

Data Collection Survey  
on  
Business Environment  
in  
the Republic of Iraq  
  
Final Report

July 2013

Japan International Cooperation Agency (JICA)

UNICO International Corporation  
Japan Economic Research Institute Inc.

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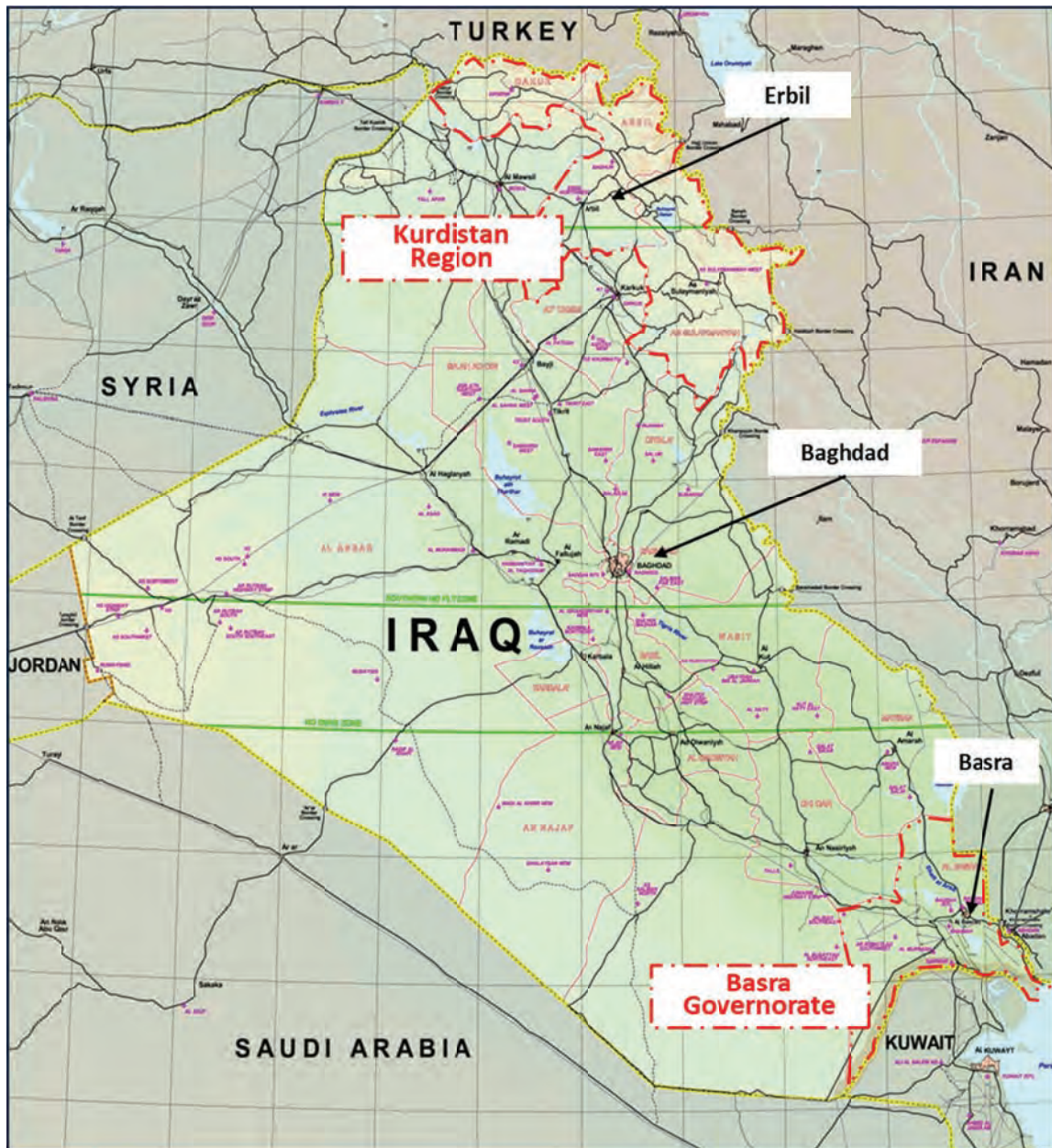


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## Map of Iraq



Source: JICA Survey Team processing a map downloaded from WORLDMapFinder (<http://www.worldmapfinder.com/Jp/Asia/Iraq/>).

