

# BTI 2014 | Iraq Country Report

	scale	score	rank	trend
<b>Status Index</b>	1-10	<b>4.07</b>	# 107 of 129	
Political Transformation	1-10	4.10	# 92 of 129	➔
Economic Transformation	1-10	4.04	# 108 of 129	➔
<b>Management Index</b>	1-10	<b>4.02</b>	# 95 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	32.6	HDI	0.590	GDP p.c.	\$	4245.8
Pop. growth <sup>1</sup>	% p.a.	2.5	HDI rank of 187	131	Gini Index		30.9
Life expectancy	years	69.0	UN Education Index	0.498	Poverty <sup>3</sup>	%	21.4
Urban population	%	66.5	Gender inequality <sup>2</sup>	0.557	Aid per capita	\$	57.2

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The U.S. armed forces withdrew from Iraq on 18 December 2011, certainly the most crucial date for the country's development during the time of consideration for this report.

Since February 2011, in the wake of the Arab Spring, protests have also erupted in many Iraqi cities to petition for better public services and greater political rights. What we have witnessed in Iraq since then is far from an "Iraqi Spring." As Prime Minister Nuri al-Maliki used his second term in office to further consolidate his power, at the cost of plunging the country into a real deadlock with his authoritarian drift. On 19 December 2011, only one day after the full withdrawal of U.S. combat forces, Iraqi authorities issued an arrest warrant for Vice President Tariq al-Hashimi, one of the central opponents to al-Maliki, accusing him of involvement in acts of terrorism. Hashimi fled the country before being sentenced to death five times in absentia. Similarly, then-Finance Minister Rafi al-Issawi's security staff faced police raids and terrorism charges in December 2012, after al-Issawi became the target of bomb attacks on 1 January 2012, and 13 January 2013. The attacks and the raids against his security personnel were widely perceived as power struggle on behalf of the prime minister. This provoked the strongest protests against al-Maliki since coming to power in 2006, mainly in Sunni areas. As of the time of writing, protests are ongoing and the government has partially responded to their demands by releasing prisoners who had already finished their jail terms or whose cases were dismissed for lack of evidence, but other demands including rescinding Deba'thification and the anti-terrorism law have yet to be dealt with by parliament.

With a compliant judiciary and security forces, Maliki has targeted his opponents and moved against independent power centers: the dismissal of Sinan al-Shabibi – the Central Bank's governor – and his replacement by one of Maliki's acolyte is a good example of Maliki's will to control independent bodies. On the other hand, tensions between Baghdad and Erbil erupted in

November 2012 when Baghdad established the Dijla Operations Command, reflecting the central government's efforts to impose its control over the disputed area around Kirkuk.

The human rights' situation remains poor, as torture and arbitrary detentions continue in Iraq, and both federal Iraqi authorities and Kurdistan Regional Government (KRG) authorities have responded to peaceful protests with violence, intimidation and threats.

The state-led oil sector alone provides more than 90% of government revenue and 80% of foreign exchange earnings. The population is still suffering from poor services and high unemployment rates. Investment and the establishment of private business are hampered by outdated legislation, lack of regulations, and widespread corruption. Private sector growth is impeded by the lack of rapid access to financial services and investment credits as well as crumbling infrastructure.

## History and Characteristics of Transformation

After the monarchy's overthrow and the establishment of Republican Iraq in 1958, a number of modernizing reforms were introduced, such as the progressive personal status code of 1959. In July 1968, the military wing of the Ba'th party seized power through a coup d'état that overthrew President Abdel Rahman Aref. Saddam Hussein used his control of the party and its security apparatus to seize power in 1979. The rise in oil prices channeled significant returns that strengthened the regime's ability to shower patronage on selected population groups. Indeed Hussein's dual strategy of redistribution (of privileges to loyal segments) and repression (of opponents) proved successful, given the regime's resilience to external shocks: the eight-year war with Iran (1980 – 1988), defeat by an international coalition in the 1991 Gulf War, and the embargo imposed by the United Nations between 1991 and 2003.

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

Elections for an interim parliament took place in January 2005, although most Sunni Arabs chose not to boycott the vote. This boycott led to the marginalization of Sunnis in the process of drafting the new constitution. Its final version was endorsed in a referendum in October 2005, despite adamant opposition from the Sunni Arab community. This set the stage for the December 2005

elections in which Iraqis chose their first parliament and established their first constitutional government. The elections institutionalized sectarian dynamics, given the parties' organization in ethno-sectarian blocs to maximize their electoral power. Following the destruction of the al-Askari mosque in Samarra in February 2006, the country descended into a full-fledged civil war. Millions of Iraqis were displaced; thousands were murdered.

In 2007 and 2008, a period of relative stability prevailed due to the adoption of viable counter-insurgency strategy and the mobilization of Sunni Arab "Awakening Councils" in the fight against al-Qaeda. The March 2010 parliamentary elections led to a deadlock over government formation that ended in early November 2010 when a power-sharing agreement was reached between the main parties, Prime Minister Nuri al-Maliki's State of Law and former Prime Minister Iyad Allawi's Iraqiya bloc. On 21 December 2010, the Iraqi parliament approved al-Maliki's new cabinet.

