

Iraq

RISK & COMPLIANCE REPORT

DATE: June 2018

Executive Summary - Iraq

Sanctions:	Financial and Arms Embargo
FAFT list of AML Deficient Countries	No Longer on list
Higher Risk Areas:	<p>Non - Compliance with FATF 40 + 9 Recommendations</p> <p>Supporter of or Safe Haven for International Terrorism</p> <p>Not on EU White list equivalent jurisdictions</p> <p>Corruption Index (Transparency International & W.G.I.)</p> <p>World Governance Indicators (Average Score)</p> <p>Failed States Index (Political Issues)(Average Score)</p>
Medium Risk Areas:	<p>Weakness in Government Legislation to combat Money Laundering</p> <p>US Dept of State Money Laundering Assessment</p>
<p>Major Investment Areas:</p> <p>Agriculture - products:</p> <p>wheat, barley, rice, vegetables, dates, cotton; cattle, sheep, poultry</p> <p>Industries:</p> <p>petroleum, chemicals, textiles, leather, construction materials, food processing, fertilizer, metal fabrication/processing</p> <p>Exports - commodities:</p> <p>crude oil 84%, crude materials excluding fuels, food and live animals</p> <p>Exports - partners:</p> <p>US 21.4%, India 21.1%, China 13.8%, South Korea 11.2%, Canada 4.8%, Italy 4.5%, Spain 4.3% (2012)</p> <p>Imports - commodities:</p> <p>food, medicine, manufactures</p> <p>Imports - partners:</p> <p>Turkey 27.8%, Syria 15.9%, China 12.6%, US 5.2%, South Korea 4.8% (2012)</p>	

Investment Restrictions:

After decades of oil-driven statist economic policy, followed by years of conflict and instability, the Government of Iraq (GOI) seeks to identify and promote policies to strengthen the country's small private sector, create jobs for its citizens, and spur economic development.

While few SOEs compete with Iraq's private-sector companies, most SOEs now face increasing competition from foreign firms, most of which are privately-owned, as a result of the opening of Iraq's market. Faced with this competition, Iraq's SOEs are losing market share in certain sectors open to competition because their equipment and production technology are obsolete. As a result, an increasing number of Iraqi SOEs are attempting to form strategic partnerships with foreign firms to obtain newer technology, investment, and managerial expertise.

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Section 1 - Background

Formerly part of the Ottoman Empire, Iraq was occupied by Britain during the course of World War I; in 1920, it was declared a League of Nations mandate under UK administration. In stages over the next dozen years, Iraq attained its independence as a kingdom in 1932. A "republic" was proclaimed in 1958, but in actuality a series of strongmen ruled the country until 2003. The last was SADDAM Husayn. Territorial disputes with Iran led to an inconclusive and costly eight-year war (1980-88). In August 1990, Iraq seized Kuwait but was expelled by US-led, UN coalition forces during the Gulf War of January-February 1991. Following Kuwait's liberation, the UN Security Council (UNSC) required Iraq to scrap all weapons of mass destruction and long-range missiles and to allow UN verification inspections. Continued Iraqi noncompliance with UNSC resolutions over a period of 12 years led to the US-led invasion of Iraq in March 2003 and the ouster of the SADDAM Husayn regime. US forces remained in Iraq under a UNSC mandate through 2009 and under a bilateral security agreement thereafter, helping to provide security and to train and mentor Iraqi security forces. In October 2005, Iraqis approved a constitution in a national referendum and, pursuant to this document, elected a 275-member Council of Representatives (COR) in December 2005. The COR approved most cabinet ministers in May 2006, marking the transition to Iraq's first constitutional government in nearly a half century. In January 2009, Iraq held elections for provincial councils in all governorates except for the three governorates comprising the Kurdistan Regional Government and Kirkuk Governorate. Iraq held a national legislative election in March 2010 - choosing 325 legislators in an expanded COR - and, after nine months of deadlock the COR approved the new government in December 2010. Nearly nine years after the start of the Second Gulf War in Iraq, US military operations there ended in mid-December 2011.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Iraq was removed from the FATF List of Countries that have been identified as having strategic AML deficiencies on 29 June 2018.

Latest FATF Statement - 29 June 2018

The FATF welcomes Iraq's significant progress in improving its AML/CFT regime and notes that Iraq has established the legal and regulatory framework to meet the commitments in its action plan regarding the strategic deficiencies that the FATF identified in October 2013. Iraq is therefore no longer subject to the FATF's monitoring process under its ongoing global AML/CFT compliance process. Iraq will work with MENAFATF to improve further its AML/CFT regime.

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Iraq was undertaken by the Financial Action Task Force (FATF) in 2013. According to that Evaluation, Iraq was deemed Compliant for 2 and Largely Compliant for 1 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for all 6 of the Core Recommendations.

Key Findings from latest Mutual Evaluation Report (2006):

The Republic of Iraq faces very serious risks of money laundering and terrorist financing amid its period of state-building, transition and rapid economic growth. Domestic crime indicators reveal proceeds and profit from financial crime exist in Iraq. Corruption is a serious problem and will continue to escalate with the high growth rates expected in the financial and economic sectors. Terrorism continues to be a serious threat to Iraq, and sustaining terrorist operations require funding. Greater attention at the decision making levels needs to be given to the investigation (i.e., following the money trail) of, proceeds of crime and terrorist funding.

Although Iraq has had an AML law in place since 2004, implementation is limited due to complex political and other circumstances the country faces. The existing law contains some important elements of an AML system, but improvements are needed in the provisions criminalizing money laundering and terrorist financing, and greater detail is needed to more

effectively implement preventive measures. As a middle income country, resources to build an effective AML/CFT system should not be a significant challenge.

Greater clarity in legislative provisions is needed to delineate roles and responsibilities of several ministries and agencies which play important roles in supporting the national AML/CFT system. Appropriate units in the respective ministries and agencies need adequate staffing, resources and training to fulfill the assigned roles, as well as carry out and implement components of the system for which they are responsible.

Stronger political level commitment is needed to enable the financial intelligence unit (FIU) to undertake its functions to become fully operational and independent. The FIU also lacks capacity, and resources, both human and technical.

While money laundering and terrorist financing risks in Iraq are known to be high, the lack of implementation of many provisions under the existing AML law prevents competent authorities, including financial sector supervisors and law enforcement officials from implementing various components necessary to prevent and detect corruption, money laundering, and terrorist financing.

Although some preventive measures covering the financial sector exist in the AML law, provisions on implementation are not sufficiently detailed for effective implementation or compliance monitoring. In sectors where implementation has begun, supervision and compliance monitoring are not effective, and the lack of coverage of AML controls for state-owned financial entities presents serious risks given the large portion of the financial sector that remains in state hands. Implementation of AML controls has not yet begun in the insurance, securities sectors or for dealers in precious metals/stones. Several designated non-financial businesses and professions are also not yet covered by the AML law.

Necessary policies and procedures for domestic and international co-operation are not sufficiently implemented in the daily operations of ministries and agencies. Where inter-agency coordination and international cooperation exist, the process is slow and bureaucratic, which prevents the spontaneous sharing of information and application of other enforcement measures.

It is important for Iraq to strengthen its national AML/CFT system in order to effectively cooperate at the international level where crime proceeds traverse borders. Neither Iraq, nor any other country can trace cross-border movements of crime proceeds without the help of the other affected countries. Therefore, all jurisdictions must work together to put in place strong AML/CFT systems that meet international standards.

Concern in respect of Money Laundering and Financial Crimes. The last report released in 2017 is as follows: -

OVERVIEW

Iraq's economy is primarily cash-based and its financial sector is severely underdeveloped. Iraq has about 2,000 financial institutions, most of which are money exchange houses. Although Iraqi law prohibits these entities from transferring funds outside of Iraq, some probably conduct cross-border transfers. U.S. dollars are widely accepted. Iraqi law enforcement and bank supervisors have made progress in their capabilities to detect and halt illicit financial transactions mostly due to a 2015 AML law. However, the illicit use of some currency exchange networks and the weak compliance capabilities of the banking sector leave the Iraqi financial sector susceptible to abuse.

Smuggling is endemic, often involving consumer goods. Bulk cash smuggling is likely common, in part because Iraqi law only allows for the seizure of funds at points of entry, such as border crossings and airports. Narcotics trafficking occurs on a small scale. Corruption is pervasive at all government levels and is widely regarded as a cost of doing business in Iraq.

Iraqi authorities have been making strides in combatting money laundering, but almost all of the progress is connected to terrorist financing. Investigations into financial gains from political corruption or other actors remain virtually nonexistent.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Since June 2014, when Iraq's ongoing conflict with ISIL escalated, it has been more difficult for the government to monitor AML efforts in areas outside of central government control. The Central Bank of Iraq (CBI) has taken a number of steps to deter money laundering, including by issuing a national directive to prohibit financial transactions with banks and financial companies located in ISIL-controlled areas, publishing a list of companies prohibited from accessing the U.S. currency auction, and increasing its investigative activities and cooperation with the Ministry of Interior (MOI). However, the CBI lacks adequate personnel and technical capacity to fully monitor financial entities and routinely encounters difficulty engaging various parts of the government during its investigations.

According to the manager of Iraq's Free Trade Zone Authority, Iraq has three FTZs, but only Khour Az-Zubayr, Basrah, is currently operational. Under the Free Trade Zone Authority Law goods imported or exported from the FTZs are generally exempt from all taxes and duties, unless the goods are to be imported for use in Iraq. Additionally, capital, profits, and investment income from projects in the FTZs are exempt from taxes and fees throughout the life of the project. TBML is a significant problem in Iraq and is linked to hawalas and informal financial systems.

KEY AML LAWS AND REGULATIONS

In October 2015 Iraq passed a new AML law; implementing regulations are still being drafted. The CBI is working with international donors to draft the regulations. The

implementation of the 2015 AML law should help to increase the regulation and supervision of the financial sector, but to date the capacity of the regulatory authorities remains limited, and enforcement is subject to political constraints.

Since June 2016, Iraq has made improvements to its AML regime, namely through addressing issues related to the criminalization of money laundering and strengthening its FIU.

Iraq is a member of MENAFATF, a FATF-style regional body.

AML DEFICIENCIES

A lack of technological and human capital is a major hindrance to Iraq's efforts to effectively combat money laundering. The lack of cooperation between the intelligence agencies, the FIU, the CBI, and the judiciary, while improving, is a major obstacle to effective enforcement actions. Additionally, the Money Laundering Reporting Office (MLRO) needs to be empowered to enforce its authority to receive reports from all reporting entities.

In practice, despite CDD requirements, most banks open accounts based on referrals by existing customers and/or verification of a person's employment. Actual application of CDD and other preventive measures varies widely across Iraq's state-owned and private banks. Banks generally comply with the requirement to file CTRs with the MLRO, but very few STRs are filed. Due to a weak institutional culture of compliance and the lack of robust penalties for noncompliance, banks often are unmotivated to file STRs and sometimes conduct internal investigations in lieu of reporting. Iraqi authorities should encourage increased reporting by financial institutions through more in-depth onsite supervision and an increase in the penalties levied for noncompliance.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

The CBI revoked the licenses of dozens of exchange houses and money transfer companies linked to illicit financial activity in 2016, and the MOI closed the offices of over 40 unlicensed exchange houses.

The number of criminal convictions rose dramatically in 2016, and coordination with U.S. authorities has increased. However, the result in many cases is a fine against an institution or closure of the financial office.

Greater coordination between the Iraqi government and the Kurdistan Regional Government (KRG) is needed to regulate financial transactions, crack down on smuggling networks, and cooperate on AML efforts. The KRG abides by Iraq's AML law, and there are renewed efforts to coordinate with the central government; however, the extent of the cooperation remains extremely limited. Moreover, Kurdish customs requirements are less stringent than Iraq's, which risks enabling the smuggling of illicit and counterfeit goods into southern Iraq.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Iraq does not conform with regard to the following government legislation: -

Arrangements for Asset Sharing - By law, regulation or bilateral agreement, the jurisdiction permits sharing of seized assets with third party jurisdictions that assisted in the conduct of the underlying investigation.

International Terrorism Financing Convention - States parties to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

EU White list of Equivalent Jurisdictions

Iraq is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Iraq is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2016 (introduction):

Iraq continues to be a transit country for illicit drugs, with growing rates of substance abuse due to an upsurge in trafficking of pharmaceuticals and other synthetic drugs. The Government of Iraq recognizes this threat, and with assistance from the United States, the Iraqi Ministry of Health (MOH) has enhanced its ability to prevent and treat substance abuse. Given the continued deterioration in the security environment, however, the government's efforts are limited and secondary to the focus on internal security and public order.

Iraq's uncontrolled and porous borders enable the trafficking of illegal drugs, including fenethylamine pills (an amphetamine-type stimulant) that are transported via the Iraq-Syria border for domestic consumption and for transshipment to other countries in the Middle East. Heroin, opium, methamphetamine, and hashish are transported through Iran into Iraq, and then onward to international markets. Iraqi pharmacies are only beginning to require a doctor's prescription before providing medicine and drugs to consumers. Drug law reform is needed to address the abuse and diversion of pharmaceutical medication and provide comprehensive protection against the trafficking and use of synthetic drugs.

Pursuant to the 2008 U.S.-Iraq Strategic Framework Agreement, the United States funded a counternarcotics initiative that led to the development of a national substance abuse center in Baghdad. This initiative began in 2011, and helped form the Iraq Community Epidemiological Workgroup, which produced the first comprehensive profile on the nature and extent of drug abuse in Iraq. The United States also provided training on evidence-based substance abuse treatment to Iraqi health care professionals, which enabled them to replicate this training throughout Iraq. Additionally, U.S. assistance to Iraqi civil society organizations has led to the development of anti-drug coalitions and outreach drop-in centers that work to prevent substance abuse through grassroots community engagement, and also to refer hard-to-reach populations to treatment centers.

Extradition between the United States and Iraq is governed in principle by the 1934 U.S.-Iraq Extradition Treaty. While there is no mutual legal assistance treaty in force between the United States and Iraq, both are parties to international treaties that enable international cooperation in criminal matters.

