

BTI 2016 | Iraq Country Report

	scale	score	rank	trend
Status Index	1-10	3.53	# 112 of 129	
Political Transformation	1-10	3.45	# 107 of 129	↘
Economic Transformation	1-10	3.61	# 113 of 129	→
Management Index	1-10	4.26	# 88 of 129	

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. 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	34.8	HDI	0.642	GDP p.c., PPP \$	14468.6
Pop. growth ¹	% p.a.	3.0	HDI rank of 187	120	Gini Index	29.5
Life expectancy	years	69.5	UN Education Index	0.467	Poverty ³	% -
Urban population	%	69.4	Gender inequality ²	0.542	Aid per capita \$	45.6

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

The political process in Iraq is altering. The country still suffers from the repercussions of the sectarian policies of former Prime Minister Nouri al-Maliki. The harsh security response to peaceful Sunni protests against al-Maliki in 2013 gave various Sunni armed groups a pretext for action. Militants from the Islamic State of Iraq and the Levant (ISIL, also called ISIS or Daesh) harnessed Sunni frustration and seized major parts of al-Anbar province, followed by Mosul and other areas of Nineveh and Salaheddin provinces. By the end of June 2014, ISIL had announced the establishment of an Islamic caliphate in territories under its control and renamed itself the “Islamic State” (IS). The other issue facing the country is that the federal government in Baghdad refused to release the Kurdistan Regional Government’s (KRG) share of the 2014 federal budget (17%), which has reduced trust between central government and the Kurds. The legitimacy of the federal government is now questioned in the KRG region.

On 24 July 2014, Fuad Masum assumed office as Iraq’s new president, succeeding Jalal Talabani. A few months later, al-Maliki stepped down in favor of fellow Islamic Dawa Party member Haider al-Abadi, who was sworn in as prime minister on 8 September 2014. The election of a new president as well as a new prime minister gave a semblance of stability to Iraq after a turbulent summer. Al-Abadi’s more inclusive and collegial leadership has raised hopes, though the new prime minister is facing many challenges. He reached an agreement with the KRG over distribution of oil revenues, introduced a plan for security sector reform and a national reconciliation project (through the establishment of the National Guard Force and the amendment of the De-Ba’thification Law), and launched a military response to re-capture territories under IS control. Yet the government’s legitimacy is still in question, as it has no jurisdiction over huge areas that are now under IS control.

Citizens’ rights violations have soared since 2013. Following the IS offensive in June 2014, the Iraqi Media and Communication Commission sent a restrictive list of directives to be respected by the media, and internet was disconnected in several provinces, such as al-Anbar and Nineveh.

Government forces, al-Hashd al-Sha'bi, and IS fighters carried out attacks which targeted or at least indiscriminately harmed civilians. IS has been particularly threatening toward religious and ethnic minorities in Iraqi territories under its control.

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

Economically, Iraq remains highly dependent on its oil sector, and the fall in world oil prices is a major concern given that the 2015 budget had to be adjusted to account for lower oil prices. A huge increase in government spending – due to the rise of military expenses in order to fight IS – and sharp decline in world oil prices are the proximate causes of Iraq's current economic problem. However, its roots lie in recent financial mismanagement. On 29 January 2015, the parliament approved the 2015 budget, which predicts a deficit of IQD 25 trillion (\$21.5 billion). The population is still suffering from poor services, especially in areas under IS control, and high unemployment rates. Investment and private business are hampered by security concerns, outdated legislation, widespread corruption, and crumbling infrastructure.

History and Characteristics of Transformation

After the monarchy's overthrow and the establishment of the Iraqi Republic in 1958, a number of modernizing reforms were introduced, such as the progressive personal status code of 1959. In July 1968, the military wing of the Ba'th Party seized power through a coup d'état that overthrew President Abdel Rahman Arif. The deputy president at that time, Saddam Hussein, used his control over the party and its security apparatus to seize power in 1979 and became president of the republic. The rise in oil prices channeled significant returns that strengthened the regime's ability to shower patronage on selected population groups. Indeed, Hussein's dual strategy of redistribution (of privileges to 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 and re-launching the banking system. Yet the collapse of state coercive and administrative capacities, and the coalition's inability to reconstruct them, lies

at the heart of Iraq's chaos after 2003. An Iraqi interim government replaced the CPA on 28 June 2004, but its operation under occupation prevented it from being accepted as a representative body.

Elections for an interim parliament took place in January 2005, although most Sunni Arabs chose to boycott the vote. This boycott led to the marginalization of Sunnis in the process of drafting the new constitution. Its final version was endorsed in a referendum in October 2005, despite adamant opposition from the Sunni Arab community. This set the stage for the December 2005 elections in which Iraqis chose their first parliament and established their first constitutional government. The elections institutionalized sectarian dynamics, given the parties' organization into ethno-sectarian blocs to maximize their electoral power. Ethnicity and sect was used to mobilize citizens for voting purposes. Following the destruction of the al-Askari mosque in Samarra in a terrorist attack in February 2006, the country descended into a full-fledged civil war between the Sunnis and the Shi'ites. As a result, millions of Iraqis were displaced; thousands were murdered.

In 2007 and 2008, a period of relative stability prevailed due to the adoption of a viable counter-insurgency strategy and the mobilization of Sunni Arab "Awakening Councils" (majalis al-sahwa) in the fight against al-Qaeda and its affiliated groups. The March 2010 parliamentary elections led to a deadlock over government formation that ended in early November 2010 when a power-sharing agreement in Erbil, brokered by KRG President Masoud Barzani, was reached between the main parties, Prime Minister Nouri al-Maliki's State of Law coalition and former Prime Minister Iyad Allawi's Iraqiya bloc. However, al-Maliki used his second term in office to further consolidate power, at the cost of plunging the country into a real stalemate with his authoritarian drift. Sunnis felt marginalized under his premiership, especially after the court issued arrest warrants for prominent Sunnis, such as the deputy president of Iraq, Tareq al-Hashimi, and the minister of finance, Rafi al-Issawi. Consequently, demonstrations were sparked in the Sunni areas against al-Maliki and his government in December 2012.

Iraq is a rentier state. Its economy has been dominated by the oil sector, which historically has generated more than 95% of export earnings and over 60% of GDP. In contrast, agricultural productivity has continuously declined. The heavy 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 Saddam Hussein's regime in 2003, the trend in Iraq has been toward decentralization and the deepening of a market economy. The private sector remains relatively small, does not contribute significantly to income generation, and fails to absorb and contain unemployment.

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

Transformation Status

I. Political Transformation

1 | Stateness

When an army raid killed 50 protesters in the Hawija district of West Kirkuk province in late April 2013, the standoff intensified between the Shi'ite-dominated government and Sunni protesters who have been calling for more Sunni representation in government institutions since 2012 and for an end to the constant detention of Sunnis under the pretext of terrorism using the Anti-Terrorism Law (Article 4). The situation further deteriorated when government forces demolished the Sunni protest encampment in Ramadi, the capital of al-Anbar province, on 30 December 2013. The army's harsh response to these peaceful sit-in camps pushed protesters to organize militarily and thus gave various Sunni insurgent groups a reason for action. In January 2014, IS militants harnessed the huge frustration of Sunnis and seized major parts of al-Anbar province. In early June 2014, IS took control of Mosul and other areas of Nineveh and Salaheddin provinces as the army and security forces capitulated to Islamist insurgents and left their positions. On 29 June, IS announced the establishment of an Islamic caliphate in territories under its control. Though headlines have focused on IS militants, various Sunni armed groups are operating in northern and western parts of Iraq, namely: the Army of the Men of the Naqshabandi Order (headed by former Iraqi Vice President Izzat Ibrahim al-Douri and consisting of former members of the Ba'th Party, as well as Sufi and Muslim Brotherhood-leaning fighters); the Military Council of the Tribes of Iraq (a coalition of nearly 80 Sunni Arab tribes) and the Islamic Army of Iraq (led by former Iraqi military officers who kept a distance from groups affiliated with both al-Qaeda and the Ba'thists).

