the political agenda, for example in

Civil society
participation
3

the issues of election and corruption monitoring. Some state institutions, such as the Ministry of Human Rights, occasionally consult with civil society, and the High Judges Council proactively cooperates with civil society actors in training judges on human and women's rights issues and international conventions. There are also some fields in which government seeks expertise from civil society. For example, the Kurdish Regional Government has sought assistance from Kurdish NGOs specialized in the rehabilitation of victims of violence, after previously fiercely opposing them.

One of the most critical failures by the Iraqi political elite has been the inability to create the political space for broad public discussion about justice and reconciliation. With regard to compensation for political crimes, the government passed two laws in 2007 creating the Martyrs Foundation and the Political Prisoners Foundation. Both provide reparations to victims of the former regime, primarily for losses and injuries in areas other than real property. A key institution is the Commission for the Resolution of Real Property Disputes (CRRPD), created in 2003, which provides compensation to Iraqis who were denied their property rights for political, ethnic or other reasons by the previous regime. Through the Iraqi Property Claims Program (IPCP), which is U.S. funded and supported by several international organizations, the commission also addresses property claims that occurred as a result of the post-2003 displacement crisis.

In general, however, “de-Ba’thification” has been the priority. There has been no framework allowing Iraqis to address and express how in the course of long years of dictatorship, wars, occupation, international sanctions and civil war, different groups within society have experienced violence differently and hence have produced a number of non-congruent memories. In recent years, there has been general impunity for political violence instigated by external or internal actors, with no systematic attempts made to investigate assassinations or gender-based violence. Both in the central Iraq and the Kurdish governorates, official memorials as well as compensation for victims of violence have been limited to crimes committed under the Ba’th-regime. The KRG does not openly admit to the numerous victims of Kurdish infighting, nor has there been open discussion in central Iraq over the role some political actors holding government posts today played in the violence of past years.

Reform of the de-Ba’thification program was stalled during the period under review. A law passed by parliament in 2008 demanded that the old de-Ba’thification commission be replaced by a new commission with a new board and new staff, which would operate under amended rules. However, instead of moving to appoint this new board, parliament dithered for two years and finally rejected a government-proposed slate of candidates in late 2009. In the meantime, the old de-Ba’thification commission has continued its work by default, operating in a legal grey zone. The government has also failed to set clear criteria and legal procedures,

or provide the process with a deadline at which point all remaining files should be closed. As a result, the current Supreme National Commission for Accountability and Justice (AJC) remains highly controversial. Apart from its uncertain legal standing, it plays a dubious political role. The AJC's attempt to disqualify more than 500 candidates from the parliamentary elections (almost one-sixth of the total) in mid-January 2010 jeopardized the elections, exacerbated tension and strengthened the impression that the body had allied itself with al-Maliki's political objective to crush the opposition. Although the commission acted in violation of due process and basic human rights, only 26 of the banned candidates ultimately were able to run, despite international mediation attempts. There was also a severe conflict of interest at work, as the commission's chairman and executive director themselves ran in the elections, both as candidates for Allawi's INA party.

17 | International Cooperation

In general, the Iraqi government makes use of international financial and technical assistance. However, there is no strategic roadmap outlining benchmarks and defining the state's priorities with respect to its partnership obligations. Serious doubts as to the effective use of financial flows were raised by the fact that in July 2010, the U.S. Department of Defense, which was responsible for Development Fund for Iraq expenditures, was unable to account for \$8.7 billion (96%) of the \$9.1 billion it received under this program. Whether this was spent properly, wasted or stolen remains unclear.

In many cases, the government has also relied upon international assistance while neglecting its own responsibilities. For example, its reaction to the displacement crisis has been wholly insufficient, leaving refugees to depend exclusively on their own savings and the assistance of international organizations.

Complexity is added by the fact that there are several state-building projects at work in Iraq; these are neither mutually integrated nor internally coherent. Externally driven projects include neoconservative visions of a minimally regulated capitalist and liberal democratic Iraq; the neoliberalism of the international financial institutions that envision a greater role for the state; and the liberal humanitarianism promoted by NGOs, the United Nations and its agencies, and some government ministries that provide development assistance. The period from 2003 to the present has been characterized by an occupation regime in which Iraqi involvement in the formal state-building project was minimal. There is no indication that the shift to Iraqi control after the military withdrawal has entailed a shift to indigenous rather than externally driven state-building, or that this shift has produced a more effective state-building process.