Working with the MOH in 2015, the United States completed a nation-wide survey on the prevalence and demographics of substance abuse that will inform the development of a national strategy to decrease substance abuse, and implementation of the strategy. The results of the survey report show an increase in substance abuse, with a 3.7 percent lifetime prevalence use rate, as compared with a 2004 WHO report indicating a less than one percent rate. Iraq's political leadership continues to focus on restoring stability. While securing resources to counter drug trafficking and reduce domestic demand is important, it will not likely be the top priority for the Government of Iraq.

US State Dept Trafficking in Persons Report 2016 (introduction):

Iraq is classified a Tier 2 country - A country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Iraq is a source and destination country for women and children subjected to sex trafficking, and men, women, and children subjected to forced labor. The continued escalation in 2015 of the conflict with Da'esh, also known as the Islamic State of Iraq and the Levant (ISIL), gravely increased the vulnerability of the population to trafficking, in particular women and children. In 2015, more than 3.3 million Iraqis were displaced across the country, and more than 245,000 Syrian refugees remained displaced in the Iraqi Kurdistan Region (IKR). Da'esh militants continue to kidnap and hold captive thousands of women and girls from a wide range of ethnic and religious groups, especially from the Yezidi community, and sell them to Da'esh fighters in Iraq and Syria where they are subjected to forced marriage, sexual slavery, rape, and domestic servitude. There are reports Da'esh executes captives if they refuse to marry fighters. The media has also reported that Da'esh sells some captives to wealthy individuals in Gulf countries. Da'esh maintained an organized system to buy and sell women for sexual slavery, including sales contracts notarized by Da'esh-run courts. In 2015, thousands of women and girls escaped Da'esh captivity—many of whom were pregnant as a result of rape—and became internally displaced persons (IDPs) because Da'esh still controlled their homelands; these victims remain highly vulnerable to various forms of exploitation, including re-trafficking. Da'esh continues to abduct and forcibly recruit and use children in combat and support roles, including as human shields, informants, bomb makers, and suicide bombers; some of these children are as young as 8 years old and some are mentally disabled. Da'esh continues to train children at military training and indoctrination camps. In 2015, an international organization and media reported Da'esh forced hundreds of boys from the Ninewa Governorate to man checkpoints and serve as informants and suicide bombers. IKR contacts reported in 2015 that the Kurdistan Workers' Party had recruited Yezidi boys, some younger than 10 years old, to serve as fighters against Da'esh. The UN reported that in 2015, volunteer militia affiliated with the Popular Mobilization Forces (PMF), which is an official entity funded by the 2015 budget but one that the government struggles to control, were alleged to have recruited and used children to serve in combat roles. The UN also reported in 2016 that the PMF coerced eight boys to attend a military training camp and recruited four boys to serve in combat roles. An international organization also reported in 2015 that children, including girls, continue to be associated with Yezidi self-defense forces fighting alongside the Peshmerga in the Sinjar mountains.

Refugees and IDPs face heightened risk of trafficking due to their economic and social vulnerability. In 2015, NGOs reported trafficking networks in the IKR targeted refugees and IDPs, operating with assistance from local officials, including judges, individuals from the Kurdistan Regional Government's (KRG) Asayish internal security forces, and border agents. Likewise, various individuals, including security and law enforcement officials, criminal gangs, taxicab drivers, and the victims' family members, exploited women and girls from Iraq and Syria, including refugees and IDPs, in sex trafficking. In the IKR, members of Parliament and NGOs have alleged some personnel from the Asayish internal security forces facilitate the sex trafficking of women and girls in Syrian refugee camps in the IKR, primarily in Domiz refugee camp, as well as sex trafficking of girls outside of the camps. Reports from 2015 indicate IDPs and some Syrian refugee women are forced into prostitution by a trafficking network in hotels

and brothels in Baghdad, Basrah, and other cities in southern Iraq after agents of the network promise to resettle them from the IKR; the women's children are also forced to beg on the street. Some Syrian refugee men enter into employment without legal work contracts in Iraq, which increases their vulnerability to trafficking. Some displaced Iraqi families reportedly sell their children to other families to secure better futures; these children are at risk of trafficking. Traditional practices, including child forced and "temporary" marriages and *fasiya*—the exchange of family members to settle tribal disputes—also place women and girls at increased risk of trafficking within the country. An NGO reported in 2015 that incidents of child marriage—which could increase a child's vulnerability to commercial exploitation—increased among Syrian refugees in the IKR, as heads of households sought ways to generate income and reduce the family's economic burden. Syrian girls from refugee camps in the IKR are forced into early or "temporary marriages" with Iraqi or other refugee men; some KRG authorities allegedly at times ignore, or may accept bribes to ignore, such cases, including those in which girls are sold multiple times. Anecdotal reports also suggest that some Iraqi law enforcement officials have allegedly frequented brothels known for sex trafficking or accepted bribes to allow sex trafficking in locations openly facilitating prostitution. Media and other observers reported in 2015 that an Iranian sex trafficking network operated brothels in Erbil where Iranian girls were exploited in prostitution; the media reported a KRG official allegedly paid \$3,000 to have sex with an Iranian sex trafficking victim, paying a premium because the victim was a virgin. Criminal gangs subject children to forced begging and other types of forced labor in Iraq, while trafficking networks also reportedly sell Iraqi children in neighboring countries and Europe for commercial sexual exploitation. Iraqi women and girls are also subjected to sex and labor trafficking in the Middle East and Turkey.

Some men and women from throughout Asia and East Africa who migrate to Iraq are forced to work as construction workers, security guards, cleaners, handymen, and domestic workers. Some foreign migrants are recruited for work in other countries in the region but are forced, coerced, or deceived into traveling to Iraq, including the IKR. In May 2015, the Ministry of Labor and Social Affairs reported approximately 140,000 foreign workers lacked formal work permits; NGOs reported some employers and recruitment agents exploit workers' illegal status by withholding salaries and subjecting workers to substandard living conditions. The Kurdistan Independent Human Rights Commission reported 69 percent of 480 foreign workers surveyed in the IKR in January 2016 were not paid their agreed-upon salaries and 18 percent reported violent acts their employers committed against them.

The Government of Iraq does not fully meet the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. Violence and security challenges, lack of control over parts of the country, budget constraints, and an influx of IDPs, particularly in the IKR, continued to severely hinder the government's ability to combat trafficking. The government and KRG made efforts to prosecute and convict traffickers, and the KRG continued to conduct operations to rescue Yezidi and other trafficking victims from Da'esh captivity. Some PMF-affiliated militias recruited and used child soldiers. While the PMF is funded by the government and falls under the control of the prime minister, the government struggled to exercise full control over all the PMF factions. The government did not hold anyone accountable for child recruitment and use by the PMF and PMF-affiliated militias. The government officially opened a permanent shelter for trafficking victims in Baghdad, and both the government and KRG continued to improve services available for trafficking survivors of Da'esh captivity. Nevertheless, the quality of protection services for trafficking

victims varied widely by location; some trafficking victims were unable to receive services, and the government did not provide support to NGOs that provided appropriate assistance to victims. The government continued to harshly punish and deport victims of forced labor and sex trafficking, including children.

US State Dept Terrorism Report 2016

Iraq is currently identified by the US Secretary of State as a Safe Haven for International Terrorism.

Overview: Iraq made impressive progress in 2016 toward defeating ISIS, which had occupied large areas of the country since mid-2014. The series of successive ISIS defeats continued with Iraqi Security Forces (ISF) liberation of Ramadi in February, elimination of ISIS presence in Hit, Karma, Jazira al-Khalidiya, and Rutbah through the spring, recapture of Fallujah in June, seizure of Qayara Airbase in July, and launch of a broad offensive in Ninewa in October, resulting in ISF penetration deep into eastern Mosul at the end of the year assisted by Coalition air power. As it retreated, ISIS killed hundreds of Iraqi civilians, publishing macabre videos of the murders to terrorize Iraqis, and forcing Mosul residents to remain as human shields to discourage airstrikes. ISIS also demonstrated its continuing ability to conduct massive terrorist attacks in Baghdad and Shia-majority areas, killing at least 300 civilians in coordinated bombings in Baghdad in July and killing at least 80 Iranians and Iraqis (the bulk of whom were Shia Arba'in pilgrims) in Hilla, south of Baghdad, in November.

By the end of 2016, ISIS had lost much of the territory it captured in 2014 and early 2015. While ISIS continued to offer fierce resistance in Mosul's city center and a few other strongholds, it lost some of its ability to generate revenues or resupply itself militarily. The ISF had reclaimed most of Anbar (with only the Qaim-Rawa corridor remaining ISIS-controlled), nearly all of Salah al-Din, Kirkuk (except for Hawija), and Ninewa (except for Mosul and Tal Afar). This represented a dramatic, positive advance from the situation in Iraq in 2015.

Still, even as the Government of Iraq – supported by the 73-member Global Coalition to Defeat ISIS – made significant progress in its campaign to expel ISIS from Iraq, severe internal security threats endured. Iraqi officials made little progress on managing the country's ethnic, religious, and sectarian fissures, and the passage of legislation formalizing the Popular Mobilization Forces (PMF) proved a divisive step that exacerbated the doubts of many Sunnis about the government's willingness to rule for the benefit of all citizens.

The U.S.-led Defeat-ISIS Coalition focused on training, equipping, advising, and assisting the ISF, including Kurdish Peshmerga, in coordination with the Government of Iraq. Twenty coalition states joined the United States in deploying military personnel to assist the Iraqi government in training, along with "advise and assist" missions. Coalition partners trained more than 38,500 ISF, while coalition members conducted 4,300 air strikes in Iraq, including in support of Mosul's liberation. Coalition states contributed more than \$1 billion to UN-managed stabilization projects and humanitarian support in 2016, including at the Iraq Donor Conference in July, bringing total humanitarian assistance to more than 4.5 billion since the current crisis began in 2014. Iraqi officials also participated in Counter-ISIS Ministerial and Lines of Effort working group meetings throughout the year.

2016 Terrorist Incidents: Terrorist groups continued to mount a large number of attacks throughout the country. ISIS's use of captured and improvised military equipment gave it sophisticated capabilities in line with a more conventional military force, including the reported use of tanks, armored vehicle-borne improvised explosive devices, artillery and mortars, and self-developed unmanned aerial drones, capable both of surveillance and attacks using primitive air-drop bomblets or booby-trapped components. According to estimates from the UN Assistance Mission for Iraq, acts of terrorism and violence killed more than 7,000 civilians and injured more than 12,000 in 2016.

Many of Iraq's armed Shia groups are backed by Iran, including Kata'ib Hizballah (KH), Asa'ib Ahl al-Haqq (AAH), and the Badr Organization. These Iranian-backed groups continued to operate in Iraq during 2016, which exacerbated sectarian tensions in Iraq and contributed to allegations of human rights abuses against primarily Sunni civilians, particularly in Fallujah, where residents claim hundreds of male residents remain unaccounted for after the city's liberation in June. KH, AAH, and other militias associated with Iran's Islamic Revolutionary Guards Corps-Qods Force have been combating ISIS alongside the Iraqi military. In November, the Council of Representatives passed legislation formalizing the PMF as part of the ISF, although which militias will be formally enrolled or how they will be enrolled (as individuals or as units) in the legalized PMF had not been determined at year's end. The inclusion of KH – a U.S. designated Foreign Terrorist Organization – in the legalized PMF could represent an obstacle that could undermine shared counterterrorism objectives.

Legislation, Law Enforcement, and Border Security: With substantial training and equipment from the Coalition, the ISF strengthened its capabilities to provide local security and defeat terrorist threats. Independent ISF operations throughout Iraq showcased marked improvements in ISF capacity over the course of the year. Border security remained a critical gap; border crossings with Syria remained in ISIS hands and the Government of Iraq had no capability in 2016 to prevent smuggling across the Iraq-Syria border.

Iraq enacted legislation delineating powers, mandates, and duties of the Counter Terrorism Service in October, and passed legislation formalizing incorporation of the PMF into the ISF in November. The PMF law (passed by the Council of Representatives in November and published in December) presented challenges due to its likely inclusion of Iran-affiliated militia groups into the ISF, but it also provides avenues to govern the conduct of these groups and to ensure all armed actors are accountable to Iraqi law.

Iraq continues to support the Terrorist Interdiction Program's Personal Identification Secure Comparison and Evaluation System (PISCES) in an effort to secure its borders and identify fraudulent travel documents. The Government of Iraq has the capability to conduct biographic and biometric screening at multiple land and air ports of entry. Iraq also continued to participate in the Department of State's Antiterrorism Assistance program, which has improved selected and vetted Ministry of Interior units' contributions to the counter-ISIS fight.

Countering the Financing of Terrorism: Since 2005, Iraq has been a member of the Middle East and North Africa Financial Action Task Force (MENAFATF), a Financial Action Task Force (FATF)-style regional body. Iraq is under review by the FATF, due to a number of strategic deficiencies in its anti-money laundering/countering the financing of terrorism (AML/CFT) regime. Iraq has taken steps towards improving its AML/CFT regime, including passing an

updated AML/CFT law in 2015, and issuing a set of regulations in accordance with the new law in 2016, to help bolster its compliance with the international FATF standards.

In 2016, the Government of Iraq, including the central bank, law enforcement, and judiciary took measures to disrupt ISIS's financial activity, including: enforcing a national directive to prohibit financial transactions with banks and financial companies located in ISIS-controlled areas; cutting off salary payments to government employees located in ISIS-controlled areas to prevent those salaries from being "taxed" by ISIS; prohibiting exchange houses and transfer companies located in ISIS-held areas and those suspected of illicit activity from accessing U.S. banknotes in the central bank's currency auctions; sharing a list of banned exchange houses and money transfer companies with regional regulators; revoking the license and freezing the assets of a U.S.-designated exchange house; and taking judicial action against over a dozen individuals and companies suspected of illicit financial activity. These actions ranged from business closures to the arrest of suspects.