The Iraqi economy has been dominated by the oil sector, which historically has generated more than 95% of export earnings and more than 60% of GDP. In contrast, agricultural productivity continuously declined. The heavy war burden from the war with Iran, plus the 1990 U.N. embargo, brought Iraq's economic self-reliance almost to a halt. With the fall of the Saddam Hussein regime in 2003, the trend in Iraq has been toward decentralization and the deepening of a market economy; yet Iraq remains highly dependent on its oil sector, led by its state-owned oil company. Privatization of the many state-owned enterprises (SOEs) constitutes a serious challenge, since any 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 remains relatively small, does not contribute significantly to income generation, and fails to absorb and contain unemployment. A weak financial sector, the lack of security, and ambiguous business-friendly investment laws continue to obstruct the development of the Iraqi private sector.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Question  
Score

In compliance with the Status of Forces Agreement (SOFA) ratified at the end of 2008, U.S. combat forces withdrew from Iraq on 18 December 2011. Although the majority of Iraq's population and political actors welcomed the withdrawal of U.S. troops, serious concerns were expressed in regards to the Iraqi forces' capacity to fill the void. Massoud Barzani – President of the Iraqi Kurdistan Region – claimed on 6 September 2011, that Iraq needs U.S. military presence beyond the fixed withdrawal's date for fear of civil war. Radical Shi'ite cleric Muqtada al-Sadr fiercely opposed any foreign troops' presence and called on his followers to attack U.S. troops if they remain after scheduled withdrawal. While Foreign Minister Hoshyar Zebari stressed Iraq's need for U.S. trainers to support Iraqi Security Forces (ISF), no more than 200 American military personnel remained in ten bases in Iraq to provide training in counterterrorism to Iraqis as well as instructions in operating American-made tanks and F-16 fighter jets.

Monopoly on the  
use of force  
4

Still some local, very diverse, actors 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. The government led by Prime Minister Nuri al-Maliki favors the integration of the peshmerga into the main body of the Iraqi forces. The Kurds' main concern is related to the peshmerga's status as guarantor of a modicum of autonomy vis-à-vis Baghdad. Disputes between Baghdad and Erbil persist over financing of the peshmerga. Al-Maliki insists that funding from the federal budget cannot be allocated to the Kurdish forces until they are integrated into the Iraqi security forces.

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 with al-Qaeda in Iraq. Realizing

the potential risk of simply ceasing support for this group, Baghdad offered 100,000 government and police jobs to the Sahwa members (though only half that number have been hired), while paying others to provide security in Sunni areas. However, their loyalty remains uncertain, especially in light of reported defections to the ranks of 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, 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 him, is worrisome.

The series of bombings and shootings that have taken place across the country since the end of 2011, from targeted assassinations to car bombs aimed at a large number of casualties, demonstrates the presence of forces that strongly reject the idea of an Iraqi nation-state and its failure of nation-building post-2003.

State identity  
4

There is a widespread perception of unachieved citizenship among members of the Sunni community. Sunnis feel marginalized, politically sidelined, targeted by the anti-terrorism law (namely article 4) used by the government to legally pursue them. Protests against the perceived discrimination of Sunnis sparked first in restive al-Anbar then spread to Nineveh, Salah al-Din and Sunni parts of Baghdad. In the weeks after, tens of thousands of Sunnis took to the streets to express their frustrations, blocking the main trade route to Jordan and Syria. Despite the fact that some of the protesters' demands are reflective of common grievances among Iraqis (such as security and services), the protests have only taken place in Sunni areas and have been portrayed by the authorities as "Sunni protests."

For a significant body of the Shi'ite community, Maliki's government is legitimate, despite acknowledging its failures. Indeed Maliki is playing the Shi'ite card internally by evoking the specter of a Ba'athist threat in order to retain his power.

The situation is critical between Prime Minister al-Maliki and Massoud Barzani, the President of the Iraqi Kurdistan Region. Tensions with Baghdad erupted in November 2012 when it established the Dijla Operations Command, a new military command

covering disputed territory around Kirkuk, Diyala and Salah al-Din provinces. According to Barzani the action was “unconstitutional” as these forces were formed without parliamentary consent, and they reflect the central government’s efforts to impose its control over this disputed area. Both sides sent troops along the arc of disputed territory that spans the borders of the semiautonomous Kurdish enclave. These renewed tensions are highly linked to the Kurds’ long-standing yearnings for an Independent state in northern Iraq.

Given that the annexation of the oil-rich district of Kirkuk to the zone under Kurdish control would make such an independent Kurdish state much more viable and plausible. President Jalal Talabani’s – a go-between in the conflict between Erbil and Baghdad – health conditions and related absence from Iraq fuel fears of crisis.

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 the ‘established provisions of Islam’ and the “principles of democracy.” The text of the constitution was formulated in vague terms that require further legislation for implementation. The relative strength of religious- and secular-minded actors in parliament will hence impact the interpretation of these provisions. Article 41 of the constitution, for example, vaguely stipulates that Iraqis are free to choose their personal status courts according to their sectarian affiliation. In practice, that means that religious actors could gain upper hand, and religious personal status courts might be established for the various sects, replacing the existing state personal status courts. Heated debates that have emerged over the personal status law not only reflect disagreement on family-related matters and women’s rights, but also a broader struggle over how to define the relation between religion and state.

No interference of religious dogmas

5

In practice, Iraq’s civil and criminal courts are often avoided by parts of the population, who, depending on social class and financial means, resort to tribal and religious figures for the settlement of disputes and private matters.

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 is still highly insufficient. Over several days through January and February 2011, people demonstrated in numerous governorates over multiple issues, including corruption, insecurity, poor services, unemployment, and political rights. The movement culminated on February 25, 2011, known as the “Day of Rage,” when demonstrations were held in around 60 towns and cities across 16 governorates. In March-April 2011,

Basic administration

4

similar protests erupted in semi-autonomous northern Kurdistan against the regional government.