A further challenge is represented by the Awakening Councils. Once paid and trained by the U.S. army, in 2006 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 Awakening Council members (though only half that number have been hired), while paying others to provide security in Sunni areas. However, the relationship

Question
Score

Monopoly on the
use of force
3

between the Maliki government and the councils deteriorated after the U.S. withdrawal from Iraq. In 2012, their leader, Ahmed Abu Risha, joined anti-government camps in al-Anbar and terrorism charges were filed against him. At the beginning of 2014, he switched sides and aligned himself and his followers with government forces in their fight against Islamist militants.

Other local and foreign actors pose challenges to the state's monopoly on the use of force following the Iraqi army's collapse before the jihadist advance.

The Kurdish Peshmerga forces hold de facto control over the three Kurdish-Iraqi provinces and act as the army of the KRG. The Peshmerga are fighting IS militants along KRG's borders and beyond. The exact standing of the Peshmerga within the Iraqi army is still disputed between the federal government and KRG. While the former insists the Peshmerga is under central command, the latter insists they are under Kurdish control and are deployed only within KRG borders.

Iran's influence has skyrocketed over the last year, as it has sent military advisers and troops to Iraq to fight IS, conducted air strikes, and armed and funded some of the Shi'ite militias which have joined the Popular Mobilization Forces (al-Hashd al-Sha'bi), formed following Ayatollah Ali al-Sistani's fatwa and calls by Muqtada al-Sadr to take up arms against IS. In addition to volunteers, al-Hashd encompasses well-trained Shi'ite militias like Asa'ib Ahl al-Haq, Kata'ib Hezbollah and the Badr Corps. Since August 2014, a U.S.-led coalition has been conducting air strikes against IS fighters.

In addition to these battles, the most difficult question is whether the new Iraqi Prime Minister Haider al-Abadi will be able to engage a security sector reform and rebuild the Iraqi security apparatus. Both the army and the police lack cohesion and reflect Iraq's fractured polity. The dismantling of the Iraqi army after 2003 and Maliki's policy aimed at asserting his personal control through clientelistic networks within the security apparatus – even going so far as to create new bodies accountable only to him – have led to the current security forces' crisis.

There is a widespread perception of unachieved citizenship among members of the Sunni community. Sunnis felt marginalized under the Maliki premiership and targeted by Article 4 of the Anti-Terrorism Law, which the former government used to legally pursue them. Protests against the perceived discrimination toward Sunnis were triggered in 2012. The protests have only taken place in Sunni areas and have been portrayed by the authorities as "Sunni protests," despite the fact that some of their demands reflected common grievances among Iraqis (such as security and services). IS militants took advantage of Sunni frustration to take control of parts of northern and western Iraq. At the beginning of their insurgency, IS were backed by other local Sunni armed groups seeking to topple al-Maliki.

State identity

4

The disagreement between then prime minister al-Maliki and Masoud Barzani, president of the KRG, over the withholding in early 2014 by the federal government of the KRG's share of the federal budget (17% according to the Iraqi Constitution) has also been critical. As a result, any sense of shared Iraqi identity also declined among the Kurds.

The IS offensive gave the Kurds the opportunity to take control of long-desired parts of northern Iraq. Unprecedented tension between Baghdad and Erbil erupted midway through June 2014 when the Peshmerga seized Kirkuk, followed by its nearby oil fields. Barzani announced his intention to hold a referendum on Iraqi Kurdistan independence.

The designation of Iraq's new Prime Minister Haider al-Abadi seems to have diminished Kurdish calls for independence, as an agreement on sharing oil revenues was reached between Baghdad and the KRG in December 2014.

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

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

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

No interference of religious dogmas

3

Fundamental administrative structures are weak. The delivery of basic services is still insufficient all over Iraq. In territories under IS control, services are even more poorly delivered (water, electricity, fuel and medicine are in low supply). The group's failure in delivering services calls into question the sustainability of its caliphate model.

Basic
administration
3

The targeted killings of academics and 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 shortages. Large parts of the Iraqi population are not connected to sewer systems and lack adequate water supplies. The political emphasis on security is reflected in the national budget allocation. Law enforcement nevertheless remains constrained by the lack of necessary capacities and by rampant corruption. Tax authorities exist in Iraq, but no statement about the scope of their functioning can be made.

In the KRG region, the issue is different. Before June 2014, electricity was delivered almost around the clock. But the surge of IDPs and refugees from Syria changed this, especially in the province of Duhok. The Kurdistan region has received 1,800,000 IDPs, of whom 1,250,000 live in Duhok province, and 600,000 refugees from Rojava, with 450,000 settled in Duhok. With international support, the KRG has built 21 refugee camps, 16 of them in the Duhok area. All of these camps are provided with water and electricity, which led to a decrease in the hours in which water and electricity are accessible in the entire Kurdish-administered territory.

2 | Political Participation

Parliamentary elections took place on 30 April 2014. Ahead of the elections, the Independent High Electoral Commission (IHEC) discussed their postponement in al-Anbar province due to political turmoil and a high number of IDPs. Later, the IHEC resigned in protest against political and judicial interference in the electoral process. The commission found itself caught between conflicting rulings from the parliament and the judiciary regarding the banning of certain candidates. The conflict stemmed from different interpretations of the electoral law which includes a clause allowing the exclusion of candidates of "ill reputation." Critics of al-Maliki accused him of using this clause to eliminate his political rivals and pave the way for his third term in office – strongly opposed by Sunni, Kurdish and some Shi'ite politicians. The IHEC retracted its resignation on 30 March 2014, following an emergency meeting with the U.N. Secretary-General's then Special Representative for Iraq, Nikolay Mladenov.

Free and fair
elections
7

The results were announced on 26 May 2014. Al-Maliki's State of Law coalition won 92 seats, followed by 34 seats for the al-Ahrar bloc (supported by Muqtada al-Sadr), and 29 seats for the al-Muwatin coalition (supported by the Islamic Supreme Council of Iraq). Usama al-Nujaifi's (former speaker of parliament) Mutahidun Sunni Arab coalition won 23 seats, followed by former Prime Minister Iyad Allawi's secular al-Wataniya coalition with 21 seats. The two main Kurdish parties, Masoud Barzani's Kurdistan Democratic Party (KDP) and Jalal Talabani's Patriotic Union of Kurdistan (PUK), won 25 and 21 seats respectively. The IHEC reported 60% overall participation despite low turnout in al-Anbar province.

Al-Maliki declared his intention to retain the premiership for a third term. In mid-August 2014, he stepped down in favor of Haider al-Abadi, after about half of his State of Law coalition joined leading Shi'ite rivals in supporting al-Abadi, a fellow Islamic Dawa Party member (apparently Iran and the United States also supported the change). Al-Abadi assumed office on 8 September 2014.