Iraq is a member of the Coalition's Counter-ISIS Finance Group. The Government of Iraq, including the Central Bank of Iraq's financial intelligence unit, collaborated with the U.S. Department of the Treasury to further develop its AML/CFT regime and strengthen its capacity to implement international standards for financial sector oversight.

Arms

The UN originally imposed sanctions on Iraq (via [UN Security Council Resolution 661](#)) following the Iraqi invasion of Kuwait in August 1990.

With the fall of the Iraqi government in 2003, the UN issued [UNSCR 1483](#) in May 2003. This resolution declared the lifting of trade sanctions, apart from the arms embargo which remained in force.

This resolution has subsequently been amended via [UNSCR 1546 \(2004\)](#) which declared that the restrictions are lifted for arms or related material required by the government of Iraq or the multinational force. Restrictions remain in force on other end users.

You can access copies of [UN resolutions on the UN Security Council website](#).

EU legislation

The EU issued its own arms embargo on Iraq, following the UN Security Council's resolutions condemning the invasion of Kuwait in 1990.

The EU's position is now outlined in the following declarations:

- [Council Common Position 2003/495/CFSP](#), which allows the supply of arms to supply UN Security Council Resolutions
- [Council Common Position 2003/735/CFSP](#), which amended the previous Common Position
- [Council Common Position 2004/553/CFSP](#), which amended this and authorises the sale, supply, transfer or export of arms and related material required by the new Government of Iraq and the multinational force.
- [Council Regulation \(EC\) No 1210/2003](#), as amended.

Financial

The [UN Security Council](#) imposed sanctions against the Republic of Iraq in August 1990 following Iraq's invasion of Kuwait.

In 2003, the UN lifted all trade sanctions against Iraq except for the arms embargo; replaced the existing assets freeze with a freeze targeted at all Government of Iraq funds and all funds belonging to Saddam Hussein, senior members of his regime and their immediate family members; and required that such funds be transferred to the Development Fund for Iraq. [Iraq current regime list \(html\)](#)

Current EU regulations

- [14.02.2011 Council Regulation \(EU\) No. 131/2011](#) In accordance with UNSCR 1956 (2010), extended until 30 June 2011 the provision in UNSCR 1483 (2003) for the

depositing into the Development Fund of Iraq of proceeds from export sales of petroleum, petroleum products and natural gas from Iraq, and arrangements concerning immunity from legal proceedings of certain Iraqi assets.

- [01.03.2010 Council Regulation \(EU\) No. 168/2010](#) In accordance with UNSCR 1905 (2009), extended until 31 December 2010 the provision in UNSCR 1483 (2003) for the depositing into the Development Fund of Iraq of proceeds from export sales of petroleum, petroleum products and natural gas from Iraq, and arrangements concerning immunity from legal proceedings of certain Iraqi assets.
- [05.03.2009 Council Regulation \(EC\) No. 175/2009](#) In accordance with UNSCR 1859 (2008), extended until 31 December 2009 the provision in UNSCR 1483 (2003) for the depositing into the Development Fund of Iraq of proceeds from export sales of petroleum, petroleum products and natural gas from Iraq, and arrangements concerning immunity from legal proceedings of certain Iraqi assets.
- [23.05.2006 Commission Regulation \(EC\) No. 785/2006](#) Amended Council Regulation (EC) No 1210/2003.
- [03.08.2004 Council Regulation \(EC\) No. 1412/2004](#) Amended Council Regulation (EC) No 1210/2003.
- [09.06.2004 Commission Regulation \(EC\) No. 1086/2004](#) Amended Council Regulation (EC) No 1210/2003.
- [14.05.2004 Commission Regulation \(EC\) No. 979/2004](#) Amended Council Regulation (EC) No 1210/2003.
- [29.04.2004 Commission Regulation \(EC\) No. 924/2004](#) Amended Council Regulation (EC) No 1210/2003.
- [02.12.2003 Commission Regulation \(EC\) No. 2119/2003](#) Amended Council Regulation (EC) No 1210/2003.
- [13.10.2003 Council Regulation \(EC\) No. 1799/2003](#) Amended Council Regulation (EC) No 1210/2003
- [07.07.2003 Council Regulation \(EC\) No 1210/2003](#) Implemented UNSCR 1483 (2003) in the EC. Replaced Council Regulation (EC) No 2465/96. Council Regulation (EEC) No 3541/92 to remain in force.
- [07.12.1992 Council Regulation \(EEC\) No 3541/1992](#) Prohibited the satisfying of Iraqi claims with regard to contracts and transactions the performance of which was affected by UNSCR 661 (1990) and related resolutions.

US Sanctions

There currently are no broad-based sanctions in place against Iraq, but there are certain prohibitions and asset freezes against specific individuals and entities associated with the former Saddam Hussein regime, as well as parties determined to have committed, or to pose a significant risk of committing, an act of violence that has the purpose or effect of threatening the peace or stability of Iraq or the Government of Iraq or undermining efforts to promote economic reconstruction and political reform in Iraq or to provide humanitarian assistance to the Iraqi people. The Secretary of the Treasury is authorized to name all such individuals and entities. These names are included in OFAC's list of Specially Designated Nationals and Blocked Persons ("SDN List"). In addition to these targeted sanctions, the ISISR impose some specific prohibitions designed to protect certain Iraqi property and contain certain provisions dealing with residual restrictions from the 1990 Iraqi sanctions.

Arab League

November 28, 2011 - The Arab League (comprising 22 Arab member states), of which this country is a member, has approved imposing sanctions on Syria. These include: -

- Cutting off transactions with the Syrian central bank
- Halting funding by Arab governments for projects in Syria
- A ban on senior Syrian officials travelling to other Arab countries
- A freeze on assets related to President Bashar al-Assad's government

The declaration also calls on Arab central banks to monitor transfers to Syria, with the exception of remittances from Syrians abroad.

The Arab League has boycotted Israel in a systematic effort to isolate Israel economically in support of the Palestinians, however, the implementation of the boycott has varied over time among member states.

There are three tiers to the boycott. The primary boycott prohibits the importation of Israeli-origin goods and services into boycotting countries. The secondary boycott prohibits individuals, as well as private and public sector firms and organizations, in member countries from engaging in business with any entity that does business in Israel. The Arab League maintains a blacklist of such firms. The tertiary boycott prohibits any entity in a member country from doing business with a company or individual that has business dealings with U.S. or other firms on the Arab League blacklist.

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	18
World Governance Indicator – Control of Corruption	6

Corruption in the public and private sectors carries very high risks for businesses investing in Iraq. Companies can expect to contend with several forms of corruption, including a deeply entrenched patronage network. Investors may also face pressure to take on well-connected local partners to avoid bureaucratic hurdles. The government of Iraq is facing several obstacles including corruption and security challenges, and political and humanitarian crisis, rendering the state very fragile. The Accountability Act criminalises corrupt acts such as passive and active bribery, abuse of office and extortion, but the Iraqi government failed to implement anti-corruption laws effectively and public officials engage in corruption with impunity. Bribery and giving gifts to ‘get things done’ are widespread practices in Iraq, despite being illegal. **Information provided by GAN Integrity.**

US State Department

While large-scale investment opportunities exist in Iraq, particularly for sophisticated investors, corruption remains a significant impediment to conducting business, and investors can expect to contend with it in many forms. While the GOI has moved toward greater effectiveness in reducing opportunities for procurement corruption, credible reports of corruption in government procurement are widespread, with examples ranging from bribery and kickbacks to awards involving companies connected to political leaders. Investors may come under pressure to take on well-connected local partners to avoid systemic bureaucratic hurdles to doing business. Similarly, there are widespread reports of corruption involving government payrolls, ranging from “ghost” employees and salary skimming to nepotism and patronage in personnel decisions. Moving goods into and out of the country continues to be difficult and bribery of port officials is reportedly common; Iraq ranks 179th out of 185 countries in “trading across borders” in the World Bank’s 2014 *Doing Business* report. Iraq ranked seven places from the bottom in Transparency International’s 2013 Corruption Perceptions Index, slipping down one position from 2012. Iraq also ranked in the eighth percentile of the World Bank’s 2012 Control of Corruption Index. In view of the conflict and sanctions Iraq has endured over recent decades, the resulting breakdown in institutional effectiveness that might curb high levels of corruption is not surprising. The United States continues to implement several programs to address corruption at the institutional level, with some positive impact.

The Commission of Integrity, the Federal Board of Supreme Audit, and the Office of the Inspector General are the three principal institutions specifically designated to address the problem of corruption in Iraq. Order Number 57 established Inspectors General (IGs) for each of Iraq’s ministries. Similar to the role of IGs in the U.S. Government, these offices are

responsible for inspections, audits, and investigations within their ministries. The Commission of Integrity (COI) is an independent government agency responsible for pursuing anti-corruption investigations, upholding enforcement of laws and preventing crime. The COI investigates government corruption allegations and refers completed cases to the Iraqi judiciary. COI Law Number 30, passed in 2011, updated provisions by granting the COI broader responsibilities and jurisdiction through three newly created Directorates: Asset recovery, Research and Studies, and the Anti-Corruption Academy.

The Board of Supreme Audit (BSA), established in 1927, is an analogue to the U.S. Government's General Accountability Office. It is a financially and administratively independent body that derives its authority from Law 31 of 2011 – The Law of the Board of Supreme Audit. It is charged with fiscal and regulatory oversight of all publicly funded bodies in Iraq. In October 2012, several amendments to the BSA's authorizing legislation, including a name change to the "Federal Board of Supreme Audit" (FBSA), gave it jurisdiction over audits of all federal revenues, including any revenues received from the IKR. Neither the COI nor the IGs have effective jurisdiction within the IKR. Regional revenues are audited by the Kurdistan Board of Supreme Audit with Iraqi Kurdistan Parliament (IKP) oversight. The IKP passed the Commission on Public Integrity (Law Number 3) of 2011, which established a regional Commission of Integrity that began its work in late 2013. The Commission launched an initiative in early 2014 to collect financial declaration forms from public officials. The Commission's office, located in Erbil, is divided into four sections – prevention and transparency, legal and investigative affairs, finance and administration, as well as the Office of the Commissioner.

Coordination among the three Iraqi Government institutions is currently overseen by the Joint Anti-Corruption Council (JACC), which reports to the Council of Ministers, and a small office that advises the Prime Minister on anticorruption issues. Within the Council of Representatives, corruption issues are the primary responsibility of the Integrity Committee. The JACC coordinated the GOI's National Anti-Corruption Strategy for 2010-2014 with input from Iraqi ministries to guide all three anti-corruption institutions in preventing, deterring, and counteracting corruption at all levels. Because the GOI has not completed all the action items in the current plan, an implementing committee formed under the 2010-2014 plan is developing an updated 2014-2018 strategy. The national strategy is part of Iraq's response as a signatory to the UN Convention Against Corruption (UNCAC), to which Iraq acceded in March 2008.

The UN Office of Drugs and Crime (UNODC) continues to provide United States-funded capacity building assistance to further Iraq's efforts to comply with UNCAC requirements. As of December 12, 2012, the country was accepted as a member of the Extractive Industry Transparency Initiative (EITI), having been found compliant with EITI requirements. The Board did, however, stipulate that the GOI should include data on oil and gas production in the IKR as well as oil and gas sales revenue to the KRG. GOI officials reported to EITI that they attempted to obtain KRG data for the 2011 and 2012 reports, but were unsuccessful.

Failure of the GOI to seek Council of Representatives confirmation of key anti-corruption appointments, however, has undermined the independence of Iraq's principal institutions to combat corruption. The result has been that many high-level officials operate in an acting capacity and are thus subject to removal at any time by the Prime Minister. While the GOI has made progress in some areas, it remains to be seen how vigorously the Government will move to address the problem of corruption system-wide. Article 136(b) of Iraq's 1971 Criminal

Procedures Code, which allowed ministers to shield ministry employees from work-related prosecution for official acts, was abolished on November 14, 2011. While such a provision could serve as a legitimate shield against politically-driven prosecution, the provision had increasingly been used to block corruption investigations at higher levels within the GOI. Hundreds of cases of corruption brought before the courts are still pending, hung up due to political pressure and threats against the judiciary.

Iraq's existing anti-money laundering/counter terrorism financing (AML/CTF) regime is inadequate, and international financial institutions frequently cite this as a major impediment to increasing their operations in Iraq. The country's financial system needs a major overhaul of its anti-money laundering regime to meet the Middle East North Africa Financial Action Task Force (MENAFATF) standards. Iraq joined MENAFATF in 2005 and underwent its first ever Mutual Evaluation (ME) in 2012. The ME team was led by World Bank experts early in 2012 to determine if the GOI conformed to the international standards stated in the 40-plus-9 recommendations issued by Financial Action Task Force (FATF); the Mutual Evaluation Report (MER) on Iraq was published in November 2012. According to a February 2014 International Cooperative Review Group (ICRG) statement, Iraq has made a high-level political commitment to work with the FATF and MENAFATF to address its remaining strategic AML/CTF deficiencies. According to the ICRG, Iraq should continue to work on implementing its action plan to address these deficiencies, including by: (1) adequately criminalizing money laundering and terrorist financing; (2) establishing and implementing an adequate legal framework for identifying, tracing and freezing terrorist assets; (3) establishing effective customer due diligence measures; (4) establishing a fully operational and effectively functioning financial intelligence unit; (5) establishing suspicious transaction reporting requirements; and (6) establishing and implementing an adequate AML/CFT supervisory and oversight program for all financial sectors.

Corruption and Government Transparency - Report by Global Security

Political Climate

In 2003, a United States-led coalition invaded Iraq and led to the ousting of President Saddam Hussein. In October 2005, Iraqis approved a constitution in a national referendum and, subsequently, pursuant to this document, elected a Council of Representatives (CR). Iraq held parliamentary elections in March 2010, and after a nine-month long deadlock the CR approved the new government in December 2010. International observers claimed there was no widespread fraud involved in the elections, according to a March 2010 article by The New York Times. Despite this, Freedom House 2013 reports that political participation and decision-making in the country remain seriously impaired by sectarian and insurgent violence, widespread corruption, and the influence of foreign powers.