The targeted killings of academics (459 academics assassinated from 2003 to 2011), professionals, and the massive displacement of the educated middle classes have deprived the country of valuable human resources; they have taken a heavy toll on sectors such as health, education, and higher learning. The consequences will be felt for years to come. The state administration has still not managed to restore smooth electric power generation, so the population struggles with persistent electricity cuts. 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, equipped, and more effective than others. Law enforcement nevertheless remains constrained by the lack of necessary capacities and by rampant corruption. Tax authorities exist in Iraq, but no statement about the scope of their functioning can be made.

## 2 | Political Participation

The last elections in Iraq were the March 2010 parliamentary elections. While the elections' legitimacy was mostly acknowledged, disagreements over 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 alleged to have been senior members of the outlawed Ba'th party. As the majority of political parties lack party programs, support for parties was often based less on democratic choice than on patronage networks or group affiliation.

Maliki challenged the election results, which showed that his main opponent Iyad Allawi and his Iraqiya list had won the elections by two seats (i.e. Allawi's Iraqiya bloc won 91 seats and Maliki's State of Law 89 seats in 325 seat parliament), and the Supreme Federal Court ordered a manual recount that confirmed the results.

A deadlock over government formation continued for nine months. The re-merger of Maliki's State of Law and his erstwhile Shi'ite partners, the Iraqi National Alliance, into the National Alliance (producing the largest bloc in parliament), along with U.S. and Iran's influence gave momentum to the negotiations to form the government. Maliki succeeded in being the acceptable choice of both the U.S. and Iran. In early November 2010 an agreement was reached regarding power-sharing between the main parties. The Council of Representatives then elected the Sunni Usama al-Nujayfi (al-Iraqiya bloc) as speaker of parliament, and the Kurdish Jalal Talabani as President of Iraq who officially nominated Maliki for a second term in office. Thus Maliki's second cabinet was presumably a coalition government based on the principle of power-sharing; details of the reached pact were nailed down in a

Free and fair  
elections

7

document known as the “Erbil agreement.” Today, both Sunni and Kurdish, political leaders’ primary complaint is that Maliki has either failed to implement or violated this agreement.

The ability of the Iraqi Council of Representatives (parliament) to exercise oversight over the cabinet has been constantly eroded by Maliki’s autocratic drift. Since his second term in office, Maliki has relied on the support of the Federal Supreme Court that routinely appeared to rule in favor of the government. Under the current constitutional framework, the court has exclusive jurisdiction to interpret the constitution. Thus, via controversial court’s rulings, key institutions such as the central bank, the High Independent Electoral Commission, the Integrity Commission (anti-corruption) now fall under direct control of the cabinet rather than the parliament. Moreover, Maliki’s critics accuse him of appointing senior army and police commanders without seeking the parliament’s approval; this contravenes the constitution.

Effective power to govern

4

Maliki is also accused by the opposition of refusing to implement the power-sharing deal agreed to by Allawi and Barzani. Instead of distributing top security posts in the cabinet among main parties, as stipulated in the deal, Maliki occupied them himself in an acting capacity. Not to speak of the National Council for Strategic Policy – the second pillar of the deal – which has never seen the light of day. This council was supposed to be headed by Allawi (al-Iraqiya’s bloc leader) to discuss strategic issues, set policies and allow checks on government’s direction. While a draft bill was submitted to parliament, major disagreements between political blocs about the constitutionality of the council meant that it was never approved.

Iraqi civil society groups managed to influence the draft on non-governmental organizations (NGO) law in their favor, securing minimal government interference in their affairs. The NGO law was passed by the parliament in January 2010, with major improvements compared to the 2009 draft. An application for registration could be rejected for any reason in the previous draft, while the new law instead requires that the denial of registration be tied to a specific provision in law. The ability to audit or inspect an NGO office is now granted only with cause; and the suspension of an NGO and confiscation of its property requires a court order.

Association / assembly rights

6

Trade unionism is still a controversial issue. The constitution calls for a new labor law that defends the rights of workers to unionize and bargain collectively, although Iraq still lacks a legal framework that meets International Labor Organization (ILO) standards. Some trade unions such as the Iraqi Journalists Syndicate and the Iraqi Teachers Union do exist despite the lack of clarity on their right to independence.

While freedom of assembly is enshrined by the constitution, real setbacks attained assembly rights. Both federal Iraqi authorities and Kurdistan Regional Government (KRG) authorities responded to peaceful protests with violence, intimidation and

threats. During nationwide demonstrations on 25 February 2011 (fighting corruption and demanding greater civil and political rights), at least twelve protesters were killed by security forces across the country, and more than 100 were injured. In anti-governments' protests in the Kurdish region (March – April 2011) masked assailants set on fire the demonstrators' tents. In May 2012 the Council of Ministers approved a "Law on the Freedom of Expression, Assembly, and Peaceful Demonstration" that allows officials to restrict freedom of assembly to protect "the public interest" and "general order or public morals." The same tendency continued in 2013, when Maliki warned that the Sunni anti-government rallies would not be tolerated indefinitely. On 25 January 2013, five protesters were killed and more than 20 wounded when soldiers opened fire at stone-hurling demonstrators near Falluja.

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' 2012 Impunity Index, for the fifth consecutive year. 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. Journalists who covered Kurdistan's protests in 2011 were threatened by security forces and by their proxies; who subjected them to arbitrary detention, harassment, and seized or destructed their equipment. And in September 2012, a popular radio journalist critical of government's corruption was shot dead after receiving threats not to return to Baghdad's Tahrir square.