Effective use of
support

7

In 2009, there was a tendency within the international community to believe that Iraq's most bloody chapter had closed, that the primary challenge had become one of state building, and that politics had taken center stage. The outcome of the 2009 provincial elections led to an optimistic assessment that sectarian politics were receding, and the international community welcomed the Sunni Arabs' entry into the political and institutional arena that they had once violently rejected. The general declines in daily violence and al-Maliki's move against the Mahdi army and other militias was seen as a decisive step toward the establishment of security. The implementation of the parliamentary elections with comparatively less U.S. assistance than before was taken a positive sign that the country was moving forward toward a more genuine democracy. Al-Maliki's decision to deemphasize his religious background, enhanced diplomatic relations with Iraq's neighbors and other international actors apart from the United States, and major oil contracts with important international corporations have strengthened the country's international image.

Credibility
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On the political side, a number of international reports frame Iraq as a weak or even failed state, and evaluate Iraq's state-building status in rather negative terms. The Fund for Peace, for example, concluded in March 2010 that Iraq is "a highly fragile state that has not achieved sustainable security" and called it "a weak state on the edge." The project also assigned negative ratings to four of five core institutions – including the police, the country's leadership, the civil service and the judiciary – with only the military scoring well. When it comes to economic potential, reports tend to be more positive. The Economist, for example, cautions that the drawdown of U.S. forces and the continued weakness of central authority may lead to temporary destabilization, but writes encouragingly on the country's economic prospects. Some international agencies are outright optimistic. The OECD, in a report on governance reforms in Iraq, considers the fact that the Iraqi parliamentary elections were held without major security incidents; this represents the latest in a series of indicators suggesting that the country may be achieving greater stability in governance and security, which the report names the "key prerequisite for foreign and domestic investment, growth and job creation."

The Iraqi government's foreign relations are deeply entrenched within the regional balance of power. Despite the drawdown envisaged under the Status of Forces Agreement, which provides a legal framework for a full U.S. military pullout by the end of 2011, the United States continues to intervene in the Iraqi political scene, and is intimately involved with Iraq at many levels. It also still acts as mediator of last resort in conflict situations when Iraqi actors are unable to reach final agreement, as for instance on the electoral law prior to the recent parliamentary elections.

Regional
cooperation
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As the U.S. military withdrawal takes gradual effect, Iraq's foreign policy has been dominated by its efforts to carve out a more independent role for itself, while

seeking to balance ties with its Arab neighbors and with Iran. Through closer relations to its Arab neighbors, the Iraqi government also hopes to achieve new debt write-offs. Ties with Syria have improved, and in September 2010, al-Maliki sent a delegation to Damascus to discuss bilateral relations. Economic ties with Turkey are growing stronger, although on the political level caution still prevails.

As of the time of writing, relations with Saudi Arabia were particularly tense, as the kingdom had clearly demonstrated its preference for Allawi. WikiLeaks revealed candid conversations between Iraqi and U.S. officials, in which Iraqi government officials described efforts made by Iran and Saudi Arabia to reduce each other's influence in the Middle East, and in which Iraqi government representatives described relations with Saudi Arabia as "among [their] most challenging."

While many of Iraq's political leaders maintain close ties to Iran, others remain wary, in part because it is widely thought to have armed and trained Iraqi Shi'ite militias. In 2010, Allawi openly requested Iran to stop meddling in the elections, while he himself sought political backing in Saudi Arabia. Iran continues to have considerable influence in Iraqi politics. However, the poor electoral performance of Iran's strongest ally, the Islamic Supreme Council of Iraq, proved a setback.

After years of animosity, relations with Kuwait are today strained because of its renewed efforts to secure the \$24 billion debt that Iraq owes Kuwait as reparations for the 1990 invasion. However, there are signs of rapprochement. In August 2010, the two countries agreed in principle on how to manage the contentious oilfields on the Iraqi-Kuwaiti border. In January 2011, Kuwait's prime minister arrived in Baghdad in the first such visit since the 1991 Gulf War. Iraqi officials sought to assure him that the country has radically changed since the Saddam Hussein era. The visit was a boon for al-Maliki, who has sought to repair relations with Sunni Arab neighbors that view Baghdad's Shi'ite-dominated government as a surrogate for Iran. Following the December 2010 formation of the cabinet, after months of negotiations, Iraq has seen a steady stream of visitors from the region, including delegations from Egypt and Jordan eager to gain more influence in Iraq.

Strategic Outlook

In past years, the occupying coalition promoted a primordialist perspective that implied there was in effect no collective Iraqi nation, and hence recommended political partition around identity-homogenous territories, or at best proposed a consensus-driven politics in which the main identity groups (Kurds, Sunni and Shi'a) would be formally represented. However, recent years have shown that this was a grave misunderstanding of Iraqi reality, and that it even served to fuel conflict. The governing elites therefore need to move beyond this perspective, and must respond to an Iraqi population that cares instead about genuine political issues, programs and policies.

The Iraqi government's main, urgent challenge is to achieve full sovereignty from occupation by setting clear benchmarks for a full U.S. withdrawal and restoration of Iraqi control. This must be accomplished with help from the international community. At the same time, the Iraqi government should without further delay open a serious and broad national dialogue and reconciliation process, which may help some of the country's wounds heal. This should include the reform and completion of the de-Ba'athification process, with a clear timeline set.