The high incidence of corruption in Iraq emanates from different circumstances, among them the legacy of the Saddam Hussein regime, according to the Bertelsmann Foundation 2012. The Iraqi government has attempted to fight the high levels of corruption by establishing a number of control and anti-corruption institutions. In 2004, the main anti-corruption agency, the Commission of Integrity (COI), was established, charged with preventing and investigating cases of corruption in all ministries and other units of the

government. While the COI remains undeveloped as an institution, especially in the provinces, it has steadily increased the number of corruption-related arrests. However, most sources, including the US Department of State 2012, emphasise that Iraq's anti-corruption institutions such as the COI remain fragmented, and their cooperation is hampered by a lack of consensus about their role, partially due to the lack of enforcement of relevant legislation, as well as insufficient political will to fight corruption. Most importantly, the COI's work is often disrupted through political interference. For example, the US Department of State 2012 reports that Iraqi political parties have on a number of occasions attempted to influence the COI prosecutions of high-level figures. Moreover, it is not uncommon for Iraqi ministers to stall major corruption investigations, for instance, by failing to provide information or not complying with requests for officials to appear in court. This is due to Article 136(b) of the Iraqi Criminal Procedures Code, which allows ministers to shield ministry officials from work-related prosecution for corrupt acts. As a result, cases are generally brought against low- and mid-ranking officials. According to the COI, more than one thousand officials were found guilty of corruption, and the cases of corruption and misappropriation of funds investigated by the commission totalled up to USD 1.1 billion during 2012. Iraq signed and ratified the United Nations Convention against Corruption (UNCAC) in March 2008.

According to the US Department of State 2012, although the Iraqi law provides criminal penalties for official corruption, the government has not implemented the law effectively. According to Freedom House 2013 and Bertelsmann Foundation 2012, all levels of government are plagued by pervasive corruption, and a May 2011 article by Alwaha informs that corruption has been especially pervasive since the invasion of 2003, partly explained as a consequence to the subsequent unrest and absence of order. The Bertelsmann Foundation 2012 also notes that widespread corruption in the public sector has led to unqualified staffing even in sensitive positions. For instance, it was reported that the Iraqi Ministry of Interior admitted more than 9,000 civil servants with fake university degrees, including high-ranking staff in the Prime Minister's office. Public perception of government corruption and impunity continues to be strong, and large-scale corruption is believed to be a particular problem in the government. In line with this, Transparency International's Global Corruption Barometer 2010-2011 reveals that more than 63% of the surveyed households consider the government's efforts in fighting corruption as ineffective, while only 18% consider them to be effective. Furthermore, more than one-third of Iraqi households consider political parties to be 'extremely corrupt', while more than half believe that the parliament is extremely affected by corruption, making political parties and parliament the institutions perceived as most corruption-prone in Iraq. Most notably, well over half of the surveyed households report having paid a bribe in 2010, suggesting that petty corruption is highly institutionalised in the country.

Business and Corruption

Investor interest in Iraq has strongly increased since 2008, following substantial improvements to security within the country. Accordingly, the Bertelsmann Foundation 2012 reports that enhanced security in the country has boosted investments in the oil sector and in infrastructure projects, and growth has also been recorded in wholesale and retail trade. However, problems such as corruption, red tape, and inefficiency continue to pose obstacles to foreign investors in the country, as stated by the US Department of State 2013. Results from the World Bank & IFC Enterprise Surveys 2011 show that 62% of the surveyed business executives cited corruption as a major constraint to doing business in Iraq, while 31% stated that gifts are expected in many different occasions when interacting with

government officials, such as obtaining permits and licences, or securing a government contract. In addition, the survey result also shows that SMEs were in general, encountering more bribery incidences when compared to large enterprises, except for getting a construction permit, where 100% of the large enterprises stated that they are expected to give gifts.

Widespread corruption in the business sector is also highlighted in another business survey conducted by CIPE, titled '2011 Iraqi Business Survey', in which a majority of the surveyed companies pointed to corruption as the most serious factor hindering the growth of the business sector in Iraq, with 67% stating that more efforts need to be taken to combat corruption. An area in which companies perceive to be plagued by a high level of illicit activity is government contracting. Overall, the above-mentioned sources emphasise that corruption remains endemic and permeates through all levels of government and society, including the private sector. Despite the yearlong political vacuum in 2010 during the government-formation process, the Iraqi government has publicly announced as well as implemented measures showing its commitment to attract and improve the Iraqi investment climate, according to the US Department of State 2013.

According to the Bertelsmann Foundation 2010 report, many Iraqi companies operate informally, without registration, due to the unfavourable regulatory environment. The implementation of 2006 Investment Law has been slow; as a result, investors continue to face a great number of constraints, most notably corruption, when operating in the country. Iraqi public procurement is allegedly stained with corrupt practices, and there are credible reports of bribery, kickbacks, and awards to companies connected to political leaders, according to the US Department of State 2013. In addition, investors may come under pressure to take on well-connected local partners to avoid bureaucratic hurdles connected to procurement and to doing business in general. An environment of pervasive corruption and lack of transparency in procurement processes could potentially result in negative consequences for both the cost and quality of public services, despite the fact that government tender processes have been reformed to enhance transparency. Given this environment, companies are strongly recommended to develop, implement and strengthen integrity systems, and to conduct extensive due diligence before committing funds or when already doing business in Iraq. In addition, companies are recommended to use a specialised public procurement due diligence tool in order to mitigate corruption risks related to public procurement in Iraq.

Regulatory Environment

In line with its positive stance towards investment, Iraq has made efforts to improve its regulatory environment. To facilitate foreign investment, the government has created one-stop shops under the aegis of the National Investment Commission to minimise and accelerate cumbersome bureaucratic procedures. According to the Bertelsmann Foundation 2012, the Commission has had some success in bringing foreign direct investment to Iraq, but regulatory procedures remain non-transparent and cumbersome. According to the report, Iraq's regulatory environment is particularly discouraging for SMEs and acts as a strong deterrent to their establishment. Generally, a lack of regulations, inconsistent and discretionary rule implementation, conflict of interests between public servants and private investors, corruption, and insufficient progress in strengthening regulatory institutions represent major hurdles to investments and private businesses. Various sources such as Global Integrity 2008 and the Bertelsmann Foundation 2012 indicate that the regulatory situation in Iraq could

be linked to so-called structural constraints; namely, a friendly and efficient regulatory environment in Iraq is not an option as long as the country's governing institutions and basic administrative structures remain weak and corrupt. The same report further notes that these institutions are plagued by nepotism and politically motivated appointments which further hamper their efficiency and credibility. Also the US Department of State 2013 states that the Iraqi government is still too weak to enforce most regulations, but the government has implemented some reforms aimed at improving the regulatory climate, including issuing regulations intended to ease access to land for foreign investors.

According to the World Bank & IFC Doing Business 2013, Iraq's excessive bureaucratic red tape continues to be a major constraint on the competitiveness of the economy and deters investors. Also the US Department of State 2013 pinpoints that the government's efforts to increase transparency in the regulatory system are still in their infancy, as the Iraqi administration remains opaque and difficult to navigate, and obtaining routine permits can be difficult. Similarly, Doing Business 2013 reveals that starting a company in Iraq continues to be extremely challenging, taking an average of 74 days and 10 procedures. In addition, Iraq is reported to be among the most difficult countries in the world to conduct business in relation to closing a company and trading across borders, in terms of both time and number of procedures. In contrast, there have been significant improvements in relation to the time and number of procedures required to register property in Iraq, thus painting a brighter picture of the regulatory environment.

While the law of domestic arbitration is fairly well developed in Iraq, international arbitration is not sufficiently supported by Iraqi law. Iraq is a signatory to the League of Arab States Convention on Commercial Arbitration and the Riyadh Convention on Judicial Cooperation, but has not yet signed or adopted the New York Convention of 1958 and is not a party to the International Centre for the Settlement of Investment Disputes (ICSID). Although dispute resolution is provided by Iraqi law, the lack of implementation of regulation makes application of the law uncertain in practice, according to the US Department of State 2013. Moreover, the report alleges that dispute resolution mechanisms in Iraq are non-transparent. Foreign companies should note that even though business agreements may contain general provisions on access to arbitration and dispute settlement, the Iraqi government's ability and willingness to enforce them remains unknown. To improve the regulatory and investment environment in Iraq, the government has created a special commercial court in Baghdad for disputes involving foreign investors, and plans to create three more in Basrah, Mosul, and Karbala. In addition, the government has established the First Commercial Court, a court of specialised jurisdiction for disputes involving foreign investors. The court has jurisdiction only over cases involving a foreign party in Baghdad province.

Section 3 - Economy

During 2015, worsening security and financial stability throughout Iraq - driven by an ongoing insurgency, decreasing oil prices, and political upheaval - decreased prospects for improving the country's economic environment and securing much-needed foreign investment. Long-term fiscal health, a strengthened investment climate, and sustained improvements in the overall standard of living still depend on a rebound in global oil prices, the central government passing major policy reforms, and finishing the conflict with ISIL.

Iraq's largely state-run economy is dominated by the oil sector, which provides more than 90% of government revenue and 80% of foreign exchange earnings. Oil exports in 2015 averaged 3.0 million barrels per day, up from 2014, but a failed revenue- and oil-sharing agreement with the Iraqi Kurdistan Region's (IKR) autonomous Kurdistan Regional Government (KRG) resulted in a loss of exports from northern oil fields. Moreover, falling global oil prices resulted in declining export revenues. Iraq's contracts with major oil companies have the potential to further expand oil exports and revenues, but Iraq will need to make significant upgrades to its oil processing, pipeline, and export infrastructure to enable these deals to reach their economic potential. The IKR's autonomous KRG passed its own oil law in 2007, and has directly signed about 50 contracts to develop IKR energy reserves. The federal government has disputed the legal authority of the KRG to conclude most of these contracts, some of which are also in areas with unresolved administrative boundaries in dispute between the federal and regional government. In December 2014, the federal government and the KRG agreed to sell oil exports from Kurdish-controlled oilfields under the federal oil ministry, in exchange for the central government paying \$1 billion to the Kurdish Peshmerga forces and resuming budget transfers to the KRG that amount to 17% of Iraq's national budget. However, that deal fell apart in 2015.

Iraq is making slow progress enacting laws and developing the institutions needed to implement economic policy, and political reforms are still needed to assuage investors' concerns regarding the uncertain business climate. The Government of Iraq is eager to attract additional foreign direct investment, but it faces a number of obstacles, including a tenuous political system and concerns about security and societal stability. Rampant corruption, outdated infrastructure, insufficient essential services, skilled labor shortages, and antiquated commercial laws stifle investment and continue to constrain growth of private, nonoil sectors. Under the Iraqi constitution, some competencies relevant to the overall investment climate are either shared by the federal government and the regions or are devolved entirely to local governments. Investment in the IKR operates within the framework of the Kurdistan Region Investment Law (Law 4 of 2006) and the Kurdistan Board of Investment, which is designed to provide incentives to help economic development in areas under the authority of the KRG.

Inflation has remained under control since 2006. However, Iraqi leaders remain hard-pressed to translate macroeconomic gains into an improved standard of living for the Iraqi populace. Unemployment remains a problem throughout the country despite a bloated public sector. Encouraging private enterprise through deregulation would make it easier for Iraqi citizens and foreign investors to start new businesses. Rooting out corruption and implementing reforms - such as restructuring banks and developing the private sector - would be important steps in this direction.

Agriculture - products:

wheat, barley, rice, vegetables, dates, cotton; cattle, sheep, poultry

Industries:

petroleum, chemicals, textiles, leather, construction materials, food processing, fertilizer, metal fabrication/processing

Exports - commodities:

crude oil 99%, crude materials excluding fuels, food, live animals

Exports - partners:

China 22.6%, India 21.1%, South Korea 11.2%, US 7.8%, Italy 6.7%, Greece 6% (2015)

Imports - commodities:

food, medicine, manufactures

Imports - partners:

Turkey 20.7%, Syria 19.6%, China 19.2%, US 4.8%, Russia 4.4% (2015)

Banking

After many years of war and sanctions the banking system is still weak and requiring modernisation, consolidation and a complete change of it's business model.

The banking system is dominated by two government two banks, the Bank of Mesopotamia and Rasheed Bank. Some foreign banks are beginning to open branches in Iraq, especially from other middle eastern countries.

Stock Exchange

The Iraq Stock Exchange (ISX) was established in 2004. The ISX is financially and administratively independent from the Iraqi government including the Ministry of Finance. It is organized as a non-profit entity that is owned by its members, the Brokers. It is regulated by the Iraq Securities Commission.

Executive Summary

The Government of Iraq (GOI) is currently facing the dual challenges of fighting the Islamic State of Iraq and the Levant (ISIL), or “Da’esh” as the terrorist group is referred to in the region, and the financial impact of declining world oil prices. The fall of oil prices drastically reduced Iraq’s revenues from oil exports, which account for more than 90 percent of the GOI’s revenue. The GOI is also confronting a humanitarian crisis as the conflict with Da’esh has resulted in over 3.3 million internally displaced persons (IDPs) since the beginning of 2014. As a response to its fiscal challenges, in August 2015 Prime Minister Haider al-Abadi publicly committed to a reform plan that includes reforming Iraq’s failing state owned enterprises (SOEs), fighting corruption, reducing bureaucratic bottlenecks, and investing in necessary infrastructure. To date, however, the reforms have been only partially implemented as major political parties have challenged Abadi’s reform agenda.

Da’esh’s capture of Mosul and parts of northern and western Iraq in June 2014 cut key domestic and international trade routes and contributed to slowing economic growth. In recent months, the Iraqi Security Forces and the international Coalition to Counter Da’esh, led by the United States, have achieved several military successes. The Iraqis have pushed Da’esh out of Diyala and most of Salah ad Din provinces and recaptured Tikrit in June 2015 and Bayji in October 2015. In Anbar Province the ISF has cleared Ramadi. The Kurdistan Regional Government’s (KRG) Peshmerga have retaken Sinjar and its environs. Security remains an impediment to investment in many parts of the country. However, the security situation varies throughout the country and is generally more stable in Iraq’s southern provinces and the Iraqi Kurdistan Region (IKR).