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

But recent developments are also worrying: Iraq's Journalist Protection Law, passed in parliament in August 2011, imposes restrictions on who can be defined as a journalist and how one can access information, and more importantly, it fails to offer any meaningful protection to journalists. In July 2012 the parliament debated a proposed cybercrime bill, which carried a penalty of life imprisonment for such violations: using internet to "harm the reputation of the country" or broadcasting facts intended to "damage the national economy." The bill was subsequently scrapped after civil society organizations expressed objections to the draft text.

Freedom of  
expression

4

### 3 | Rule of Law

The separation of powers is provided for and is institutionally in place, officially. In practice, however, boundaries between the executive, the legislative and the judiciary are blurred.

Separation of  
powers  
5

The country's power-sharing formula entails a process in which state institutions are "given" to one or another power group, so that none ends up without its own portfolio; failure to satisfy the main parties' demands or to fulfill power-sharing agreements plunge the country in a political deadlock.

The negotiations over government formation after the 2010 parliamentary elections resulted in the establishment of the so-called "Erbil agreement" between Maliki, Allawi and Barzani. One of the pillars of this deal is the creation of a new governmental body, the National Council for Strategic Policy, which leadership was assigned to Allawi. This 20-member body was supposed to be overseeing Maliki's major security and foreign policy decisions. Instead the parliament and the council of ministers have never decided on the scope of power that would be given to this new council, as Maliki viewed it as a direct challenge to his power. The agreement requested Maliki to distribute top security posts among the main parties. Due to the failure to reach agreement over who should fill these positions, Maliki occupies these posts himself in an acting capacity. With his compliant judiciary, Prime Minister Maliki acted against autonomous power centers, any who defied his rule or criticized the government. This is the case of Independent High Electoral Commission's head Faraj al-Haidari jailed for corruption after Maliki failed to win the expected majority in 2010 elections, as well as the governor of the central bank, Sinan al-Shabibi, indicted controversially for corruption and currency manipulation. Shabibi was replaced by Maliki's acolyte Abdel Bassit Turki, giving Maliki's government control over central bank's funds and allowing it to ignore Shabibi's advice that the resources of the bank should be separate from those of the ministry of finance.

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

Independent  
judiciary  
3

Since his second term in office, Maliki has relied on the support of the Federal Supreme Court that routinely appeared to rule in favor of the government. Under the current constitutional framework, the court has exclusive jurisdiction to interpret the constitution. By means of controversial court's rulings, key institutions such as the Integrity Commission (anti-corruption) now fall under direct control of the cabinet rather than the parliament. The court has also come under criticism for being an accomplice in Maliki's efforts to prosecute his opponents by issuing arrest warrants

against politicians and holding trials that do not guarantee the minimum rights to suspects. One day after the withdrawal of U.S. combat forces, on 19 December 2011, an arrest warrant was issued against Vice President Tariq al-Hashimi (a Sunni politician belonging to al-Iraqiya bloc), accusing him of involvement in acts of terrorism and masterminding of death squads. Hashimi, who first fled to Kurdistan region then to Turkey, has been sentenced to death five times in absentia. Almost one year after Hashimi's arrest warrant, on 20 December 2012, the Iraqi government's raids on finance minister Rafi al-Issawi's (another Sunni politician from al-Iraqiya bloc) security staff on terrorism charges, was perceived as another example of governmental manipulation of the judiciary, and triggered the strongest protests Prime Minister Nuri al-Maliki has faced since coming to power in 2006. On 1 January 2012, and 13 January 2013, al-Issawi became the target of bomb attacks that he both survived but which were perceived as targeted killing attempt.

Chief Justice Judge Medhat al-Mahmoud simultaneously headed (from 2005 to 2013) the Iraqi Higher Judicial Council, the Federal Supreme Court and the Federal Court of Cassation; he was accordingly criticized for his dominance of the judiciary. On 13 February 2013, the Iraqi panel tasked with purging government ranks of former members of Saddam Hussein's party removed al-Mahmoud from his post because of alleged ties to the Ba'ath party. The dismissal of al-Mahmoud could be analyzed as a step to stymie Maliki's power.

The degree of corruption existing on all levels – in both public and private sectors – from small bureaucrats to the highest political echelons, suggests that the few existing anti-corruption mechanisms are having little impact. The government has launched an anti-corruption national campaign. 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 dominant 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 isolated anti-corruption actions against influential political actors were either used to convince the public of the government's commitment to fighting corruption or to target Maliki's opponents. For example, Iraq's central bank governor Sinan al-Shabibi was ousted in October 2012, for charges of corruption and currency manipulation; reports speculated that this was politically motivated to give Maliki's government control over central bank's funds after two years of conflicts between its governor and the prime minister.

Prosecution of  
office abuse

2

The Iraqi constitution guarantees civil rights. Legal frameworks and a ministry of human rights exist; however, the de facto situation provides a much bleaker picture.

Civil rights

4

Human Rights Watch (HRW) estimates that arbitrary detentions continue, including those in secret prisons outside the custody of the interior and justice ministries. Camp Honor – a secret detention facility where HRW documented systematic torture – continued to be used as late as in March 2012. Detainees continued to be tortured by

security forces as reported after mass arrest campaigns in late 2011 and March 2012. 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 terrorist acts. As of mid-November 2012, the Justice ministry announced 129 executions, up from 68 in 2011.

Due to financial hardship, women in Iraq are highly exposed to trafficking for sexual exploitation and prostitution. In April 2012 the parliament passed a law to combat the trafficking of human beings. In September 2012 Iraqi authorities announced the arrest of a Baghdad trafficking network's leader, but little has been done since. In June 2011 the KRG parliament passed the Family Violence Bill, criminalizing forced and child marriages, abuse of girls and women, and totally banning female genital mutilation, although implementation of the law remains ineffective.