The ability of the parliament (Council of Representatives) to exercise oversight over the cabinet was constantly eroded by former Prime Minister al-Maliki. Similarly, during his second term in office, he constantly relied on the support of the Federal Supreme Court, which has exclusive jurisdiction to interpret the constitution, and routinely appeared to rule in favor of the government.

Effective power to govern

3

Al-Maliki's autocratic drift and his refusal to implement the power-sharing Erbil deal reached in 2010 led to a political deadlock paralyzing the parliament and cabinet's work. Sunni, Kurdish and some Shi'ite politicians – namely Muqtada al-Sadr – called for his resignation in 2012. The tension intensified when in December 2013, security forces raided the house of Sunni lawmaker Ahmed al-Alwani and arrested him on terrorism charges. Later, they dismantled a protest camp in Ramadi (al-Anbar province) which was calling for al-Maliki's removal. As a result of these incidents, 44 Iraqi members of parliament resigned to protest against Alwani's arrest and the camp's demolition. By mid-February 2014, Muqtada al-Sadr announced his retirement from politics and that no bloc in parliament or government represented the Sadrism movement any longer. His declaration led to the resignation of many Sadrists from their positions. Al-Sadr described al-Maliki as a tyrant who suppressed his opponents and headed a corrupt government. Finally, a crisis emerged between al-Maliki and Kurdish members of the cabinet in July 2014, when he accused the KRG of providing a safe haven for Islamist militants and other insurgents. The Kurdish ministers of al-Maliki's cabinet boycotted the government's session, and al-Maliki replaced the (Kurdish) minister of foreign affairs, Hoshiyar Zebari, with his Shi'ite ally Hussain al-Shahristani on 11 July 2014. Zebari became minister of finance on 18 October 2014, and al-Shahristani became minister of education on 8 September 2014 (in Haider al-Abadi's cabinet).

IS's control of parts of Iraq's territory, along with al-Maliki's omnipresence as one of Iraq's vice presidents (after August 2014) and his close ties with the al-Hashd al-Sha'bi's (Popular Mobilization Forces) Shi'ite militias could certainly hinder al-Abadi's more inclusive and reformist policies.

The NGOs Law passed by the parliament in January 2010 secures minimal government interference in their affairs and marks major improvements compared to the 2009 draft. The registration of an NGO can only be rejected if justified by a specific provision in the law, and its suspension or confiscation of its property requires a court order.

Association /
assembly rights
5

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, there have been real setbacks to the assembly rights attained. Iraqi authorities responded to "originally" peaceful Sunni protests with violence, intimidation and threats. An army raid killed 50 protesters in the Hawija protest camp near Kirkuk in late April 2013. The situation further deteriorated when government forces demolished the Sunni protest camp in Ramadi (al-Anbar province) on 30 December 2013, leaving at least ten dead.

In October 2014, a draft law, written in 2012 under former Prime Minister Nouri al-Maliki, was returned to parliament. The Law on the Freedom of Expression, Assembly, and Peaceful Demonstration allows officials to restrict freedom of assembly to protect "the public interest" and "general order or public morals," without defining what those terms concretely encompass. Opponents of the draft believe it undermines civil liberties and contradicts the Iraqi Constitution.

The Iraqi Constitution ensures freedom of expression and media pluralism. In practice, however, Iraq is considered a high-risk, hostile environment for journalists. Many foreign and local journalists have been killed since 2013 while covering clashes between government forces and insurgents or by IS militants. Iraqi authorities have to date failed to try perpetrators in any of the numerous killings of journalists since 2003, leaving Iraq ranked first worldwide on the Committee to Protect Journalists' 2014 Impunity Index. Laws inherited from the Ba'th regime are still operative, including the 1969 penal code that criminalizes defamation, and the 1968 Publications Law, which allows prison terms on the basis of defamation for journalists and publishers.

Freedom of
expression
3

Other developments are also worrying. The Iraqi authorities ordered the closure of 44 news media outlets operating in Iraq in June 2012, including BBC, Voice of America and U.S.-funded Radio Sawa. In June 2014, following the IS offensive, the

Iraqi Media and Communication Commission sent a list of directives to be respected by the media. This includes a ban on meeting and interviewing individuals wanted by judicial authorities as well as on broadcasting messages issued by armed groups. A number of TV stations (considered anti-Maliki) broadcasting from Egypt and Jordan were closed by their respective local authorities under pressure from the Iraqi government. Internet was disconnected in several provinces including al-Anbar and Nineveh, denying Iraqis public access to social media networks and other services such as Skype and Viber. The ban was intermittently lifted by the government throughout the rest of 2014, although many Arab and Iraqi news websites are still blocked as of June 2014.

3 | Rule of Law

According to the 2005 constitution, Iraq has a republican parliamentary system of government. Thus, the president of the republic symbolizes the unity of the country and its sovereignty, while the prime minister “is the direct executive authority responsible for the general policy of the State and the commander-in-chief of the armed forces” (Article 78). Separation of powers is enshrined in the constitution (Article 47) and institutionally in place. In practice, however, boundaries between the executive, the legislative and the judiciary are blurred.

Separation of
powers
5

The negotiations over government formation that followed the 2010 parliamentary elections resulted in the establishment of the Erbil agreement. One of the pillars of this deal was the creation of the National Council for Strategic Policy. This 20-member council was supposed to be overseeing Maliki’s major security and foreign policy decisions. Instead, the parliament and the council of ministers 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.

With his compliant judiciary, former Prime Minister Maliki acted against autonomous power centers that defied his rule or criticized his government. Sinan al-Shabibi, former governor of the central bank, was indicted controversially for corruption in October 2012. He was replaced by Maliki’s acolyte Abdel Bassit Turki, giving him control over the central bank’s funds and ignoring Shabibi’s advice that the resources of the bank should remain separate from those of the Ministry of Finance. Before the 2014 parliamentary elections, the IHEC temporarily resigned in protest at conflicting rulings from the parliament and the judiciary regarding the exclusion of certain candidates from the elections, which were perceived as extralegal interference. Critics of al-Maliki accused him of using the electoral law to eliminate his political rivals, paving the way for his third term in office.

Yet it is obvious that some progress has been made under the premiership of Haider al-Abadi, as the role of parliament is much stronger than it used to be under al-Maliki.

The independence of the judiciary is guaranteed by Article 87 of the 2005 constitution. However, the Iraqi judiciary, in terms of professional standards and practices, remains the same institution which existed under Saddam Hussein. The 2005 constitution established the Federal Supreme Court as an independent judicial body. The court's chief and its eight members are appointed by a presidential council, following nominations by the Higher Judicial Council (one of the main bodies of the Iraqi judiciary). It has exclusive jurisdiction to interpret the constitution; oversees the constitutionality of laws and regulations; settles accusations directed against the president, the prime minister and the ministers; and settles disputes between the federal government and the governments of the regions (Article 93).

Independent
judiciary
4

Former Prime Minister al-Maliki relied – during his second term in office – on the support of the Federal Supreme Court that routinely appeared to rule in favor of the government. By means of controversial court rulings, key institutions such as the Integrity Commission (anti-corruption) and the central bank fell under direct control of the cabinet rather than the parliament. The court has also 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 minimum rights to suspects. In December 2012, the Iraqi government's raid on the home and office of Sunni former Finance Minister Rafi al-Issawi and the arrest of his security staff on terrorism-related offences, triggered strong Sunni protests against al-Maliki. Another example of government manipulation of the judiciary under al-Maliki was the arrest of Sunni lawmaker Ahmed al-Alwani on terrorism charges in December 2013. Chief Justice Judge Medhat al-Mahmoud simultaneously headed (from 2005 to 2013) the Federal Supreme Court and the Higher Judicial Council; he was accordingly criticized for his dominance of the judiciary. At the beginning of 2013, the parliament passed an act banning the chief of the Federal Supreme Court from simultaneously heading the Higher Judicial Council. Al-Mahmoud – accused by the opposition of being Maliki's "puppet in court" – retained only his position as head of the Supreme Federal Court and was succeeded by Hassan Ibrahim Humairi as chief of the Higher Judicial Council in February 2013.