Despite the current security and fiscal challenges, Iraq has long-term potential for U.S. investment. Iraq has the fifth largest proven oil reserves in the world and needs tremendous reconstruction and infrastructure development. U.S. companies have opportunities to invest in security, energy, environment, construction, healthcare, agriculture, and infrastructure sectors. Iraq imports large volumes of agricultural commodities, machinery, consumer goods, and defense articles.

Government contracts and tenders – the source of many commercial opportunities in Iraq – are largely financed by oil revenues and therefore will remain limited until oil prices rebound. Increasingly, the GOI has asked investors to provide financing options and allow for deferred payments. Despite a slight increase in oil production and oil exports in 2015, revenues from oil sales have declined by around 30 percent in nominal terms due to lower oil prices. The 2016 budget passed by Parliament in December 2015 projects a \$20.5 billion USD budget deficit, approximately 9 percent of GDP, based on Iraqi crude exports selling at \$45 USD per barrel. In light of declining oil revenues, the GOI reached an agreement with the International Monetary Fund (IMF) for a Staff Monitored Program (SMP) in November 2015. The World Bank (WB) subsequently approved a \$1.2 billion USD, one-year Development Policy Loan (DPL) for Iraq in December 2015.

Investors in Iraq continue to face significant challenges resolving commercial disputes, receiving timely payments, and winning public tenders. Potential investors should prepare to face significant costs to ensure security, cumbersome and confusing procedures, and long payment delays on some GOI contracts. Difficulties with corruption, customs regulations, cumbersome visa procedures, unreliable dispute resolution mechanisms, electricity

shortages, and lack of access to financing are also common complaints from companies. Shifting and unevenly enforced regulations create additional burdens for investors. The GOI currently operates 176 SOEs, a legacy from decades of statist economic policy.

Investors in the IKR face many of the same challenges as investors elsewhere in Iraq, but a business-friendly investment law and a traditionally more stable security situation are generally more attractive to foreign businesses. However, in 2015, the Da’esh offensive, low oil prices, and suspended budget transfers from the GOI to the IKR have dampened foreign investment.

The U.S. government and the GOI are seeking to address impediments to trade and investment through bilateral economic dialogue mechanisms provided under the U.S.-Iraq Strategic Framework Agreement and the Trade and Investment Framework Agreement. The American Chamber of Commerce in Iraq (AmCham-Iraq), re-launched in October 2015 with the U.S. Embassy’s support, also provides a platform for commercial advocacy for the U.S. business community operating in Iraq.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions Index	2015	161 of 168	transparency.org/cpi2015/
World Bank’s Doing Business Report “Ease of Doing Business”	2016	161 of 189	doingbusiness.org/rankings
Global Innovation Index	2015	not ranked	globalinnovationindex.org/content/page/data-analysis
U.S. FDI in partner country (\$M USD, stock positions)	2015	\$2,825 million	U.S. Bureau of Economic Analysis (BEA)
World Bank GNI per capita	2014	\$6,500	data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

The GOI has publicly stated its commitment to attract foreign investment, particularly given Iraq’s current fiscal challenges and the massive reconstruction needs in areas previously held by Da’esh. In December 2015 the GOI passed an amended National Investment Law (NIL) that improves investment terms for foreign investors, allows them to purchase land in Iraq for certain projects, and speeds up the investment license process. In 2015 Iraq also joined the Convention on the Settlement of Investment Disputes between States and Nations of Other States (ICSID). Nevertheless, foreign investors continue to encounter bureaucratic challenges,

corruption, and a weak banking sector. Recently, the GOI has been exploring financing options to pay for large-scale development projects rather than relying on the established practice of funding investments entirely from current annual budget outlays.

According to Iraqi law, a foreign investor is entitled to make investments in Iraq on terms no less favorable than those applicable to an Iraqi investor, and the amount of foreign participation is not limited. However, Iraq's NIL limits foreign direct and indirect ownership of most natural resources, particularly the extraction and processing of any natural resources. It does allow foreign ownership of land to be used for residential projects and co-ownership of land to be used for industrial projects when an Iraqi partner is participating.

Other Investment Policy Reviews

In the past three years, the GOI has not conducted any investment policy reviews through the Organization for Economic Cooperation and Development (OECD), the World Trade Organization (WTO), or the United Nations Conference on Trade and Development (UNCTAD).

Laws/Regulations on Foreign Direct Investment

The NIL, amended in December 2015, provides a legal structure to protect foreign and domestic investors while also providing investment incentives. It allows both domestic and foreign investors to qualify for investment incentives equally; however, tax exemption periods are longer if the project is over 50 percent Iraqi-owned. A 2015 amendment to the NIL allows foreign ownership of land for the purpose of developing residential real estate projects. For industrial projects, foreign ownership of land is allowed if jointly owned by an Iraqi partner. Although the NIL was meant to clarify and codify investment regulations, the lack of clear and definitive implementing mechanisms creates confusion and delays in the approval of investment projects. Furthermore, the NIL does not absolve any investor from fully adhering to the requirements and mechanisms of other laws, as well as any legal requirement applicable under Iraqi law as a whole. (A copy of the amended 2015 NIL can be obtained from the National Investment Commission website <http://investpromo.gov.iq/policies-and-laws/>).

Under the NIL, the National Investment Commission (NIC) and the Provincial Investment Commissions (PICs) are designed to be one-stop shops that can provide information, sign contracts, and facilitate registration for new foreign and domestic investors. The NIC offers investor facilitation services on transactions including work permit applications, customs procedures, and business registration. Investors can request these services through the NIC website. However, Investment Commissions struggle to operate amid unclear lines of authority, budget restrictions, and an absence of regulations and standard operating procedures. The Investment Commissions still generally lack the authority to intercede when investors encounter bureaucratic obstacles with other Iraqi ministries.

The NIL does not apply to investment in the IKR. Under the Iraqi Constitution, some issues relevant to the overall investment climate are either shared by the federal government and the regions or are devolved entirely to the regions. Currently, the IKR, comprising four northern provinces, is the only area of Iraq with a designation as a region. Investment in the IKR operates within the framework of the Kurdistan Region Investment Law (KRIL) of 2006 and the Kurdistan Board of Investment (KBOI), which is designed to provide incentives to help economic development in areas under the authority of the Kurdistan Regional Government (KRG).

The KRIL provides specific incentives for companies to develop strategic investment projects, which the KBOI evaluates and licenses based on the project's perceived economic and environmental impacts. If approved, a company is awarded an investment license that could include free land, a ten-year exemption from corporate taxes, and a five-year exemption from customs duties. The KBOI has approved over 750 projects since 2006. Investors who do not wish to receive the incentives for their projects under the investment law may invest without applying for the investment license by working directly with the relevant sector's ministry.

A copy of the IKR Investment Law can be obtained from the KBOI website:

<http://www.kurdistaninvestment.org/docs/Investment%20Law.pdf>.

In 2008, the Provincial Powers Law (Law Number 21) was adopted to decentralize governance by delineating substantial financial and administrative powers for provincial (governorate) councils. Under the 2008 law, the provincial councils enact provincial legislation, regulations, and procedures, and choose the province's governor and two deputy governors. Governors' offices are in charge of drafting provincial budgets and implementing federal policies. June 2013 amendments to this law mandated an increase in "petrodollar" allocations for oil and gas producing provinces as well as the establishment of budgetary instruments to give all provinces greater control of spending and revenue generation in their provinces. As a consequence of this law and subsequent amendments, all provinces would administer larger budgets and issue their own procurement tenders. In 2014 and 2015, low oil prices and scarce budget resources led to uncertain and limited "petrodollar" disbursements to provinces, thereby constraining planned infrastructure spending. Sustained political opposition by some federal ministries has prevented complete implementation of this law, including the budgetary measures that would give provinces greater financial control.

A list of Iraqi laws relevant to the Investment Process is included in "A Legal Guide to Investing in Iraq", a collaboration between the U.S. Department of Commerce's Commercial Law Development Program (CLDP) and the National Investment Commission (NIC):

<http://cldp.doc.gov/programs/cldp-in-action/details/1551>

Business Registration

Foreign investors interested in establishing an office in Iraq or bidding on a public tender are required to register as a foreign business with the Ministry of Trade's Companies Registration Department. Investors that will do business only in the IKR can register with the IKR directly. Companies that will do business in both the IKR and greater Iraq must register with the Ministry of Trade.

In order to incorporate a company in Iraq, an investor must obtain a statement from an Iraqi bank showing a minimum capital deposit. A foreign investor will also apply for an investment license from the appropriate national, regional or provincial investment commission. Companies are required to register with the General Commission for Taxation and register employees for social security (if applicable). Additional information is available at the National Investment Commission's website: <http://investpromo.gov.iq/> Companies that provide security are also required to register with the Ministry of the Interior. The steps required to register a company may be time consuming.

The National Investment Commission does not exclude businesses from taking advantage of their services based on the number of employees or the size of the investment project. The National Investment Commission can also connect investments by micro, small, and medium-sized enterprises (MSMEs) with the appropriate provincial investment council.

The Kurdistan Board of Investment (KIB) manages a streamlined investment licensing process in the IKR that assures an official response within 45 days of the initial license application. Despite bureaucratic hurdles, on the whole the KIB investment framework seems to work well. Because of overheated commercial and residential real estate markets, the KIB has moved away from approving licenses in these sectors. Businesses report some difficulties establishing local connections, obtaining qualified staff, and meeting import regulations. However, the KIB receives high marks for being helpful in resolving problems.

National Investment Commission: <http://investpromo.gov.iq/>

Industrial Promotion

In August 2015, the GOI announced a \$4.5 billion USD lending program funded by the Iraqi Central Bank to promote development in the industrial, agricultural, and housing sectors. The program, which has not begun large-scale lending, plans to disseminate funds to specialized banks: 33 percent to the Industrial Bank, 33 percent to the Agriculture Bank, 17 percent to the Real Estate Bank, and 17 percent Housing Bank. The program plans to offer a five-year renewable credit to investors.

Traditionally, investment in Iraq has gone to energy-related projects. Article 111 of the Constitution states that Iraq's oil belongs to the people of Iraq, therefore all international oil companies operate through technical services contracts (TSC). The current fiscal crisis has prompted the GOI to consider renegotiating international oil companies' (IOC) contract terms, but a wholesale change to more profitable production sharing contracts has not occurred. Iraq has 143 billion barrels of proven oil reserves, the second-largest in OPEC, and oil production has reached the highest level in 35 years. Despite growing oil production capacity, inadequate infrastructure limiting storage and pumping capacity constrains Iraq's oil export potential.

Since 2009, the GOI has held four oil and gas licensing ("bid") rounds. Foreign firms were allowed to bid for contracts to develop a significant portion of Iraq's oil and gas resources. Iraq has the potential to dramatically increase its production of crude oil, but internal infrastructure constraints and other factors have limited the full realization of Iraq's potential. Iraq's four oil and gas bid rounds were widely regarded as transparent. The first and second oil and gas licensing rounds in 2009 and 2010 were competitive, offering oil fields that were already producing oil or had proven reserves. However, the third and fourth rounds in 2011 and 2012, which focused on largely unexplored oil and gas fields, yielded far fewer contracts, due to contract terms deemed insufficient to incentivize riskier investments. Iraqi oil officials concede the need to offer better terms in future rounds, but they have not specified how contract terms might change. Iraq has also not initiated the fifth and sixth bid rounds given current security challenges in Anbar Province and budgetary constraints. The oil and gas contracts awarded to date are expected to bring in billions of dollars of investment in oil and gas-related industries and spur growth in the foreign and domestic private sector in Iraq.

Under Prime Minister Abadi, the GOI is newly committed to diversifying its economy away from reliance on oil and is seeking foreign investment in non-oil related sectors. The

government is particularly interested in attracting assistance and loans from foreign financial institutions. Investment opportunities are supposed to be disseminated through the Ministries' websites and Commercial Attaché offices. Many investment opportunities are published on the National Investment Commission's website: <http://investpromo.gov.iq/>

Limits on Foreign Control and Right to Private Ownership and Establishment

According to the National Investment Regulation No. 2 of 2009, if an investment license is granted to a project, at least 50 percent of the project's workers must be Iraqi nationals. The amended NIL also states that investors should give priority to Iraqi citizens before hiring non-Iraqi workers. As a result of popular protests in the summer of 2015, the GOI has applied pressure on foreign companies to hire more local employees. In order to generate non-oil revenues, the GOI has also encouraged foreign companies to partner with local industries and purchase Iraqi-made products. Under the NIL, investors who have obtained an investment license should be allowed to enjoy exemptions from taxes and fees for a specific time period, although those exemptions are not universally recognized. The GOI generally favors SOEs and state-controlled banks in competitions for government tenders and investment. This preference discriminates against both local and foreign investors.

Privatization Program

The GOI has repeatedly announced that it plans to reorganize failing SOEs across multiple sectors. Additionally, the GOI is eager to modernize Iraq's financial and banking institutions. There are, however, no concrete timelines for these initiatives. Presumably, foreign investors would have an opportunity to invest in privatization projects.

Screening of FDI

According to the NIL, the GOI reserves the right to screen foreign direct investment. The U.S. Department of State is not aware of instances where this screening process has impeded foreign investments in Iraq. Several GOI Ministries, including the Ministry of Health and the Ministry of Planning, occasionally require potential investors to fill out Arab League Boycott (ALB) questionnaires, which the Iraqi Government has officially discontinued. This prevents certain investments by U.S. companies.

Competition Law

The Council of Representatives passed a Competition Law and a Consumer Protection Law in 2010. However, the Competition and Consumer Protection Commissions authorized by these laws have yet to be formed. The NIL is supposed to promote fair competition and "competitive capacities" in the local market. However, the NIL does not include specific competition legislation. The prominent role of SOEs in Iraq and corruption further undermine the competitive landscape.