#### 4 | Stability of Democratic Institutions

Democratic institutions do exist 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.

Performance of  
democratic  
institutions  
4

The ability of the Iraqi Council of Representatives (parliament) to exercise oversight over the cabinet has been constantly eroded by Maliki's tendency to concentrate power in his hands. Using a compliant judiciary that routinely appeared to rule in favor of the government, Maliki managed to put key independent institutions (such as the Integrity Commission) under direct control of the cabinet rather than the parliament. Moreover, Maliki's critics accuse him of appointing senior army and police commanders without seeking the parliament's approval, which contravenes the constitution.

The constitution, which should serve as the main reference for the role of democratic institutions and citizens' rights, lacks legitimacy to a large extent within Iraq, especially among actors who were marginalized in its drafting process, as it was a product of negotiations between only a small number of political actors.

Commitment to  
democratic  
institutions  
4

Prime Minister Maliki's increased grip on power and his refusal to implement – or his violation – of the power-sharing agreement has fueled a political crisis. Rejecting Maliki's authoritarian drift, Massoud Barzani, President of the Iraqi Kurdistan Region, headed a no-confidence vote against the prime minister in June 2012. He worked together with the secular yet Sunni backed Iraqiya bloc, the Sadrist bloc, the

Islamic Supreme Council of Iraq, and some Kurdish parties. Though they failed to trigger a vote of no-confidence, Maliki's opponents began campaigning mid-November 2012 for the introduction of "term limits" in an attempt to block Shi'ite leader from running for a third term in 2014. On 26 January 2013, Iraq's lawmakers voted for the law (blocking al-Maliki from his third term), but the legislation still needs the president's approval.

## 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. The party system remains fragmented and the level of polarization high. Only a few Iraqi parties (such as Da'wa, 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.

Party system  
4

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). 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 range of cultural and socio-political matters remain neglected and without articulation or support.

Interest groups  
3

Public consent to democratic norms cannot be properly assessed, as reliable data from opinion polls or similar sources are barely available. A 2012 survey by the Arab Center for Research and Policy Studies, based in Doha, showed comparatively low support for democracy among the Iraqi population. Only 17% of polled Iraqis “fully agreed” with the statement that “in spite having its problems, a democratic system is better than other systems.” Added by the 38% who “agree,” the overall support of 55% is the lowest level of all 12 MENA countries included in the survey (having an average consent of 67%). Also, with 30% of people who “oppose” or “strongly oppose” this statement, Iraq has the most citizens being skeptical towards democracy.

Approval of  
democracy  
4

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. Other fields, such as humanitarian aid or informal education, may display higher degrees of voluntarism.

Due to largely absent basic state services, it might 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 still characterized by an intense degree of deprivation. Around 25% of Iraq’s population lives below the poverty line (2008 estimates), which means living on less than \$2 per day. Poverty is higher in rural areas and varies regionally, with relatively higher poverty rates in the central and southern governorates (Muthana, Babil and Salaheddin) as compared to the Kurdish governorates. High poverty rates are generally attributed to high unemployment rate (16% as of 2012), decline in education level, and rampant corruption.

Socioeconomic  
barriers  
3

The literacy rate for both sexes is of 78.2% (in 2010), with an illiteracy rate among women almost reaching 30%. Only 52.9% of both sexes have access to secondary

schools and 16.4% to tertiary education; ratio of female to male enrollment shows that women have even much lower access to both secondary (74.8%) and tertiary (59.9%) education.

Although some improvements are visible, Iraqi health facilities are still struggling to cope. Access to health services is limited (1.3 hospital beds/1,000 Iraqis in 2009) and geographically extremely uneven, with a strong urban-rural gap.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	111660.0	135488.5	180606.8	<b>210279.9</b>
GDP growth	%	5.8	5.9	8.6	<b>8.4</b>
Inflation (CPI)	%	6.9	2.9	5.8	-
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	1.4	1.0	0.8	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-1128.5	6488.3	26126.0	<b>29541.0</b>
Public debt	% of GDP	84.0	51.6	40.2	<b>34.2</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
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	6.6	6.9	6.7	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.7	2.6	3.3	<b>2.9</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

Iraq has continued to decentralize its governance structures and move toward a market-based economy; yet significant parts of the industrial and banking sectors remain 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 provides more than 90% of government revenue and 80% of foreign exchange earnings. A very few large companies, a number of small and medium-sized enterprises (SMEs), and a relatively large number of micro-enterprises now characterize the private sector.

Market-based  
competition  
4

Investment and the establishment of private business are hampered by outdated legislation and lack of regulations, inconsistent and discretionary rule implementation, conflicting interests between public servants and private investors, widespread 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; lengthy procedures and above-average prices in regional comparison for company registration; crumbling infrastructure; and so, in the absence of a well-functioning labor market, informal labor activity persists in many sectors.

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. However, 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. However, no further progress has been recorded to date.

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 ten years.

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

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

The banking system in Iraq is weak, and the majority of its operations are limited to basic consumer transactions. The seven public banks account for 96% of banking sector assets. The 32 private banks and six Islamic banks are much smaller in importance: 450 of the 550 bank outlets across the country belong to one of the public banks. Eleven 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 an effective monetary policy.