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 have little impact. Fighting corruption has "officially" been at the top of successive Iraqi governments' agendas since 2006. However, there has been no holistic anti-corruption approach at all administrative and political levels, nor in the business sector. Therefore, no drastic change has occurred 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

Prosecution of
office abuse
2

convince the public of the government's commitment to fighting corruption or to target opponents. A complaint was lodged by the former chief of the Iraqi Integrity Commission in late 2014 calling for the prosecution of former Prime Minister al-Maliki on various charges including corruption and office abuse, but it was not yet under consideration by the general prosecutor by the end of the period under review here.

Prime Minister al-Abadi introduced a plan to reform the security sector, starting with the replacement of some army and police commanders and firing the 50,000 "ghost soldiers" (or "aliens," as he called them) uncovered on the army's payroll. These efforts are considered by al-Abadi's critics as necessary but insufficient, because a structural reform is needed to address Iraq's security sector.

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

Civil rights

3

According to multiple human rights' reports, the Iraqi Ministry of Interior's officials tortured detainees to death with impunity. The Iraqi Human Rights' Ministry declared that "20 out of 117 deaths in custody in the first six months of 2013 resulted from torture."

In December 2013, government forces attacked mostly peaceful demonstrations, triggering a renewal of armed conflict in al-Anbar province between security forces and multiple insurgent groups. The fighting included indiscriminate attacks by government forces on civilian areas, leading to the displacement and killing of civilians in al-Anbar.

According to Human Rights Watch, pro-government militias (mostly Shi'ite) were responsible for kidnappings, executions, arbitrary arrests and torture of Sunni civilians throughout Baghdad, Diyala, and Hilla provinces, when the conflict intensified between government forces and armed insurgents in summer 2014. Both government forces and armed insurgents carried out attacks which targeted or at least harmed civilians. The International Organization for Migration identified (from January 2014 to February 2015) nearly 2.5 million internally displaced individuals, mostly from al-Anbar, Nineveh and Salaheddin provinces.

When IS took over Mosul in June 2014, the group committed numerous atrocities including summary executions of civilians, torture in detention, forced marriages and destruction of religious properties in the Nineveh province. IS has been particularly threatening toward religious and ethnic minorities, namely the Yazidi, Christian, Shi'ite Turkmen and Shabak communities. IS militants kidnapped hundreds of Yazidi women and subjected them to sexual assault and slavery.

4 | Stability of Democratic Institutions

Democratic institutions do exist in principle, but nepotism and politically motivated appointments hamper their efficiency and credibility. 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
3

The ability of the parliament or Iraqi Council of Representatives to exercise oversight over the cabinet has been constantly eroded by former Prime Minister al-Maliki's tendency to concentrate power in his hands. Using a compliant judiciary, al-Maliki managed to put key independent institutions (such as the Integrity Commission and the Independent High Electoral Commission) under the cabinet's (rather than the parliament's) control, and thus paralyzed their work.

Although their commitment to democratic institutions and procedures often constitutes little more than rhetorical lip service, Iraqi political actors 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.

Commitment to
democratic
institutions
3

The 2005 constitution, which should serve as the main reference for the role of democratic institutions, 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.

Former Prime Minister al-Maliki's increased grip on power, the security forces' harsh attacks on peaceful Sunni protest camps, along with the incapacity of the Iraqi army to defend Mosul – and thus its seizure by Islamic militants – fuelled a political crisis and undermined the legitimacy of both the government and the security forces. While al-Maliki's government was strongly opposed by Sunni, Kurdish and some Shi'ite politicians, he intended to retain the premiership for a third term. As a result of waning U.S. and Iranian support, he finally stepped down in favor of fellow Dawa Party member Haider al-Abadi in September 2014. Al-Abadi opted for a more inclusive policy, reached an agreement with the KRG over the distribution of oil revenues and the Kurdish Peshmerga's allocations, and introduced a plan for security sector reform. This has raised hopes that Iraq's central actors will show more support for its democratic institutions. However, critics erupted over the al-Abadi government's inability to impose its authority and hold pro-government Shi'ite

militias (al-Hashd al-Sha’bi) responsible for criminal acts they have been committing against Sunni civilians since summer 2014.

5 | Political and Social Integration

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

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 his position by inheritance, social status, and/or rubber-stamp elections. There are a few exceptions, including smaller ideological parties such as the Communist Party (which, however, has lost much of its influence). As a large number of parties function on the basis of clientelism, it can be anticipated that this will continue to serve as the dominant feature of any future party system, especially in the absence of accountability mechanisms.

In 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 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

The National Democratic Institute conducted a survey from January to March 2014 before the Iraqi parliamentary elections. The poll revealed that 65% of Iraqis considered democracy to be “the best form of government” and 72% regarded elections a “good thing” for Iraq. The results also showed that 75% of Iraqis were more “enthusiastic about voting” in the 2014 elections than in previous ones. This enthusiasm was much more tempered in the western Sunni-dominated provinces, with 58% “questioning the legitimacy” of the 2014 parliamentary elections. However, the reliability of this survey remains highly questionable. Public consent to democratic norms cannot be properly assessed in Iraq, as reliable data from opinion polls or similar sources are scant in a country going through a period of political turmoil.

Approval of
democracy
n/a

Due to 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 and after 2012.

Social capital
2

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

The level of socioeconomic development in Iraq is still characterized by a high degree of deprivation (reflected by a medium ranking in the 2013 Human Development Index of 0.642), not counting territories under IS control. Around 21% of Iraq’s population live below the poverty line with less than \$2 per day (2012 estimates). Poverty is higher in rural areas and varies regionally, with relatively higher poverty rates in central and southern governorates, compared to Kurdish governorates. High poverty rates are generally attributed to a high unemployment rate (officially 16% in 2012), a decline in education level and rampant corruption.

Question
Score

Socioeconomic
barriers
3

The literacy rate for both sexes is 79% (as of 2013), with an illiteracy rate among women reaching almost 30% (2011 estimates). Only 53% of both sexes are enrolled in secondary schools and 16% in tertiary education; the ratio of female to male enrollment shows that women have much lower access to both secondary (74.8%) and tertiary (59.8 %) education (as of 2013). Such uneven access to education is also reflected in the relatively low percentage of the female labor force, which reached 17.6% in 2013.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	49954.9	138516.7	232497.2	220505.7
GDP growth	%	4.4	5.5	8.4	-6.4
Inflation (CPI)	%	37.0	2.9	1.9	2.2
Unemployment	%	18.0	15.2	16.0	-
Foreign direct investment	% of GDP	1.0	1.0	1.2	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ M	-3335.4	6488.3	-	-
Public debt	% of GDP	227.3	53.6	31.9	38.9
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	20.0	18.9	21.5	-
Public expnd. on education	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.8	2.7	3.3	-
R&D expenditure	% of GDP	-	0.04	-	-
Military expenditure	% of GDP	2.2	2.6	3.4	4.3

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Though Iraq has embraced market-based principles, significant parts of industrial companies and banks remain public or semi-public and – together with the public administration – provide most of the country’s jobs. The hydrocarbon sector accounts for more than 90% of government revenues and 80% of foreign exchange earnings. Yet the Iraqi dinar is still not convertible, and various consumer prices remain administered, including fuel pricing.