2. Conversion and Transfer Policies

Foreign Exchange

The currency of Iraq is the Dinar (IQD). Iraqi authorities confirm that in practice there are no restrictions on current and capital transactions involving currency exchange as long as underlying transactions are supported by valid documentation. The NIL allows investors to repatriate capital brought into Iraq, along with proceeds, in accordance with the law. Funds

can be associated with any form of investment and freely converted into any world currency. The NIL also contains provisions that allow investors to maintain accounts at banks licensed to operate in Iraq and transfer capital inside or outside of the country.

The GOI's monetary policy since 2003 has focused on ensuring price stability primarily by maintaining a de facto peg between the IQD and the USD while seeking to maintain exchange rate predictability. Banks may engage in spot transactions in any currency but are not allowed to engage in forward transactions in Iraqi Dinar for speculative purposes. There are no taxes or subsidies on purchases or sales of foreign exchange.

Remittance Policies

There have not been any recent changes to Iraq's remittance policies. Foreign nationals are allowed to remit their earnings, including U.S. dollars, in compliance with Iraqi law. Iraq does not engage in currency manipulation.

Iraq is listed as a Country of Primary Concern according to the Financial Action Task Force (FATF).

3. Expropriation and Compensation

Article 23 of the Iraqi Constitution prohibits expropriation in Iraq, unless done for the purpose of public benefit and in return for just compensation. The Constitution stipulates that expropriation may be regulated by law, but specific legislation regarding expropriation has not been drafted. Article 9 of the amended NIL also guarantees non-seizure or nationalization of any investment project covered by the provisions of this law, except in the cases where an absolute judicial judgment has been reached. It prohibits expropriation of an investment project, except in cases of public benefit and with fair compensation. Iraq's Commercial Court is charged with resolving expropriation cases. In 2003, the Government of Iraq established the Commission for the Resolution of Real Property Disputes (CRRPD) to resolve property disputes under the Saddam regime. Over the past five years, there have not been any government actions or shifts in government policy that would indicate possible expropriations in the foreseeable future.

In the IKR, if the KBOI determines that investors are using land awarded under investment licenses for purposes other than those outlined in the license, it can impose fines and potentially confiscate the land. Article 17 of the IKR investment law outlines an investor's arbitration rights, which fall under the civil court system. Arbitration clauses should be written into local contracts in order to facilitate enforcement in the event of a dispute.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Iraq has a civil law system, although Iraqi commercial jurisprudence is relatively underdeveloped. During decades of war and sanctions, Iraqi courts became isolated from developments in international commercial transactions. Corruption and bureaucratic bottlenecks remain a problem. As trade with foreign parties increases, Iraqi courts have seen a significant increase in complex commercial cases. Contracts should be enforceable under Iraqi law. In practice, however, contract enforcement in Iraq proves problematic due to unclear regulations, lack of decision-making authority, and corruption.

In November 2010, Iraq's Higher Judicial Council established the First Commercial Court of Iraq, a court of specialized jurisdiction for disputes involving foreign investors as part of a national strategy to improve Iraq's investment climate. This court began hearing cases in January 2011. It has jurisdiction only over cases involving foreign parties in Baghdad province. The court received 5 cases in 2015 and over 500 cases since its establishment. Over 350 of these cases have been adjudicated, many in as few as 30 days, since the judges are able to give their full attention to these cases. This record stands in stark contrast to general jurisdiction trial courts that receive up to 30 cases per day and do not give priority to commercial cases, thereby causing commercial cases to be delayed for months or years before a resolution is achieved. Iraqi judicial officials have since created two additional commercial courts in Najaf and Basrah. Given that all of Iraq's ministries are located in the capital, and the vast majority of commercial cases involve a foreign party and an Iraqi government agency, the Baghdad Commercial Court reviews far more commercial cases than the general jurisdiction courts in the surrounding provinces. In the IKR, commercial disputes are handled through the civil court system.

Iraq is a signatory to the League of Arab States Convention on Commercial Arbitration (1987) and the Riyadh Convention on Judicial Cooperation (1983). Iraq formally joined the ICSID Convention on December 17, 2015.

Iraq is considering, but has not yet signed or ratified, the convention on Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention) and the ad hoc arbitration rules and procedures established by the UN Commission on International Trade Law (UNCITRAL Model Law). The enforcement of arbitral awards must comply with the special requirements set forth in current Iraqi civil procedure law and other related laws.

Additional information can be found in "A Legal Guide to Investing in Iraq:"
<http://cldp.doc.gov/programs/cldp-in-action/details/1551>

Bankruptcy

Under Iraqi law, an Iraqi debtor may file for bankruptcy, and an Iraqi creditor may file for liquidation of the debtor. Bankruptcy is not criminalized. The Iraqi Companies Law regulates the process for liquidation of legal entities. Nevertheless, the mechanism for resolving insolvency remains opaque. Iraq ranks 189 out of 189 countries in the category of Resolving Insolvency, according to the World Bank's 2016 Doing Business Report.

Investment Disputes

Procedures to resolve investment disputes in Iraq can be lengthy given bureaucratic bottlenecks, an unclear decision making structure, and a judiciary system that lacks capacity. Some U.S. companies have decades-long investment disputes that they have been unable to resolve with the GOI. Many investment claims center on large fines levied by the GOI that foreign investors are unwilling to pay. Recently, foreign investors have struggled to receive timely payments for public contracts.

Domestic arbitration is currently covered under Articles 251-276 of the Iraqi Civil Procedure Code, which governs the enforcement of arbitration agreements and awards. Article 27 of the NIL, which details the rights of Iraqis and foreigners with respect to Iraqi law, refers to dispute resolution. However, the absence of implementing regulations makes application of the law difficult.

International Arbitration

Iraqi courts are given precedence over international arbitral awards. Iraqi courts, for example, permit judges to review the merits of an internationally arbitrated case. Domestic arbitration is currently covered under Articles 251-276 of the Iraqi Civil Procedure Code No. 83, which govern the enforcement of arbitration agreements and awards. However, it was applied only to domestic arbitration until a 2012 decision in the *Ministry of Finance v. Fincantieri* case, which was issued by the Baghdad Commercial Court and affirmed by the Court of Cassation. The ruling allows courts to apply the Civil Procedure Code to international arbitration agreements and awards instead of forcing parties to waive their contractual rights to resolve their disputes outside of Iraqi courts by not recognizing international arbitration. The Baghdad Commercial Court incorporated international principles embodied in the New York Convention and the UNCITRAL model law to determine the existence of an arbitration agreement, due to ambiguity in Iraq's Civil Procedure Code. However, as a civil law jurisdiction, Iraqi courts are still limited to the unambiguous provisions of the Civil Procedure Code, which, for example, permits judges to review the merits of an arbitrated case, unlike modern arbitration regimes. Therefore, these court decisions serve only as temporary measures until such time as Iraq passes the necessary domestic law and accedes to the New York Convention.

In 2012, a committee formed by the Council of Ministers Secretariat finalized a draft domestic arbitration law, which is largely based on the UNCITRAL model law with several articles taken from the Egyptian domestic arbitration law. In contrast to Iraq's current arbitration provisions, the draft law requires Iraqi courts to enforce foreign arbitral awards and limits the role of courts' discretion to refuse enforcement, a fundamental component of the UNCITRAL model law. The draft law has been approved by the Iraqi Shura Council, but is still under review by the Council of Ministers. If it is approved by the Council of Ministers, it will be sent to the Council of Representatives for a vote.

ICSID Convention and New York Convention

Iraq acceded to the International Center for Settlement of Investment Disputes (ICSID Convention) in December 2015. Iraq adopted Law 64 in 2012 before signing the ICSID Convention. Iraq is not a contracting state to the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention).

Duration of Dispute Resolution – Local Courts

According to the World Bank's 2016 Doing Business Report, the average number of days it takes to enforce a contract in Iraq is 520 days. Anecdotal reporting suggests dispute proceedings generally are a prolonged process given Iraq's lack of capacity to handle complex commercial litigation. Opaque procedures, lengthy court proceedings, and frequent delays hinder judicial processes. Some GOI Ministries have requested that foreign investors travel to Iraq themselves to negotiate a resolution in person, which also results in delays.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Iraq has observer status with the World Trade Organization (WTO).

Investment Incentives

The amended NIL offers foreign investors several exemptions for qualified investments, including a ten-year exemption from taxes, exemptions from import duties for the necessary equipment and materials throughout the period of project implementation, and exemption from taxes and fees for primary materials imported for commercial operations. The exemption increases to fifteen years if Iraqi investors own more than 50 percent of the project. The NIL also allows investors to repatriate capital brought into Iraq, along with proceeds, in accordance with the law. Foreign investors are able to trade in shares and securities listed on the Iraqi Stock Exchange. Hotels, tourist institutions, hospitals, health institutions, schools, and colleges also are granted additional exemptions from duties and taxes on their imports of furniture, tools, equipment, machinery, and means of transportation.

Foreign and domestic companies may also be exempted from taxes on profits if they have contracts with the GOI to execute projects within the National Investment Plan, which is prepared annually by the Ministry of Planning. The GOI ministries overseeing investment projects are responsible for providing updates for the list of investment contracts to the Tax Commission in the Ministry of Finance. Companies (foreign and domestic) that have registered businesses in order to execute contracts outside the National Investment Plan do not receive tax exemptions. However, in some exceptions, GOI entities have negotiated partial or short-term tax exemptions for companies as part of a project contract.

Petroleum contracts signed by the Ministry of Oil are not included on this list. Income tax language is included in GOI petroleum contracts and applies to each consortium and its partners. Contract language was ratified by Council of Representatives and supersedes the Tax Code. Secondary contracts issued by consortiums holding primary petroleum contracts are treated differently. The consortium is required to withhold 7 percent from secondary contracts for remittance to the GOI. Companies pay a profit tax in the amount of 15 percent unless they operate in the oil sector where a 35 percent tax profit rate applies to profits. Defining the activities which constitute "petroleum activities" (and are thus subject to 35 percent vs. 15 percent tax rate) is a gray area subject to interpretation. Any business or individual considering doing business in Iraq should obtain competent Iraq tax advice from an accountant or attorney. Tax treatment for petroleum contracts issued by the KRG is unknown since those contracts have not been ratified by the Council of Representatives.

Under the IKR's investment law, foreign and national investors are treated equally and are eligible for the same benefits. Foreign investors may choose to invest in the IKR with or without local partners, and full repatriation of profits is allowed. While investors have the right to employ foreign employees in their projects, priority is given to awarding projects that employ a high share of local staff and ensure a high degree of knowledge transfer. Additionally, the law allows an investor to transfer his investment totally or partially to another foreign investor with the approval of the KBOI.

Research and Development

Not applicable.

Performance Requirements

In February 2016, the GOI implemented Labor Law No. 37 which allows for collective bargaining, further limits child labor, and provides improved protections against

discrimination at work and sexual harassment at work. The law also enshrines the right to strike, banned since 1987. Under the law, the GOI will no longer restrict workers to affiliate with only one union or federation, and coverage is expanded to include all workers not covered by Iraq's civil service law. The law describes two categories of workers: local Iraqis and foreign workers employed by Iraqi entities or working in the GOI. The law does not explain how it applies to foreign workers employed by foreign companies in Iraq.

According to the 2015 amended NIL, foreign workers may be hired for investment projects, when needed, after priority has been given to Iraqi workers. However, according to National Investment Regulation No. 2 of 2009, at least 50 percent of an investment project's workers must be Iraqi nationals. International companies have noted that Iraq lacks a skilled labor force and it can be a challenge to meet this requirement. Furthermore, foreign investors are expected to help train Iraqi employees to increase their efficiency, skills, and capabilities.

In the IKR, hiring locally is encouraged, but not mandated by either the KRIL or the 2011 Employment Policy of the KRG Ministry of Labor and Social Affairs. In the IKR, foreign employees must obtain a security clearance issued by the KRG Ministry of Interior, a medical clearance which includes an HIV test, and a work permit issued by the KRG Ministry of Labor and Social Affairs before applying for the residency permit required for legal employment. Some foreign companies have reported prolonged delays in obtaining necessary residency permits for foreign workers. Additional clearances are required in order to appoint foreign nationals as managers of foreign limited liability companies.

Foreign investors can apply for an Iraqi visa at Iraqi Embassies, or in some cases, through the National Investment Commission. Obtaining visas for foreign contractors can take several months. All visitors and new residents to Iraq, with the exception of those traveling on a tourist visa, must have a blood test for HIV and hepatitis within 10 days of arrival or face a fine. The test must then be repeated every 90 days while in Iraq. Foreign investors staying longer than 10 days must obtain a residency stamp from a Residency Office located in each provincial capital. Once in Iraq, foreign investors and employees must obtain work permits, and the process for doing so is often lengthy and unpredictable. There are frequent instances when work is delayed because foreign employees are unable to receive a visa.

The KRG does not require HIV tests if the travel is shorter than 15 days. U.S. citizens traveling to the IKR can obtain an airport-issued IKR visa upon arrival that is valid for 15 days; however, this visa is not valid outside the IKR. U.S. citizens who plan to stay for longer than 15 days require an extension to their IKR visa. Domestic travel outside of the IKR will require compliance with GOI requirements.

Additional information can be found on the U.S. Department of State's website: www.travel.state.gov

Data Storage

The GOI does not follow any forced localization policy in which foreign investors must use domestic content in their goods and technology. There are no requirements for IT providers to turn over source code and/or provide access to surveillance.

6. Protection of Property Rights

Real Property

Prior to the 2009 amendment to the NIL, Iraqi law did not allow foreigners to own land. The amended NIL allows foreign interests to own land in Iraq for the express purpose of developing residential real estate projects. It also allows foreign investors to own land for industrial projects if they have an Iraqi partner. Additionally, foreign investors are permitted to rent or lease land for up to fifty years, with a possible option to renew. In December 2010, the GOI approved implementing regulations to the NIL, in the form of a Prime Ministerial decree (regulation seven). The regulations allow investors to obtain land for residential housing projects free of charge on the condition that land value is excluded from the sales price. The decree requires the Department of Real Estate to revoke the land registration from domestic or foreign investors who do not carry out the obligations of their agreement.