Banking system  
4

The Central Bank of Iraq (CBI) and the ministry of finance have committed themselves to establish a Bank Reconciliation Unit (BRU) to deal with the inherited past external liabilities of al-Rafidain and al-Rasheed Bank (the two main public banks). The goal is to modernize them, and thus to drive them toward operation on a fully commercial/market basis. According to a World Bank assessment, released on 24 September 2011, performances of these two banks remains unsatisfying.

As for the Trade Bank of Iraq (TBI), established as an independent government entity 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.

## 8 | Currency and Price Stability

The government's monetary policy since 2003 has focused on maintaining price stability and exchange rate predictability. The increase in goods and services imports reduced inflationary pressure, which allowed the Central Bank of Iraq (CBI) to pursue a monetary and exchange rate policy that successfully tempers inflation. As a result inflation has remained in the low single digits since 2010. According to the CBI, the inflation is around 3.61% (December 2012 estimates), and the country's international

Anti-inflation /  
forex policy  
7

reserve volume also remains broadly stable. In January 2012, the CBI raised the exchange rate of the Iraqi dinar (IQD) against the U.S. dollar by 3.4% making it 1.166 (compared to the quasi-fixed rate of 1.170 since 2009). The CBI will continue to aim at keeping inflation low, and is additionally slated to improve its internal audit function in line with the IMF's safeguard assessment, completed in June 2010.

The independence of the CBI suffered a setback in January 2011, when Prime Minister 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. This tendency was confirmed in October 2012 by the removal of the widely respected CBI governor Sinan al-Shabibi, and his replacement by Abdel Bassit Turki – perceived as Maliki's acolyte.

According to the IMF, Iraq's external and public sector debts are projected to decline rapidly with the country's steady increase in oil production. Since 2003 the reduction of Iraq's debt to a sustainable level, along with debt relief negotiations, has been a CBI priority. This led to an 80% reduction of the Paris Club debt, while negotiations with non-Paris Club creditors are still ongoing. Thus Iraqi external debt has been reduced to \$45 billion in 2010, compared to \$130-140 billion in 2003. On the other hand, the Iraqi government agrees on the need to reduce the budget deficit to 10% of GDP (2012 CBI forecast) as a step toward regaining fiscal sustainability.

Macrostability

6

According to Abdel Bassit Turki, the current CBI governor, Iraq is expected to achieve a 9% growth due to increased oil production (3 million barrels of crude oil per day for the first time in 30 years) and the GDP will reach \$150 billion by the end of 2013. This outlook remains vulnerable to non-stable oil-production; the volatility of oil prices poses considerable downside risks.

## 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 "owner has 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. Yet 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.

Property rights

4

A special problem constitute the property right question for the more than four million internally displaced people who left their belongings when leaving home. Due to lack

of proper documentary, but also because of lengthy administrative procedures and high costs, claims for lost property are usually difficult to realize.

Private companies are permitted in Iraq, but in practice their establishment faces many challenges, from a lengthy and comparatively costly registration process to a weak framework of legal provisions and regulations for consumer protection or production standards and investment incentives. Regulatory protection is dependent on the implementation of national legislation which is often non-transparent, arbitrary, and subject to abuse by public officials pursuing their own personal interests. Essentially, the greatest challenge today for private business in Iraq is not security or a lack of basic economic data about Iraq's imports, exports, and GDP, but the Iraqi bureaucracy and its attendant corruption.

Private enterprise  
4

Real reforms are needed; private sector's growth could reduce the reliance on the oil sector and create more jobs for Iraq's growing working force.

## 10 | Welfare Regime

Despite the fact that delivery of basic social services has been slightly improved, noticeable welfare gains are not yet visible. The only significant social safety net provided in Iraq is the Public Distribution System (PDS). It 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. PDS provides a monthly nine-item food ration that many Iraqi families have come to depend on since its establishment in 1991. According to the World Food Program, the rates of food insecurity in Iraq fell from 7.1% in 2007, affecting 2.2 million Iraqis, to 5.7% in 2011, affecting 1.9 million people. However, PDS is hampered by poor internal controls and accountability, inefficiency in supply-chain management, and concerns over the quality of food were repeatedly voiced.

Social safety nets  
3

Despite the existence of some government-provided basic health care services, the availability and quality of which are open to question, especially given that Iraq does not have a social health insurance scheme. Moreover, Iraq's pension system has structural problems in terms of financial sustainability, efficiency and equity.

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 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. Externally and internally displaced Iraqis are excluded from various political processes and from services. Targeted attacks against minorities add to the vulnerability of population groups, cutting across social classes.

Equal opportunity  
3

Iraq has been ranked 59 out of 86 in the 2012 Social Institutions and Gender Index; its Gender Inequality Index score is of 0.579 placing it at 117 out of 146 countries. Conservative patriarchal 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. Repeatedly controversial debates took place over the abolition of 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. 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. Though a state ministry for women's affairs was formed after 2003, it has achieved no progress on any women-related issues as it is poorly funded and remains mostly ceremonial.

## 11 | Economic Performance

The overwhelming majority of federal revenue comes from oil income. Hence, the positive expectations of Abdel Bassit Turki, the current Central Bank of Iraq's (CBI) governor, predicting a 9% growth and a total GDP of \$150 billion by the end of 2013 must be considered with care. The current oil production of an average 3 million barrels of crude oil per day, reached for the first time in 30 years, is expected by the ministry of oil to rise to up to 6 million barrels per day until 2016; however, these predictions disregard the existing deficiencies in energy and transportation infrastructure. This applies not only for the oil sector, but also in principle; dilapidated infrastructure, accompanied by an outdated and rigid legislative framework, restricts the transformation of the formerly centralized economy to a market-based economy and the emergence of a strong local private sector.