Market-based
competition
4

The private sector, meanwhile, is marked by a small number of large companies, a number of SMEs and a relatively large number of micro-enterprises. Its activities are hampered by the lack of security and political stability, an outdated legislation, lack of regulations and executing authorities, red tape and widespread corruption, lack of access to financial services and investment credits, and crumbling infrastructure. These hardships have led to the creation of widespread informal labor activities 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). The law provides for the establishment of a “Council for Competitiveness and the Prevention of Monopoly,” without mentioning specific details regarding the recruitment process of the council’s members. The scope of the law encompasses trade, production and service activities taking place in Iraq as well as all economic activities taking place abroad, with further implications within Iraq (Article 3 of the law). It was meant to encourage the private sector to promote its productivity and contribution to GDP, to improve the quality of products, and to decrease production costs and prices. However, the “Council for Competitiveness and the Prevention of Monopoly,” its auxiliary units and commissions authorized by this law have yet to be formed. Thus, 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, with frequent changes to tariff levels and duty rates. 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

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.

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

Iraq has bilateral free-trade agreements with 11 Arab countries in line with the Free Zone Authority Law No. 3/1998. In theory, capital, profits and investment income from projects in a free zone (FZ) are exempt from all taxes and fees throughout the life of any project. However, goods imported through FZs are still subject to Iraq's 5% tariff when they leave the zone (except for re-export). In 2005, it signed a Trade and Investment Framework Agreement with the United States, then a Partnership Cooperation Agreement with the European Union in 2012. From January to December 2013, U.S. exports to Iraq reached \$2 billion, while Iraqi exports to the United States – mainly oil and gas products – for the same period amounted to \$13.3 billion. The European Union is another major trading partner for Iraq. Due to oil imports, bilateral trade between Iraq and the European Union amounted to over €16 billion (\$17.2 billion) in 2013.

The banking system in Iraq is weak, and the majority of its operations are limited to basic consumer transactions. The legal framework for the banks and the Central Bank of Iraq (CBI) is provided by the Banking Law and the Central Bank of Iraq Law, which were issued on 19 September 2003 and 6 March 2004 respectively. Seven public banks account for 96% of banking sector assets. While 24 private banks, 17 foreign banks, and eight Islamic banks are active in Iraq, they are much smaller in importance and focus on trade-related business. The Trade Bank of Iraq (TBI), established as an independent government entity in 2003, mainly provides financial and related services to facilitate import trade, and functions as the financial backer of government procurements tendered by Iraqi ministries and SOEs. 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.

Efforts to modernize the financial system have focused on the reform of state-owned banks. The CBI and the Ministry of Finance have committed themselves to establishing 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

Banking system
4

is to modernize them, and thus to drive them toward operating on a fully commercial/market basis. The 2014 IMF mission in Iraq noticed some progress in the financial system reform agenda: the CBI is pressing ahead with the reform by preparing new legislation concerning the central bank, commercial banks, money laundering and the financing of terrorism. However, more needs to be achieved by the CBI and the government to restructure the large state-owned banks, and gradually increase the private banking sector's access to government business.

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 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 1.9% (2013 estimates), and the country's international reserve volume also remains broadly adequate. In January 2012, the CBI raised the exchange rate of the Iraqi dinar to \$1.19. This caused a huge crisis that led the government to put pressure on the Supreme Judicial Council to issue an arrest warrant for CBI governor Sinan al-Shabibi in October 2012 on charges of corruption, despite the fact that the Iraqi budget under al-Shabibi (2003 – 2012) reached nearly \$620 billion (Iraq had not had a budget of more than \$18 billion since 2003). Al-Shabibi received a seven-year prison sentence in absentia from the Federal High Court in September 2014. Shortly afterward, however, he was acquitted of all charges.

Already in January 2011, the independence of the CBI suffered a setback, when former Prime Minister al-Maliki won a court ruling that placed independent institutions, including the CBI, under the control of the cabinet.

The dinar remained widely stable and was worth \$1.165 in early 2015. The CBI aims to keep 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 reduction of Iraq's debt to a sustainable level, along with debt relief negotiations, has been a CBI priority since 2003. This led to an 80% reduction of the Paris Club debt, while negotiations with non-Paris Club creditors are still ongoing. Thus, Iraqi external debt was reduced to \$59.49 billion at the end of 2013, compared to \$130 billion – \$140 billion in 2003, and its public debt attained 31.3% of the GDP in 2013.

The proximate causes of Iraq's current economic problem are a rise in military expenses in order to fight IS and recapture territories under its control (\$7.9 billion), leading to huge increases in government spending in 2014, and a sharp decline in world oil prices. However, its roots lie in longer-term financial mismanagement. The

Anti-inflation /
forex policy

7

Macrostability

6

federal budget's spending ballooned from \$59 billion in 2009 to \$119 billion in 2013. On 29 January 2015, the parliament approved the 2015 budget, which predicts a deficit of IQD 25 trillion (\$21.5 billion), after a revision of the expected oil price from \$70/barrel to \$56/barrel. Iraq decided to increase oil production and exports to compensate for loss in income due to oil price decline. The government intends to finance its budgetary deficit through treasury bills/government bonds, loans from local banks and the IMF. It is also currently withholding 15% of high-level government salaries and will introduce taxes on cars and mobile phone SIM cards.

9 | Private Property

The last amendments to private property laws in the Iraqi civil code were made in 2002, prior to the fall of Saddam Hussein's regime. Article 23 of the 2005 Iraqi constitution guarantees the protection of personal property and stipulates 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 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. According to the 2014 World Bank Development Indicators, registering a property in Iraq requires 51 days and around five procedures, which places Iraq in an average position.

Since the IS offensive in summer 2014, both government forces and armed groups (IS fighters as well as Shi'ite militias) have been responsible for indiscriminate attacks on civilians, including destruction and setting fire to private properties in disputed areas.

Private companies are permitted and regulated in Iraq by Company Law No. 21 of 1997, as amended in 2004. However, in practice, their establishment faces many challenges, from dilapidated infrastructure to weak framework of legal provisions and regulations for consumer protection or production standards and investment incentives. Regulatory protection is dependent on the implementation of national 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 security and political instability, alongside a lack of basic economic data and a bureaucracy rampant with corruption.

Improvements have been made, however, as the World Bank's 2014 World Development Indicators found that an entrepreneur would require 29 days and the completion of ten procedures to start a business in Iraq. Private sector growth could reduce the reliance on the oil sector and create more jobs for Iraq's growing working force.

Property rights
3

Private enterprise
4

10 | Welfare Regime

Given the weak economic and partly catastrophic security situations in wide parts of the country, most social support comes from family and tribes. The only significant social safety net is the Public Distribution System (PDS), which is the main source of food for poor people. Despite suffering from poor internal controls and inefficient supply chains, PDS has supported many Iraqi families with monthly basic food rations since its establishment in 1991.