For non-residential, commercial investment projects - including agriculture, services, tourism, commercial, and industrial projects - the decree allows for leasing and allocation of government land, but not sole ownership. The terms and duration of these leases will vary, depending on the type of project and negotiations between the parties. Land for non-residential projects will be leased free of initial down payment, and compensation will be either a percentage of pre-tax revenue or a specified percentage of the "rent allowance" for the land. These smaller percentages of the "rent allowance" rate, ranging from one to 25 percent, amount to significant rent reductions for leased land, as specified by type of investment project in the decree. Iraqi authorities are still in the process of interpreting these regulations and applying them to specific licensees.

In the IKR, foreign land ownership is allowed under Law Number 4 of 2006. The KBOI initially awarded more than half of all investment licenses to housing projects, though the lack of a clear sector strategy and speculation in housing properties prompted the board to freeze all new investment licenses issued in the sector in mid-2012. Investment licenses that include land ownership are more likely to be issued in the KBOI's priority sector development areas of agriculture, industry, and tourism. However, issues regarding timely transfer of land title have sometimes slowed projects.

Mortgages and liens exist in Iraq, and there is a national record system. However, mortgages are not common. Iraq ranks 117 out of 189 countries on the 2016 World Bank's "registering property" index.

Intellectual Property Rights

Legal structures that protect intellectual property (IP) rights in Iraq are inadequate, and infringements are common. There is a significant presence of counterfeit products in the Iraqi marketplace. According to a 2014 study by the Business Software Alliance on self-reported piracy, 86 percent of Iraq's software was unlicensed in 2013. Both private and state-owned enterprises have reported losing tenders to competitors who stole their blue-prints. These complaints pertained to tenders in the oil, housing, and construction sectors. During the past year, no new IP-related laws or regulations have been enacted. The GOI attempts to track seizures of counterfeit medicines. Reporting is inconsistent.

The GOI's ability to enforce IP protections remains weak, and IP responsibilities are currently spread across several ministries. The Ministry of Culture handles copyrights, and the Ministry of Industry and Minerals (MIM) houses the office that registers trademarks. The Central Organization on Standards and Quality Control (COSQC), an agency under the Ministry of Planning, handles the patent registry and the industrial design registry. The Ministry of Planning's patent registry office has occasionally included Arab League Boycott

questionnaires in the patent registry application. U.S. companies are not allowed under U.S. law to complete Arab League Boycott questionnaires.

The GOI is in the process of developing a new IP law to comply with the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The draft law covers patents, trademarks, and copyrights. If enacted and accompanied by strong implementing regulations, the new law would help consolidate IP protection functions into a "one-stop" IPR office. Although the new draft would offer adequate statutory IPR protections, it has been stalled in the legislative review process since mid-2007.

The U.S. Government is continuing efforts to bolster understanding of intellectual property rights and build GOI capacity to protect them. In June 2012, the Federal Court of Cassation, the highest civil court in Iraq, upheld a finding by the Baghdad Commercial Court that ruled in favor of a U.S. firm in a trademark dispute, setting a positive precedent for IP protection in Iraq. The Commercial Court has jurisdiction over commercial disputes that involve at least one foreign party and disputes over various commerce-related issues including trade, real estate, banking, trademarks and intellectual property, transportation, and other areas. It was established in November 2010 under the Higher Judicial Council with the assistance of the U.S. Department of Commerce's Commercial Law Development Program, which provided technical assistance and training to Iraqi judges who serve on the court.

Iraq is a signatory to several international intellectual property conventions and to regional or bilateral arrangements, which include: 1) the Paris Convention for the Protection of Industrial Property (1967 Act), ratified by Law No. 212 of 1975; 2) the World Intellectual Property Organizations (WIPO) Convention, ratified by Law No. 212 of 1975. Iraq became a member of the WIPO in January 1976; 3) the Arab Agreement for the Protection of Copyrights, ratified by Law No. 41 of 1985; and 4) the Arab Intellectual Property Rights Treaty (Law No. 41 of 1985).

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Iraq is not listed in USTR's Special 301 report or notorious market report.

Resources for Rights Holders

A copy of the public list of local lawyers can be obtained by emailing BaghdadACS@state.gov.

The American Chamber of Commerce in Iraq can be reached at: inquiries@amcham-iraq.org

7. Transparency of the Regulatory System

Iraq's overall regulatory environment remains relatively opaque and competition does not encourage a "level playing field" for investors. Corruption, unclear regulations, and bureaucratic bottlenecks are major challenges for investors that bid on public procurement contracts or seek to invest in major infrastructure projects. Iraq's commercial and civil laws generally fall short of international norms. There are few provisions regarding commercial competition. The NIL does not establish a full legal framework governing investment.

The absence of other laws in areas of interest to foreign investors also creates ambiguity. Iraq's Legislative Action Plan for the Implementation of WTO Agreements – the legislative “road map” for Iraq's eventual WTO accession – requires competition and consumer protection laws that are critical for leveling the business playing field. The Council of Representatives passed a Competition Law and a Consumer Protection Law in 2010; however, the Competition and Consumer Protection Commissions authorized by these laws have yet to be formed. Without these Commissions, investors do not have recourse against unfair business practices such as price-fixing by competitors, bid rigging, or abuse of dominant position in the market.

The way in which the Iraqi government promulgates regulations can be opaque and lends itself to arbitrary use. Regulations imposing duties on citizens or private businesses are required to be published in the official government gazette. However, there is no corresponding requirement for the publication of internal ministerial regulations. This loophole allows bureaucrats to create internal requirements or procedures with little or no oversight, which can result in additional burdens for investors and other businesspersons.

Accounting, legal, and regulatory procedures are opaque, inconsistent, and generally do not meet the standard of international norms. Draft bills, including investment laws, are not available for public comment.

The GOI encourages private sector associations, and the Iraqi government is actively trying to promote a private banking association. Nevertheless, private sector associations are generally not influential, given the dominant role of SOEs in Iraq's economy.

In the IKR, the KRG adopted a Consumer Protection Law through its passage of Law Number 9 of 2010. However, investors sometimes find it challenging to de-conflict seemingly opposing regulations from relevant stakeholder ministries and investment entities. The promulgation of new regulations with little advance notice and requirements related to investment guarantees have also slowed projects. While the KRIL does not stipulate that a local partner is necessary to acquire an investment license, government officials sometimes encourage this practice.

8. Efficient Capital Markets and Portfolio Investment

Iraq remains one of the most under-banked countries in the Middle East. The Iraqi banking system includes seven state-owned banks, with the three largest (Rafidain Bank, Rasheed Bank, and the Trade Bank of Iraq) accounting for about 96 percent of banking sector assets. Nearly 20 foreign banks either have licensed branches in Iraq or have strategic investments in Iraqi banks. By law, the Central Bank may only exchange currency to be used for purchases of legitimate goods and services.

Iraq's economy remains primarily cash-based. Credit is difficult and expensive to obtain. Iraq ranks 181 out of 189 in terms of the ease of getting credit on the World Bank's 2016 Doing Business Report. Although the volume of lending by privately owned banks is growing, most privately-owned banks do more business providing wire transfers and other fee-based transaction services than lending. Businesses are largely self-financed or obtain credit from individuals in private transactions. State-owned banks mainly make financial transfers from the government to provincial authorities or individuals, rather than business loans.

The Trade Bank of Iraq (TBI) was established as an independent government entity under CPA Order No. 20 in 2003. The TBI's main purpose is to provide financial and related services to facilitate trade, particularly through letters of credit (LCs). In 2009, the Ministry of Finance opened the government LC market by granting private banks permission to issue LCs below USD 4 million. The ceiling was later raised to USD 10 million. Virtually all government LCs are processed by the TBI, which has stated that it transfers a number of LCs under \$5 million USD to private banks.

The NIL allows foreign investors to exchange shares and securities listed in the Iraqi Stock Exchange (ISX), and the GOI welcomes foreign portfolio investment.

Money and Banking System, Hostile Takeovers

The GOI has had limited success reforming its two largest state-owned banks, Rafidain and Rasheed. Private banks are mostly active in currency exchanges and wire transfers. The CBI is Iraq's central bank, headquartered in Baghdad, with a branch in Basrah. The CBI also has branches in Erbil and Sulaimaniyah, which are managed by the Kurdistan Regional Government and have limited interactions with the Baghdad CBI. The Iraqi Kurdistan Region also has a separate public banking system connected to the regional government.

9. Competition from State-Owned Enterprises

State-owned enterprises (SOEs) are active across all sectors in Iraq. GOI ministries currently own and operate over 176 SOEs, a legacy of the state planning system. Many Iraqi SOEs are unproductive, and the GOI's continued support of unprofitable entities places a substantial fiscal burden on Iraq. These firms employ over half a million Iraqis, many of whom are underemployed. The degree to which SOEs compete with private companies varies by sector; SOEs face the most competition in the market for consumer goods. The GOI has expressed a commitment to reforming the SOEs and taking steps toward privatization.

Law 22 of 1997 and the NIL provide the regulatory framework for the operations of SOEs and joint ventures between foreign companies and SOEs. Law 22 is complex, and several articles are ambiguous regarding the rights and privileges that SOEs enjoy. Article 15.3 of Law 22 allows Iraqi SOEs to engage in partnership agreements or joint ventures with foreign companies. However, the lack of clarifying regulations has created difficulty in implementation. Ministries have faced challenges in reviewing partnership agreements without sufficient criteria to determine if the agreements would be effective or successful. When parent ministries wish to initiate a joint partnership for an SOE under their purview, they generally advertise the tender on their ministry's website. Joint partnerships are negotiated on a case-by-case basis, and the minister's approval is required. The Ministry of Industry and Minerals (MIM), which oversees the largest number of Iraq's SOEs, received the Council of Ministers' approval in 2013 to institute the following requirements for joint partnerships: 1) change the required minimum duration to three years; 2) add a requirement that the foreign company register a company office in Iraq; and 3) add a requirement that the foreign company participate in the production of goods.

According to the Prime Minister's Advisory Council, foreign companies have faced challenges in joint partnerships because the GOI sometimes cut subsidies to the SOE after partnerships were formed, the employment policies and salary decisions were dictated by the parent ministry, and gaps between the GOI's official policy and practices affected their

bottom line. In addition, the MIM has often required that the foreign investor pay all SOE employees' salaries regardless of whether they are working on the agreed project.

GOI entities are required to give preferential treatment to SOEs under multiple laws. A 2009 Council of Ministers' decision requires all Iraqi government agencies to procure goods from SOEs unless the SOE cannot fulfill the quality and quantity requirements of the tender. A Board of Supreme Audit decision requires government agencies to award SOEs tenders if the SOE's bid is no more than 10% higher than other bids. Furthermore, some GOI entities, including the MIM, have also issued their own internal regulations requiring tenders to select Iraqi SOEs, unless the Iraqi SOE states that it cannot fulfill the order. Sometimes a foreign firm must form a partnership with an Iraqi firm to fulfill tenders promulgated by SOEs.

State-owned banks have provided SOEs with approximately \$11 billion USD in loans in order to finance salaries since 2003, although many SOEs that received these loans were unable to repay; SOEs also receive research and development subsidies. Under Article 16 of the 2008 Regulations for Implementing Government Contracts (Law No. 1), SOEs are exempt from bid bond and performance bond requirements. While the Iraqi budget outlines the funds that the SOEs will receive, both for operational costs as well as for salary payments, the SOEs do not always receive the exact figure allocated. As a result of years of sanctions and war, most of these SOEs suffer from underinvestment or actual physical damage. Many of them are not commercially viable due to bloated payrolls and obsolete equipment, although some have adapted and are producing goods for the domestic market.

In 2015, the MIM developed a plan to restructure its 59 SOEs. Under the proposed plan, the MIM would rate SOEs based on their profitability and degree of government dependence. Unprofitable SOEs that are unable to cover payroll obligations would be sold or shutdown. The timeline for this project is still unclear. Article 15 of the 2016 Federal General Budget Law promotes the expansion of private investment in SOEs. In February 2016 the Cabinet decided in an emergency meeting to form a higher commission to implement Article 15 that would be chaired by the Minister of Planning and representatives from the Ministry of Finance, the General Secretariat of the Council of Ministers, and the NIC. The GOI recognizes that SOEs are a heavy burden on the economy, but implementation of the GOI's reforms has been slow.

Iraq is not party to the Government Procurement Agreement within the framework of the WTO.

OECD Guidelines on Corporate Governance of SOEs

Articles 20-25 of Law 22 specify the selection process of an SOE's Board of Directors. The law includes provisions to introduce a degree of autonomy. For example, it requires that the minister's sole appointment to the Board of Directors receive the approval of an "Opinion Board." Nevertheless, in practice, the majority of board members have close personal and political connections to the parent ministry's leadership.

SOEs do not adhere to OECD Guidelines. Iraq does not have a centralized ownership entity that exercises ownership rights for each of the SOEs. SOEs are required to seek their parent ministry's approval for certain categories of financial decisions and operation expansions. However, in practice, SOEs defer to the parent ministry for the vast majority of decisions. SOEs submit financial reports to their parent ministry's audit departments and the Board of Supreme Audit. These reports are not published and sometimes exclude salary expenses.

Sovereign Wealth Funds

Iraq does not have a sovereign wealth fund.

10. Responsible Business Conduct

The international oil companies active in Iraq are required to observe international best practices in corporate social responsibility (CSR) as part of their contracts with the GOI. Nevertheless, the GOI does not have policies in place to promote CSR and raise awareness of environmental and social issues among investors. The concept of CSR is not widely recognized in Iraq and few NGOs and business associations are monitoring it. Iraq has not subscribed to the OECD's Guidelines for Multinational Enterprises. As security and business conditions improve in Iraq, awareness of CSR is likely to increase.

In the IKR, oil companies are mandated in their production sharing contracts with the KRG to give back to the communities in which they work. Agreements require yearly payments from which the KRG Ministry of Natural Resources (MNR) then allocates funds for capacity-building projects.