High poverty rates are generally attributed to high unemployment rates (16% as of 2012), decline in education level and rampant corruption.

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 1.8 billion Iraqi dinars (ca. \$1.5 million) per year.

Iraqi external debt has been reduced to \$45 billion in 2010, compared to \$130-140 billion in 2003. Overall, the statistics' reliability is disputed. For example, Iraq's official budget deficit, announced at 10-12% of GDP in early 2013, is seen by observers as much lower. Critics argue the government would intentionally use faked data to receive more financial aid from external donors.

Output strength  
5

## 12 | Sustainability

Iraq's National Development Plan 2010 – 2014, issued by the ministry of planning and development cooperation, stipulates that environmental concerns were not sufficiently taken into account during the post-Saddam Hussein years. All environmental elements —air, water, and soil— are tangibly polluted; this adds further constraints to the already severely damage caused by earlier weapons, particularly radioactive uranium. Despite this open assessment, the plan's allocation of anticipated investment does not explicitly include investment in environmental issues, and Iraq's 2012 Environmental Performance Index score is a meager 25.3, which means that the country is ranked last in a list of 132 countries. 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 actually happening, nor as to whether clear criteria for evaluation have been created. The strength of the Iraqi oil 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.

Environmental  
policy  
2

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 4.6% of GDP (as of 2012). 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.

Education policy /  
R&D  
3

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.

## 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.

Structural  
constraints  
9

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. While Iraq boasted a record low illiteracy rate for the Middle East in the 1980s, this rate jumped to more than 20% in 2012. Corruption in the public sector has led to unqualified personnel being hired for sensitive positions.

Iraq has not generally been subject to natural disasters, but human-made environmental and health problems, such as contamination by chemical weaponry used by the coalition forces, are abundant. 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. 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.

Despite a history of trade union activism that aggregated socioeconomic demands as well as an early and influential women's movement, decades of authoritarianism practically obliterated Iraqi civil society whose engagement today is weak.

Civil society  
traditions  
8

In the Kurdish governorates, civil society tradition re-emerged 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.

The general social and ethno-confessional fragmentation is mirrored in civil society, making it difficult for broad-based social movements to take root. Therefore, a growing civil society has not been translated into the creation of social trust, overcoming confessional cleavages or anchoring a civic culture in society.

The renewed series of bombings and shootings that have taken place across the country since the end of 2011, ranging from targeted assassinations to car bombs aiming a large number of casualties, demonstrate the failure of Iraqi nation-building post-2003.

Sunnis feel marginalized, politically sidelined, targeted by the anti-terrorism law (namely article 4) used by the government to legally pursue them and to get rid of Maliki's political opponents among Sunni politicians. The raids on Finance Minister Rafi al-Issawi's (a Sunni politician from al-Iraqiya bloc) security staff on terrorism charges, triggered the strongest protests Prime Minister Nuri al-Maliki has faced since coming to power in 2006. Despite the fact that the protests are reflective of common grievances among Iraqis (such as security and services), they have only taken place in Sunni areas and have been portrayed by the authorities as "Sunni protests."

New tensions between Baghdad and Erbil erupted in November 2012 when Baghdad established the Dijla Operations Command, a new military command covering disputed territory around Kirkuk, Diyala and Salah al-Din provinces. According to Massoud Barzani, President of the Iraqi Kurdistan Region, the action was "unconstitutional" as these forces were formed without parliamentary consent, and they reflect the central government's efforts to impose its control over this disputed area. Both sides sent troops along the arc of disputed territory stretching the borders of the semiautonomous Kurdish enclave.

Conflict intensity  
9

## II. Management Performance

### 14 | Steering Capability

A number of guiding strategic planning documents were developed for Iraq with the assistance of foreign actors, mainly the United Nations, namely the National Development Plan (2010 – 2014), and the United Nations Development Assistance

Question  
Score

Prioritization  
3

Framework (2011 – 2014). These documents primarily constitute an expression of desired actions and outcomes, containing only limited information on concrete steps or reform plans based on a thorough assessment of 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. The lack of unified approaches within the government toward solving key issues shows the high degree of politicization of such issues.

The main primary national strategic priority at the present time is restoring oil sector functioning to optimal capacity. Iraq awarded contracts to major oil companies to refurbish its oil fields, with the goal of expanding production capacity to 12 million barrels per day (bpd) by 2016. While oil production increased as the country is producing more than 3 million bpd for the first time in three decades, observers agree that the 12 million bpd target will be impossible to reach within the time period envisioned by the Iraqi leadership. In recent times, the ministry of oil has revised its production target to a more realistic 6 million bpd by 2016.

Implementation  
5

Challenges ahead include the need for a complete reconstruction of the neglected 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.

An area where progress has been made is the monetary policy. The Central Bank of Iraq (CBI) has pursued a monetary and exchange rate policy that successfully tempers inflation. As one consequence, inflation has remained in the low single digits since 2010. Iraq's international reserve volume also remains broadly stable.

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 the International Organization for Migration (IOM) on the displacement crisis; 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. Not all of this takes place in a concerted manner, however, 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 are rare.

Policy learning  
5

## 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 is undermined by vested interests and corruption. 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 contrast 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.

Efficient use of  
assets

3

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. The government has supposedly reduced the public deficit to 10-12% of GDP in late 2012, compared to 19% in 2010, but reliability of these data are disputed.