Social safety nets
3

Delivery of basic social services has been clearly affected by the security situation in northern and western Iraq. Around half the Iraqi wheat crop is produced in areas now under IS control in northern Iraq. Iraq's wheat production is blended with imported wheat, milled into flour then distributed as part of Iraq's PDS. Security concerns are severely affecting the distribution of wheat to PDS recipients. Moreover, the Ministry of Trade is not able to continue transporting shipments of imported wheat, under current security conditions, into areas north and west of Baghdad.

The availability and quality of the existing government-provided basic health care services are open to question, especially given that Iraq does not have a social health insurance scheme. Public expenditure on health is 1.9% of GDP (2012). Access to health services is limited (1.3 hospital beds per 1,000 Iraqis as of 2012) and geographically extremely uneven, with a strong urban/rural gap. The latest World Bank figures (2012) indicate that life expectancy at birth in Iraq is 69 years. 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 education level, nepotism and corruption, and major security concerns 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
2

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. Repeated controversial debates took place over the abolition of the 1959 Personal Status Law – under which women across faiths enjoy relative equality – and its substitution by a number of personal status laws grounded in the country's various faiths (like the Ja'afari Personal Status Law). Such laws would not only regulate divorce, custody and inheritance, but also the distribution of powers within a family. It would also open doors for the marriage of girls as young as nine

years old (in fact, the international NGO Population Reference Bureau reported in 2013 that 25% of girls were already married before the legal age of 18, and 6% before they were 15). This heterogeneous legal environment would not only enable women to be discriminated against in comparison with men, but also allow women to be treated differently according to their confession affiliations. Iraq's Gender Inequality Index score is 0.542, and women constitute only 17.6% of the labor force (as of 2013). Though a state ministry for women's affairs was formed after 2003, it has achieved no progress as it is poorly funded and remains mostly ceremonial.

11 | Economic Performance

The overwhelming majority of federal revenue comes from oil income. Thus, the sharp decline in world oil prices since the end of 2014 has dealt a heavy blow to the Iraqi government's growth expectations. The loss of fertile land in areas under IS control in northern Iraq massively impacted the production of wheat and other crops. Violence and ongoing fighting have disrupted trade as many roads to Turkey and Jordan have been cut off. Moreover, more than two million people have been internally displaced since the beginning of 2014. Those people obviously lost their jobs, so unemployment rates are believed to be skyrocketing, (estimates speak of 25%, but reliable data are not available).

The 2014 budget has never been passed due to a deterioration in relations between former Prime Minister al-Maliki and Kurdish and Sunni politicians. The absence of a state budget meant that projects came to a halt and the economy slowed down. Maliki relied on Coalition Provisional Authority Order No. 94, which "allows the government to spend up to one-twelfth of appropriations from the previous year's budget until a budget is approved," in order to pay salaries, pensions and other existing commitments. He also used money from the Development Fund for Iraq (in which oil revenues are saved) to pay for the war against the Islamist insurgency after the fall of Mosul. On 29 January 2015, the parliament approved Haider al-Abadi's government budget for 2015, which predicts a deficit of IQD 25 trillion (nearly \$21.5 billion), after the expected oil price fell from \$70/barrel to \$56/barrel.

Public debt reached 31.3% of the GDP and Iraqi external debt was reduced to \$59.49 billion at the end of 2013. The GDP growth reached 4.2% in 2013, the lowest since 2011, and GDP per capita was reduced to \$6,473 (2014 estimates). Inflation remained low at 1.9% in 2013.

Output strength
3

12 | Sustainability

All environmental elements – air, water, and soil – are tangibly polluted, particularly through the exploitation of oil. This pollution adds to the existing severe damage caused by weapons used since the first Gulf War, particularly radioactive uranium. The latest military attacks by and against IS have brought further environmental degradation.

Environmental
policy
2

The National Development Plan (2010 – 2014) issued by the Ministry of Planning and Development Cooperation stipulated that environmental concerns were not sufficiently taken into account during the post-Saddam Hussein years. Despite this open assessment, the plan's allocation of anticipated investment does not explicitly include investment in environmental issues. 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 to address such issues. "Ecology" and "Sustainable Development" are barely present in the curricula of Iraq's education institutions. Iraq's National Investment Commission (NIC), which is tasked with developing investment policies and creating an investment-friendly environment, is in theory required to submit investment project plans to the Ministry of Environment for evaluation on the basis of environmental sustainability. However, there is no information on whether this is actually happening or as to whether clear criteria for evaluation have been created. The centrality 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.

The quality of education and training in Iraq has not reached its potential. While the gross enrollment ratio in primary education attained 107.5% in 2013, more has to be done to improve secondary and tertiary ratios (53% and a meager 16% respectively). Iraq's R&D expenditure is only 0.03% of GDP (as of 2011). The government's education budget is barely enough to bring education institutions and training facilities (universities, hospitals, etc.) up to acceptable modern standards. Due to austerity measures implemented by al-Abadi's government, Iraqi students awarded government scholarships to pursue their studies abroad face a difficult situation. The Iraqi Ministry of Higher Education decided (in early 2015) to cut their stipends by up to 50% and limit scholarships to three years. All new scholarships offered by other funding bodies such as the Higher Committee for Education Development in Iraq (HCEDI) – part of the Iraq Educational Initiative supported by then Prime Minister Nouri al-Maliki in 2009 – have been indefinitely frozen. In addition, according to statistics on schoolteachers, education institutions have been depleted of their human resources, as intellectuals and specialized professionals were systematically targeted,

Education policy /
R&D
3

driven out of the country or killed during different waves of violence. According to Rainer Hermann, after its seizure of Mosul in June 2014, the IS radically imposed its backward vision on the city's universities and higher education institutes, banning the study of law, politics, arts, archeology, sports and philosophy, and closing the schools for tourism and hotel business. Protesters against these impositions have been executed.

Education and training reform plans across various sectors lack harmonization, and do not necessarily prioritize or even take into account the changes in education needs and specializations. For example, the curriculum for the training of legal professionals and judges 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 for 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 their performance remains weak. The process of rebuilding the severely damaged infrastructure and human capacities has been slow and even came to a halt following IS seizure of parts of Iraq's territory and the ongoing violence. 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.

Structural
constraints
10

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 severe drought or 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, and an early and influential women's movement, decades of authoritarianism have hampered Iraqi civil society's engagement.

Civil society
traditions
8

In the Kurdish region, the civil society tradition re-emerged earlier than in the rest of Iraq, as associations started functioning during the 1990s. After 2003, civil society organizations (CSOs) mushroomed in central and southern Iraq, but their level of professionalism is generally low. Some independent initiatives – such as the NGO Coordination Committee for Iraq (NCCI) and the Iraq Civil Society Solidarity Initiative (ICSSI) – were launched after 2003 to coordinate NGO activities and facilitate the links between international CSOs and local Iraqi civil society actors. However, Iraqi civil society activism remains 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 means 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, as witnessed during the 2011 uprisings (the short-lived "Iraqi Spring"). Therefore, a growing civil society has not been translated into the creation of social trust, overcoming confessional cleavages or anchoring a civil culture in society.

Sunnis felt marginalized, politically sidelined and targeted by the anti-terrorism law used by al-Maliki government to pursue them and to get rid of opponents among Sunni politicians. In December 2013, an attack by government forces on mostly peaceful Sunni demonstrators triggered a renewal of armed conflict in al-Anbar province between security forces and multiple insurgent groups. In January 2014, IS militants harnessed Sunni frustration and seized large parts of al-Anbar. In early June 2014, with the help of various local Sunni groups and former Ba'thists, IS took control of Mosul and parts of northern Iraq. The group has since committed numerous atrocities, including summary executions of civilians and minorities, and the destruction of religious sites and cultural heritage in northern Iraq. Shi'ite militias are, on the other hand, said to be responsible for the kidnapping, executions, arbitrary arrests and torture of Sunni civilians.