According to the amended 2015 NIL, investors are required to protect the environment and adhere to quality control systems in Iraq and under international regulations. These include soil testing requirements on the land designated for the project as well as conducting an environmental impact study. In practice, the GOI lacks a mechanism to enforce environmental protection laws and implementation is limited.

Iraq became a member of the Extractive Industries Transparency Initiative (EITI) in 2009. The Government of Iraq established a 15-person committee to work on EITI, including several Directors General within the Ministry of Oil, four representatives from NGOs, as well as oil company executives. The committee has provided required reports through 2013. Due to budgetary constraints, the Ministry of Oil did not allocate funds to the Committee in 2015 or 2016 and transparency awareness trainings have stalled.

11. Political Violence

Numerous insurgent groups, including Da'esh, remain active and terrorist activity and violence persist in many areas of the country. Da'esh controls Mosul, Iraq's second largest city, as well as significant territory in northern, western, and central Iraq, particularly along the Tigris and Euphrates valleys, and the group continues to attack Iraqi security forces in those areas. Terrorist attacks within the Iraqi Kurdistan Region (IKR) occur less frequently than in other parts of Iraq, although the Kurdistan Regional Government (KRG), U.S. Government facilities, and western interests remain possible targets, as evidenced by the April 17, 2015 bombing in the public area outside U.S. Consulate General Erbil. In addition, anti-U.S. sectarian militias may threaten U.S. citizens and western companies throughout Iraq.

The U.S. Government considers the potential threat to U.S. Government personnel in Iraq to be serious enough to require them to live and work under strict security guidelines. All U.S. government employees under the authority of the U.S. Chief of Mission must follow strict safety and security procedures when traveling outside the Embassy and Consulates. In addition, the internal security policies of the U.S. Mission in Iraq may be changed or adjusted at any time and without advance notice. The Mission will regularly restrict or prohibit movements by its personnel, often on short notice and for security threats or demonstrations. State Department guidance to U.S. businesses in Iraq advises the use of protective security

details. Detailed security information is available on the U.S. Embassy website: <http://iraq.usembassy.gov/> Some U.S. and third-country business people travel throughout much of Iraq; however, in general their movement is restricted, and most travel with security advisors and protective security teams.

12. Corruption

Iraq ranked 161 out of 168 on Transparency International's 2015 Corruption Perception Index. Public corruption is a major obstacle to the development of Iraq's economy and to political stability. Corruption is pervasive in government procurement, the awarding of licenses or concessions, dispute settlements, and customs implementation. Targeting corruption has been a key element of Prime Minister Abadi's reform agenda, and public protests throughout the country continue to call for the removal of corrupt officials. The Prime Minister formed a committee in January 2015 to approve and coordinate anti-corruption efforts that includes the Commission of Integrity (COI) Acting Commissioner, the Minister of Finance, the Minister of Planning, the President of the Board of Supreme Audit, and the Council of Ministers Secretary (COMSEC) Secretary General.

In theory, anticorruption laws apply to all citizens of Iraq. In practice, there are many anecdotal accounts that suggest government officials and their family members are frequently involved in corrupt practices. According to UNDP data, 95 percent of bribery incidents go unreported. While large-scale investment opportunities exist in Iraq, particularly for sophisticated investors, corruption remains a significant impediment to conducting business, and foreign investors can expect to contend with it in many forms. While the GOI has moved toward greater effectiveness in reducing opportunities for procurement corruption in sectors such as electricity, oil, and gas, credible reports of corruption in government procurement are widespread, with examples ranging from bribery and kickbacks to awards involving companies connected to political leaders. Investors may come under pressure to take on well-connected local partners to avoid systemic bureaucratic hurdles to doing business. Similarly, there are widespread reports of corruption involving government payrolls, ranging from "ghost" employees and salary skimming to nepotism and patronage in personnel decisions. Moving goods into and out of the country continues to be difficult, and bribery of port officials is reportedly common; Iraq ranks 178 out of 189 countries in the category of "Trading Across Borders" in the World Bank's 2016 Doing Business report.

In 2015, Iraq passed a new Anti-Money Laundering/Counter Terrorism Financing (AML/CTF) law, which entered into force in October 2015. However, implementation of the law has been slow, and international financial institutions continue to cite AML/CFT deficiencies as an impediment to starting or increasing operations in Iraq. Iraq joined the Middle East North Africa Financial Action Task Force (MENAFATF) in 2005, and underwent its first ever Mutual Evaluation (ME) in 2012. Iraq has made a high-level political commitment to work with the Financial Action Task Force (FATF) and MENAFATF to address its remaining strategic AML/CTF deficiencies, including through a draft law. However, the war against Da'esh has prevented the GOI from fully executing its plans.

There are three principal institutions specifically designated to address the problem of corruption in Iraq. CPA Order 57 established Inspectors General (IGs) for each of Iraq's ministries. Similar to the role of IGs in the U.S. Government, these offices are responsible for inspections, audits, and investigations within their ministries. The Commission of Integrity (COI), initially established under the Coalition Provisional Authority (CPA), is an independent

government agency responsible for pursuing anti-corruption investigations, upholding enforcement of laws, and preventing crime. The COI investigates government corruption allegations and refers completed cases to the Iraqi judiciary. COI Law No. 30, passed in 2011, updated the CPA provisions by granting the COI broader responsibilities and jurisdiction through three newly created directorates: asset recovery, research and studies, and the Anti-Corruption Academy. None of these organizations are an effective check on public corruption.

The Board of Supreme Audit (BSA), established in 1927, is an analogue to the U.S. Government's General Accountability Office. It is a financially and administratively independent body that derives its authority from Law 31 of 2011 – The Law of the Board of Supreme Audit. It is charged with fiscal and regulatory oversight of all publicly-funded bodies in Iraq. In October 2012, several amendments to the BSA's authorizing legislation, including a name change to the Federal Board of Supreme Audit (FBSA), gave it jurisdiction over audits of all federal revenues, including any revenues received from the IKR.

Neither the COI nor the IGs have effective jurisdiction within the IKR. The Kurdistan Board of Supreme Audit audits regional revenues with Iraqi Kurdistan Parliament's (IKP) oversight. The IKP passed the Commission on Public Integrity (Law Number 3) in 2011, which established a regional Commission of Integrity (KCOI) that began its work in late 2013. The IKP passed an amendment to the law in May 2014 that gave the KCOI increased jurisdiction over other branches of government, and made the KCOI responsible for investigating money laundering. The Commission launched an initiative in early 2014 to collect financial declaration forms from public officials at the director general-level and above. They received a 95 percent response rate and have begun to check the disclosure documents against other public records. The Commission's office, located in Erbil, is divided into four sections: prevention and transparency, legal and investigative affairs, finance and administration, and the Office of the Commissioner.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Iraq is a party but not a signatory to the UN Anticorruption Convention. Iraq is not a party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

Resources to Report Corruption

According to Iraqi law, any person or legal entity has the right to submit corruption-related complaints to the COI or the Inspector General of the GOI ministry or body engaging in corruption.

Commission for Integrity
Department of complaints and reports
Mobile: 07901988559
Landline: 07600000030
Hotline@nazaha.iq

13. Bilateral Investment Agreements

Bilateral Taxation Treaties

Iraq does not have a BIT or a bilateral taxation treaty with the United States. The U.S.-Iraq Strategic Framework Agreement (<http://photos.state.gov/libraries/iraq/216651/US-IRAQ/us-iraq-sfa-en.pdf>) provides forums to address impediments to investment and trade through Joint Coordination Committees on: 1) Trade and Finance; 2) Energy; and 3) Services, Technology, Environment, and Transportation. On May 31, 2013, the Trade and Investment Framework Agreement (TIFA) between the Governments of Iraq and the United States entered into force and the inaugural TIFA Council meeting took place in March 2014 in Washington, D.C. The TIFA provides a framework for dialogue to increase trade and investment cooperation between the two countries.

Iraq is a signatory to investor protection agreements or memorandums of understanding with 35 bilateral partners and nine multilateral groupings. The agreements include arrangements on Investments Promotion and Protection (IPPA) within the Arab League, as well as arrangements with Afghanistan, Bangladesh, India, Iran, Japan, Jordan, Kuwait, Germany, Mauritania, Republic of Korea, Sri Lanka, Syria, Tunisia, Turkey, the United Kingdom, Vietnam, and Yemen. In 2010, Iraq concluded BITs with France, Germany, and Italy; the BITs with France and Germany were ratified by the Iraqi Council of Representatives in 2012, while the BIT with Italy has yet to be ratified. In 2012, the GOI concluded a bilateral investment agreement with Armenia, and it concluded new investment agreements with Jordan and Kuwait in 2013. The Council of Ministers approved the agreements with Jordan and Kuwait in March 2014, and forwarded them to the Council of Representatives for ratification. Iraq's investment agreements include general provisions on promoting and protecting investments, including clauses on profit repatriation, access to arbitration and dispute settlements, fair expropriation rules, and compensation for losses. However, the Iraqi government's ability and willingness to enforce such provisions remains untested. Additionally, Iraq has bilateral free trade (FTA) agreements with the following 11 countries: Algeria, Egypt, Jordan, Lebanon, Oman, Qatar, Sudan, Syria, Tunisia, Yemen, and the United Arab Emirates. Iraq is also a signatory to several multilateral agreements, including the 1982 "Taysir" trade agreement with Arab countries.

14. Foreign Trade Zones, Free Ports, Trade Facilitation

The Free Zone Authority Law No. 3/1998 (FZL) permitted investment in Free Zones (FZ; similar to a U.S. Foreign Trade Zone) through industrial, commercial, and service projects. This law is implemented through the Instructions for Free Zone Management and the Regulation of Investors' Business No. 4/1999 and is administered by the Free Zones Commission in the Ministry of Finance. Under the law, capital, profits, and investment income from projects in an FZ are exempt from all taxes and fees throughout the life of the project, including in the foundation and construction phases. Goods entering into Iraqi commerce from FZs are subject to normal import tariffs; no duty is leveled on exports from FZs.

Activities permitted in Free Zones include: (a) industrial activities such as assembly, installation, sorting, and refilling processes; (b) storage, re-export, and trading operations; (c) service and storage projects and transport of all kinds; (d) banking, insurance, and reinsurance activities; and (e) supplementary and auxiliary professional and service activities. Prohibited activities include actions disallowed by other laws in force, such as weapons manufacture, environmentally-polluting industries, and those banned because of place of origin.

Iraq currently has four free zones with tax exemptions and other incentives for the transportation, industrial, and logistics sectors. The Basrah/Khor al-Zubair Free Zone is located

40 miles southwest of Basrah on the Arab Gulf at the Khor al-Zubair seaport. This area has been operational since June 2004. The Ninewa/Falafel Free Zone is located in the north, near roads and railways that reach Turkey, Syria, Jordan, and the Basrah ports. An undeveloped zone in Fallujah is in the planning stages. However, none of these areas is operating as a significant focal point for investment or trade. The Falafel and Fallujah zones are located in Da'esh-held areas, so further development in the near future remains unlikely. There is also a Free Zone in Baghdad. The Free Zone Commission lacks capacity and is further inhibited by its being placed under the Ministry of Finance, which lacks a specific mandate to develop the FZs. In the IKR, there are currently no free zones, although a proposal to establish a free zone in each of the IKR provinces is under consideration for approval by the KRG.

15. Foreign Direct Investment and Foreign Portfolio Investment Statistics

The GOI collects and publishes limited statistics with which to compare international and U.S. investment data.

The NIC and Provincial Investment Commissions (PIC) granted 25 licenses in 2013, the latest statistics available, with a total potential value of USD 2.6 billion. These licenses were for projects in Baghdad in addition to Basrah, Muthanna, Dhi Qar, Najaf, and Babil provinces. Approximately half of these licenses were for housing development projects, a third were for industrial projects, and the remainder was for service and agricultural projects. However, an investment license from the NIC or a PIC does not guarantee that the proposed investment will be implemented. The total potential value of all licenses granted by the NIC and PICs is approximately USD 50 billion.

In the IKR, the KBOI granted 35 licenses in 2015, with a total potential value of \$4.3 billion USD. The granting of a license by the KBOI does not guarantee that the proposed investment will be implemented. Most of the investment licenses issued by the KBOI in 2015 (50 percent) were for projects in the province of Erbil. The total potential value of all KBOI licenses granted from 2006 through January 2016 is \$46.28 billion USD. The KBOI granted the most licenses to industrial projects (36.4 percent), followed by housing development projects (31.3 percent), and tourism industry projects (14.2 percent).

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Economic Data	Host Country Statistical source		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2015	N/A	2014	\$223.5 billion	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other

U.S. FDI in partner country (\$M USD, stock positions)	2015	N/A	2015	\$2,825 million	U.S. Bureau of Economic Analysis (BEA)
Host country's FDI in the United States (\$M USD, stock positions)	2015	N/A	2015	N/A	BEA
Total inbound stock of FDI as % host GDP	2015	N/A	2015	1.26% of GDP	N/A

Table 3: Sources and Destination of FDI

Iraq is not listed on the IMF's Coordinated Direct Investment Survey (CDIS) site (<http://data.imf.org/CDIS>).

Table 4: Sources of Portfolio Investment

Iraq is not included in the IMF's Coordinated Portfolio Investment Survey (CPIS) site (cpis.imf.org).

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

mixed legal system of civil and Islamic law

International organization participation:

ABEDA, AFESD, AMF, CAEU, CICA, EITI (candidate country), FAO, G-77, IAEA, IBRD, ICAO, ICRM, IDA, IDB, IFAD, IFC, IFRC, ILO, IMF, IMO, IMSO, Interpol, IOC, IPU, ISO, ITSO, ITU, LAS, MIGA, NAM, OAPEC, OIC, OPCW, OPEC, PCA, UN, UNCTAD, UNESCO, UNIDO, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO (observer)

Section 6 - Tax

Treaty and non-treaty withholding tax rates

Iraq has entered into few material treaties with other jurisdictions. Iraq is a signatory to the Arab Economic Union Council Agreement, although to date, practical application of this agreement in Iraq has been limited

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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Gary Youinou

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