The Iraqi coalition government does not only experience the "typical" coalition challenges like opinion differences and internal disputes, but also faces some additional country-immanent obstacles. An effective government coordination was largely absent, due to the prolonged period of government formation in 2010 followed by a political stalemate triggered by the unwillingness/failure of political blocs to agree on a coherent power-sharing agreement. The late targeting of Sunni politicians, the resignation of Finance Minister al-Issawi as well as the potential resignation of all members of the government belonging to al-Iraqiya bloc aggravated the crisis. 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

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."

Anti-corruption  
policy

3

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.

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's 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 democracy. But although democracy has more or less been adopted in principle 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. 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.

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

Only few outright anti-democratic actors continue to exist in Iraq, among them militant 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 Nuri al-Maliki

Consensus on goals

6

Anti-democratic actors

5

himself, display today disturbingly authoritarian tendencies to target opponents and to place independent bodies under their own control. Yet an actor like Muqtada al-Sadr, head of the Sadrist Movement which previously engaged in violent actions against the United States and other coalition's forces, has transformed his movement into a political party participating in government, holding seats in parliament and lately joining the opposition against Maliki.

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.

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.

Cleavage /  
conflict  
management  
2

This fear of revenge 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. The formation of a coalition government might help as a first step toward bridging some of these gaps; however, it is insufficient. Serious improvements in terms of increasing cross-sectarian participation and depoliticizing the state's institutions are needed too.

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 ministries that are mostly concerned with civil society issues, namely the ministry for women's affairs and the ministry of human rights, are viewed with suspicion by progressive civil society leaders because of non-transparent recruitment, a lack of expertise, minimal civil society participation and their susceptibility to political influence.

Civil society  
participation  
4

Civil society actors have taken over some service-provision roles. Some of them have managed to force themselves onto the political agenda, for example in the issues of election and corruption monitoring. Despite such a limited leeway, the cybercrime bill (suggested by the parliament in July 2012) was subsequently scrapped after pressure from civil society actors that organized sustained demonstrations and focus group meetings to express objections to the draft text.

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.

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. Another key institution is the Commission for the Resolution of Real Property Disputes (CRRPD), created in 2003. It 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, Deba'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.

## 17 | International Cooperation

The Iraqi government makes use of international financial and technical assistance, but 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 in June 2011, when Usama al-Nujaiifi – speaker of parliament – stated that Iraq's Development Fund has lost around \$18 billion and the documents of expenditure are missing. This goes back to 2003 – 2004 as these funds were intended for reconstruction efforts, which never occurred, suggesting that both U.S. and Iraqi officials have mishandled this money.

In many cases the government has also relied upon international assistance while neglecting its own responsibilities. Its reaction to the displacement crisis has been wholly insufficient, leaving refugees to depend exclusively on 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.

Reconciliation

3

Effective use of support

6

In 2009 and 2010, a tendency prevailed within the international community that Iraq's most bloody chapter had closed and that the primary challenge had become one of state building. Unfortunately, this positive image has been largely damaged during Maliki's second term in office.

Credibility  
4

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 (August 2012 country profile), for example, concludes that Iraq "continues to be one of the world's most dangerous countries, a symptom of a weak and troubled central government." The struggle between factionalized elites further impedes political reform and any democratic progress. For Human Rights Watch (2012 – 2013 reports), Iraq's Human rights conditions are extremely poor especially for journalists, prisoners and women; both Central and Kurdistan Regional Governments have responded with violence and threat to peaceful protests since 2011.

The Iraqi government's foreign relations are deeply entrenched within the regional balance of power. Despite the full U.S. military pullout at the end of 2011, the United States continue to intervene in the Iraqi political scene, and sometimes act as mediator of last resort in conflict situations when Iraqi actors are unable to reach final agreement.

Regional  
cooperation  
7

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. Relations with Syria are rather complicated. The infiltration of al-Qaeda fighters and other militant groups through the fragile Syrian-Iraqi borders is a highly challenging issue for the Iraqi government. Iraq's prime minister clearly fears the formation of a coalition between Iraqi Sunni opponents and hardline Sunni leaders within a potentially new Syrian regime.

Despite some signs of rapprochement between Kuwait and Baghdad in 2011 (with the first visit of a Kuwaiti prime minister since the 1991 Gulf War), the construction of Mubarak al-Kabir port by Kuwait on Bubyah Island raised concerns about Iraq's shipping industry and could be a potential source of tension. The new Kuwaiti port, according to some opponents of the project among Iraqi members of parliament and Basra inhabitants, would block Iraq's access to the Persian Gulf, Iraq's only waterway.

While some 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. Iran continues to have considerable influence in Iraqi politics. Economic ties with Turkey are growing stronger, although on the political level the inflammatory rhetoric between Turkish Prime Minister Erdoğan and al-Maliki led to frosty relations of late.

## Strategic Outlook

Iraq's predicament goes far beyond the non-implementation of the Erbil power-sharing agreement or Maliki's authoritarian tendency; it is rather rooted in the inability to overcome Saddam Hussein's legacy that created a culture of mutual distrust. Thus, while Shi'ite parties fear that Sunnis are seeking to end Shi'ite-led rule, some Sunnis are convinced that Shi'ite politicians are determined to marginalize them. Thus, the Iraqi leadership should create a truly inclusive political order to address 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.

Several problems continue to drive Iraqis apart, and need to be addressed strategically. 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. 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.
- 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, but the most critical element will be forceful mechanisms for the systematic prosecution of not only low-ranking officials but also corrupt individuals who are highly placed.
- Infrastructure development and job creation should be a priority. The government should enable state institutions to provide basic services. 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. To help the private sector, a functioning financial sector with efficient banking and a network of branch banks must ultimately be created.