Unprecedented tension between Baghdad and Erbil erupted mid-June 2014 when the Peshmerga seized Kirkuk and its nearby oil fields, after the retreat of the Iraqi army. The KRG president, Masoud Barzani, repeated his intention to hold a referendum on Kurdistan's independence. Yet the designation of Iraq's new prime minister, Haider al-Abadi, seems to have quietened Kurdish calls for independence. An agreement on sharing oil revenues was reached between Baghdad and the KRG in December 2014.

Conflict intensity

10

II. Management Performance

14 | Steering Capability

The rapid success of IS and its vast territorial expansion have rendered obsolete any of the federal government's earlier long-term planning for economic or political development. The main national strategic priority at present is to fight IS, and – particularly following the army's miserable performance – to reform Iraq's security sector. Prime Minister al-Abadi has already introduced a plan to reform the security sector, starting with the replacement of some army and police commanders and firing the 50,000 "ghost soldiers" on the army's payroll who do not actually work as soldiers. Al-Abadi has to balance the demands for reform with the need to cement support for himself within the security bodies (army and police). Changing the leadership of the security forces too quickly may exacerbate the existing security difficulties in the country and risk creating enemies within the political patronage networks. The reform is supported by Sunnis and Kurds, but is encountering some difficulties in al-Abadi's own Shi'ite camp, especially as it may entail the future dismantling of Shi'ite militias. The maintenance of Iraq's territorial integrity is another widely supported priority of al-Abadi's government. Thus, reaching an agreement with the KRG over the distribution of oil revenues was considered necessary in order to quell Kurdish calls for independence. Finally, the financing of the 2015 budget deficit – exacerbated by the decline in oil prices and high military expenses – is another goal set by al-Abadi's government. However, the implementation of austerity measures (by cutting some subsidies or government scholarship stipends) will certainly encounter strong popular opposition.

A successful implementation of the intended reform of the security sector will be the highest achievement of al-Abadi's government. Given the complex power structures within Iraqi society, it is a highly ambitious plan, and it is completely unclear whether the government will succeed in a thorough restructuring of the security forces. Given the increasing challenge from IS, simply keeping Iraq "intact" would be a victory for the current government.

Progress has been made in monetary policy, however. The CBI has pursued a monetary and exchange rate policy that successfully tempers inflation. As a result, inflation has remained in the low single digits since 2010. However, Iraq has to finance the 2015 budgetary deficit through treasury bills, loans, new taxes and austerity measures. Challenges ahead include a complete reconstruction of the neglected energy and transport infrastructure to attract private sector enterprises.

Question
Score

Prioritization
3

Implementation
4

Prime Minister Haider al-Abadi seems to have learned some lessons from his predecessor Nouri al-Maliki's problematic behavior, and is acting less provocatively and putting more emphasis on inclusive decision-making. The agreement negotiated with the KRG about the share of oil income can be seen as his first success. However, the collapse of the Iraqi army before IS's advance in summer 2014 was an alarming indicator for al-Abadi, who responded by launching a plan to reform the security sector and rebuild the army. The Kurdish government seems open to learning from international expertise by hosting a number of foreign universities and including former Kurdish emigrants and beneficiaries of Kurdish government scholarships who studied abroad in local decision-making positions.

Policy learning
5

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

15 | Resource Efficiency

Progress in the use of available resources and delivery of services have been undermined by security concerns, vested interests and corruption. Due to poor financial management in recent years, the federal budget's spending ballooned from \$59 billion in 2009 to \$119 billion in 2013, but decreased in 2015 due to the current crisis with IS and the decline of the oil price in the global market. Total spending is now IQD 125.2 trillion (\$104.3 billion), and total revenue is now IQD 99.8 trillion (\$83.2 billion), leaving a planned 20% deficit of IQD 25.4 trillion (\$21.2 billion), as Patrick Osgood and Ben Van Heuvel concluded in early January 2015.

Efficient use of
assets
3

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 concerning the efficiency of the public sector, especially as the high number of civil servants contrasts with the deficient provision of services by government institutions. Clientelism hampers the development of a meritocratic culture in the state's administration. While some institutions have introduced competitive recruitment procedures, both recruitment and dismissals have been generally politically motivated.

Al-Abadi has started a discussion about the 50,000 “ghost soldiers” (or “aliens,” as he called them) receiving salaries from the army without working as soldiers; this could lead to early steps in the fight for improved public spending, but risks triggering further social tensions.

The Iraqi coalition government not only experiences typical coalition challenges, like opinion differences and internal disputes, but also faces some additional country-related obstacles. Effective government coordination was largely absent under former Prime Minister Nouri al-Maliki. A political stalemate was triggered by the unwillingness/failure of political blocs to agree on a coherent power-sharing agreement and by al-Maliki’s centralization of power. The targeting of Sunni politicians and the resignation of a number of Sunni, Sadrist and Kurdish members of cabinet and parliament, aggravated the crisis. Despite the more inclusive and collegial leadership of al-Maliki’s successor, Prime Minister al-Abadi, it is still difficult to assess whether there is a substantive tendency toward greater policy coherence and a clearer division of tasks in order to avoid friction between government branches.

Policy
coordination
4

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

Anti-corruption
policy
3

On the legislative level, there is a Parliamentary Committee on Integrity, but its mandate is also unclear.

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

Prime Minister al-Abadi launched a campaign to root out corruption in the security sector, starting with the dismissal of some army and police commanders as well as “ghost soldiers” and police officers. These efforts are considered by al-Abadi’s critics to be necessary but insufficient.

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 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.

Consensus on goals
5

In the economic sphere, due to the oil sector dominance, clear objectives that might engender friction are rare. There seems to be an 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 integration of Iraq into the global economy. This, however, has been criticized by somewhat marginalized actors in Iraq, such as the Communist Party and trade unions.

Outright anti-democratic actors continue to exist in Iraq, among them militants affiliated to IS, which seized major parts of al-Anbar, Salaheddin (including the city of Tikrit and some of its surrounding districts), and Nineveh provinces (including the city of Mosul and some of its surrounding districts). IS announced the establishment of an Islamic caliphate in territories under its control in June 2014.

Anti-democratic
actors
4

The Popular Mobilization Forces (al-Hashd al-Sha'bi), which include the very anti-democratic paramilitary Asa'ib Ahl al-Haq (formed from members of Shi'ite militias following the collapse of the Iraqi army against IS) also raise fears. Given their close ties to specific Shi'ite political figures, they may turn into powerful veto actors, and they have already repeatedly violated the human rights of Sunnis.

In the Iraqi context, it is difficult to draw neat lines between "reformers" and "anti-democratic veto actors." One good example is Muqtada al-Sadr, head of the Sadrist Movement, who announced his retirement from politics in February 2014. Al-Sadr previously engaged in violent actions against the United States and other coalition forces, but has transformed his movement into a political party that participates in government, holds seats in parliament, and has joined the opposition against al-Maliki's authoritarian drifts. Despite his retirement, al-Sadr was largely supportive of the al-Ahrar bloc, which won 34 seats in the 2014 parliamentary elections, making it the second force in parliament. He also remains quite vocal and influential in the Shi'ite community.