In order to ensure security, the government must depoliticize state institutions and establish full state control over the ISF. Concrete steps should include a dismantling of security and intelligence agencies that operate without a legal basis or which report only to particular political figures; the integration of the Awakening Councils into regular forces, along with other solutions for the disarmament of combatants; and the coordination of counterterrorism forces and other specialized security agencies with the interior and defense ministries, and their subordination under the law.

The Iraqi leadership should take the opportunity offered by the national unity government to create a truly inclusive political order which addresses the Iraqis' expressed need to be treated as citizens of a state. It should refrain from marginalizing important political actors and large social segments, and make sure 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.

The new government faces huge tasks on all levels. However, several problems continue to fuel cleavages, and need to be addressed strategically if the government is to stabilize the country and foster the democratic process. These key areas include the following:

- Kurdish-Arab tension is not diminishing, but rather carries the risk of even more dangerous confrontations in the future. A serious effort to contain this tension will require confidence-building steps and a mechanism for dispute settlement. The negotiation of agreements between the KRG and the central government on the disputed areas (especially the status of Kirkuk), as

well as on a fair distribution of oil revenues, should take place with reference to a clear timeline for completion. Both sides should refrain from taking unilateral steps such as signing oil and gas deals.

- The leadership should engage in a committed and concerted effort to combat corruption, and to enhance transparency and accountability. This will require a substantially higher allocation of human and financial resources. The presence of endemic corruption should be noted, and benchmarks set; however, the most critical element will be forceful mechanisms for the systematic prosecution not only of low-ranking officials, but also of corrupt individuals that are highly placed. The international community should not only continue providing technical assistance and advice, but should also coordinate donor financial flows and set clear criteria for monitoring spending and follow-up.
- Protecting and supporting the most vulnerable groups such as minorities should be a high priority. In this regard, it will not be enough for politicians to publicly denounce such violence and deploy more security. If the leadership seriously cares about the diversity of Iraqi society, it will have to invest efforts and resources and exert considerable public pressure to engage with religious and community leaders to establish protective measures. It will also be necessary to ensure and expand political representation for minorities, and amend relevant provisions in the Iraqi and Kurdish constitutions. The international community should refrain from focusing exclusively on the plight of the Christian community in contexts such as the admittance of refugees; similarly, it should avoid promoting a “clash of civilizations” discourse, which implies that Christians do not have a place in Iraq.
- After years of neglect, the government should launch a systematic endeavor to solve the internal and external displacement crisis. As a first step, the government should assume responsibility toward displaced persons, especially those in Syria and Jordan and other neighboring countries whose situation has worsened due to the depletion of savings and a general donor fatigue. Responses by the international community to the Iraqi refugee crisis have been sporadic, and since violence in Iraq is believed to be contained, even those countries that admitted large numbers of refugees have begun to shut their borders or even to send refugees back. Donors should continue programs, especially for the most vulnerable refugees, while simultaneously pressuring the Iraqi leadership to tackle this problem.
- Infrastructure development and job creation should be a priority. The government should enable state institutions to provide economic services and formulate policies. It should work on developing and implementing comprehensive economic policies beyond the dominant oil sector, and provide incentives to revitalize the declining agricultural sector and the limited local manufacturing sector. The lack of electricity and water must be addressed; apart from their hazards to health, these deficiencies also impede economic development. The government should study the social impact of privatization and explore the possibility of public-private partnerships. In order to help the private sector, a functioning financial sector with efficient

banking and a network of branch banks must ultimately be created. The international community can provide expertise on the development of economic policies and public-private partnerships. It should refrain from pressuring the government to abandon the public distribution system (PDS) on the grounds that it “distorts the market,” and instead provide assistance in developing efficient welfare systems.

- Investing in education and reducing the gender divide should be part of all development strategies. Iraq was once a country able to boast of a low illiteracy rate and a high number of women holding core political posts; the government should not today neglect the adverse impact the security situation has had particularly on the public participation of women. The government should substantially increase its educational budget, mobilize human resources, and work on establishing frameworks that make it realistically possible for girls and women in rural and urban areas to pursue education, and thus become vocal participants in social, economic and political life. This can be addressed by increasing enrollment rates and combating child labor through alternative family support systems.

All of this will require a clear commitment to a coherent process of building democratic state institutions, on the part of both the Iraqi government and the international community. The fact that different levels of actors have pursued changing and often contradictory approaches to governance and economics in Iraq, and that democratic state-building has always come second to other political objectives, has to date had negative impacts. Even if the construction of democratic institutions is pursued in earnest, insufficient investment of critical human and financial resources will lead only to continued failure, as has been the case to date.