Competing agendas and parochial sectarian interests on the political level have contributed to a deepening of the rifts within Iraqi society. Political dynamics are driven by each camp's marginalization concerns. The fear of revenge that previously fuelled the civil war continues to be used by some political leaders for the mobilization of their constituencies. In addition, each camp sees itself as presenting an authentic national agenda, and perceives the other camp as a tool of external powers.

Cleavage /
conflict
management
4

Despite the fact that the political leadership under former Prime Minister al-Maliki was barely capable of mitigating divisions and preventing cleavage-based conflicts, the rejection of al-Maliki's authoritarian drift managed to create an opposition front against him. Masoud Barzani, president of the Iraqi Kurdistan Region, headed a no-confidence vote against the former 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, al-Maliki's opponents campaigned in mid-November 2012 for the introduction of term limits in an attempt to block his bid for a third term in office. Moreover, al-Maliki's policy of asserting his personal control through clientelistic networks within the security apparatuses led to the collapse of the Iraqi forces before IS.

New Prime Minister Haider al-Abadi seems to be more inclusive toward Sunnis and reached an agreement with the Kurds over the distribution of oil revenues, which is considered a first step toward bridging the gaps. However, serious improvements are still needed in terms of increasing cross-sectarian participation and a depoliticization of the state's institutions.

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 elections 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. Civil society activists also strongly opposed the draft of the Jaafari Personal Status Law approved by the council of ministers in February 2014. The activities of the Iraqi Civil Society Solidarity Initiative (ICSSI) are worth mentioning too. For instance, in 2014 ICSSI launched a

campaign to save the Tigris and the Iraqi Marshlands. In April 2014, it presented a policy paper to the Iraqi government discussing potential Iraqi legal responses to the threat posed to the Tigris' water flow by the construction of the Ilisu dam in Turkey. The campaign also calls for the protection of civilians' right to water in zones of conflict in Iraq and Syria, as well as the inclusion of the Iraqi Marshlands on the UNESCO World Heritage list.

Some state institutions, such as the ministry of human rights, occasionally consult with civil society, and the Higher Judicial 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 Saddam Hussein's regime. 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 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.

Prime Minister al-Abadi initiated a national reconciliation project aimed at reconciling Iraq's Sunnis with the federal government accused, under former Prime Minister al-Maliki, of pursuing sectarian agendas and marginalizing many. While Shi'ite politicians expressed concern about the National Guard project, Sunnis were enthusiastic about it as they normally distrust state institutions such as the army and national police, which had previously carried out indiscriminate arrests against Sunnis. However, they seem largely disappointed by the de-Ba'thification measures, which are considered insufficient.

The traumatic experiences of Iraqi minorities (particularly Yazidis), but also other communities, under the violence of both the IS and al-Hashd al-Sha'bi militias poses a specific challenge for Iraq's future. When the cruel deeds of IS are fully revealed, people will have to answer the question of how these criminal acts could happen, and who within Iraqi society was either actively involved in or passively tolerant of the mass killings, obsessive harassments and inhuman treatments.

Reconciliation

6

17 | International Cooperation

Since the 2003 war, the United States has been the dominant partner of the federal government in Baghdad as well as the KRG in Erbil. However, since the dominant positions in Iraq's own polity are filled by representatives of the Shi'ite community, Iran also has a major influence on the government's activities.

Effective use of
support
6

Neither the United States nor Iran can be judged positively: while the achievements of democracy and a functioning market economy can be excluded as prime targets for Iran, the United States has completely failed to support Iraq productively. The interim administration of Paul Bremer made many crucial mistakes, while the quick inflow of money led mainly to a massive increase in corruption and not sustainable economic development. This became particularly evident at the end of 2011, when Usama al-Nujaiifi – a former speaker of parliament – stated that Iraq's Development Fund had lost around \$18 billion, and the documents concerning that expenditure were missing. These funds were intended for reconstruction efforts that never occurred, suggesting that both U.S. and Iraqi officials have mishandled this money. One of the main areas of the Iraq-NATO cooperation program, signed on 24 September 2012, is the provision of Iraq's security institutions with training in counter-terrorism, energy infrastructure protection and crisis management. The results of such cooperation have yet to be seen.

The Iraqi government never followed a strategic roadmap outlining benchmarks and defining the state's priorities with respect to its partnership obligations. In contrast, the government has repeatedly relied only 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.

In 2009 – 2010, a belief 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 by the ongoing civil strife and infighting since 2013.

Credibility
4

A number of international reports frame Iraq as a weak or even failed state, and evaluate its state-building status in rather negative terms. The offensive conducted by IS militants and IS's control over parts of Iraq's territory further impedes political and market reforms. The Fragile State Index (2014) ranked Iraq 13 out of 178 (high alert status). The same goes for Freedom House (2015), qualifying Iraq as "Not Free" with a score of 6 (on a scale of 1 to 7). According to Human Rights Watch's 2015 report, Iraq's human rights conditions deteriorated in 2014: Both government and various armed groups were responsible for attacks targeting civilians. The Iraqi authorities closed critical media outlets ahead of the 2014 parliamentary elections, which were themselves marred by irregularities including bribing of voters and harassment.

The Iraqi government's external relations are deeply entrenched within the regional balance of power. Iran continues to have a considerable influence in Iraqi politics. In 2014, it sent over 1,000 military advisors as well as ground troops to fight IS. It has also conducted air strikes and armed/funded Shi'ite militias for the same purpose. The widely publicized participation of General Qassem Suleimani, commander of the Iranian al-Quds force in the current Iraqi forces' assault to retake the city of Tikrit and its surrounding areas, is a clear reminder of the regional balance of power. Economic ties with Turkey are growing stronger, after a problematic period under former Prime Minister al-Maliki. When Prime Minister al-Abadi took over, the Ankara-Baghdad relationship entered a new phase. At the beginning of 2015, a number of agreements and protocols were signed between the two countries to increase collaboration on oil, natural gas and electricity production as well as investment by Turkish companies. The Turkey-Iraq High Level Strategic Cooperation Council convened for the first time since 2009 to discuss concerns about the IS threat. Some of Iraq's neighbors, including Saudi Arabia, United Arab Emirates, Bahrain, Qatar and Jordan, are taking part in the U.S.-led air campaign against IS militants in Iraq. Finally, due to Iraq's budgetary difficulties, Kuwait accepted the Iraqi request to defer the payment of reparations imposed by the U.N. Security Council over its 1990 invasion (5% of Iraq's oil revenues) until January 2016.

Regional
cooperation
8

Strategic Outlook

Iraq's predicament is 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. As KRG Prime Minister Nechirvan Barzani said in 2007 according to cables from the U.S. embassy: "The Sunnis fear the future, the Shi'a fear the past, and the Kurds fear both." Thus, the new Iraqi leadership should create a truly inclusive political order that addresses Iraqis' expressed need to be treated as citizens of a state and stands in the way of any armed group that could harness communities' frustrations and fears. 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:

- A structural reform of the security sector is needed to instill greater professionalism, root-out patronage networks, and rebuild the army in order to fight IS militants and recapture territories under their control. This entails a dismantling of various pro-government militias and their integration into the Iraqi security system. Another tough challenge is ending the militarization that occurred through popular mobilization to take up arms and volunteer on the front.
- Leadership should engage in a committed and concerted effort to combat corruption, and to enhance transparency and accountability within all state institutions. 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 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.