## Abbreviations

<b>A</b>	
AAB	The Audit Advisory Board
ACB	Agricultural Cooperation Bank
ACH	Automated Clearing House
ARWRC	Agricultural Research and Water Resources Center
<b>B</b>	
BIOGH	Basra International Oil & Gas Hum Limited
B/L	Bill of Lading
BOB, BoB	Bank of Baghdad
BPIE	Board of Protection & Improvement of Environment
BSA	The Board of Supreme Audit
BSE	Baghdad Stock Exchange
BSRP	Banking Sector Reform Project
<b>C</b>	
CBI	Central Bank of Iraq
CCC	Climate Change Convention
CIF	Cost, Insurance and Freight
COC, CoC	Certificate of Conformity
CoM	Council of Ministers
CoR	Council of Representatives
COSIT	Central Organization of Statistics and Information Technology
COSQC	Central Organization for Standardization and Quality Control
CPA	Coalition Provisional Authority
CSCCI	Business Support Office
<b>D</b>	
DFI	Development Fund for Iraq
DF/R	Draft Final Report
DWT	Dead Weight Tonnage
<b>E</b>	
EIA	Environmental Impact Assessment
EITI	Extractive Industry Transparency Index
EPCAP	Emergency Post Conflict Assistance Program

EPZ Export Processing Zone

ESX Erbil Stock Exchange

EU European Union

## **F**

FDI Foreign Direct Investment

FIPPA Foreign Investment Promotion and Protection Act of 2002

F/R Final Report

FS Field Survey

FTE Foundation of Technical Education

FTZ Free Trade Zone

## **G**

GCFZ General Commission for Free Zone

GCPI General Company for Port of Iraq

GCT General Commission for Taxes

GDP Gross Domestic Product

GDVE General Directorate of Vocational Education

GER Gross Enrollment Ratio

GFIW General Federation of Iraqi Workers

GSRS Government Securities Registration System

GT Gas Turbine

## **H**

HJC Higher Judiciary Council

HRD Human Resource Development

HW Home-office Work

HSBC The Hongkong and Shanghai Banking Corporation Limited

HS code Harmonized System Code

## **I**

IB Iraq Bank

IBC Iraq Business Council

IBI Industrial Bank of Iraq

IBRD International Bank for Reconstruction and Development

ICCP International Conformity Certification Program

ICIGI Inspection and Issuing Certificates for Goods Imported into Iraq

ICT	Information and Communication Technology
IEEPA	International Emergency Economic Powers Act
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IIMPS	Iraq Interoperable Mobile Payments System
IMEIB	Iraqi Middle East Investment Bank
IMF	International Monetary Fund
IOC	International Oil Company
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
IPP	Independent Power Project
IPS	Iraq Payment System
IQD	Iraq dinar
IRFFI	International Reconstruction Fund Facility for Iraq
IRR	Iraq Republic Railways Company
ISB	Islamic Bank
ISC	Iraq Securities Commission
ISN	Interim Strategy Notes
ISO	International Organization for Standardization
ISX	Iraq Stock Exchange
ITT	Intermodal Transportation Terminal
IUAS	Iraqi Unified Accounting System

**J**

JCCME	Japan Cooperation Center for the Middle East
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
JMETI	Japanese Ministry of Economy, Trade and Industry

**K**

KBI, Kurdistan BOI	Kurdistan Board of Investment
KIPCO	Kuwait Projects Company Holding
KRG	Kurdistan Regional Government
KZP	Khor Al-Zubail Port

<b>L</b>	
L/C	Letter of Credit
L/G	Letter of Guarantee
LOLE	Loss of Load Expectation
LOLP	Loss of Load Probability
LPG	Liquefied Petroleum Gas
<b>M</b>	
MCM	Monetary and Capital Markets
MENA	Middle East and North Africa
MHESR	Ministry of Higher Education and Scientific Research
MIM	Ministry of Industry and Mineral
MLSA	Ministry of Labour and Social Affairs
MOA	Ministry of Agriculture
MOC	Ministry of Commerce
MOD	Ministry of Defense
MOE	Ministry of Education or Ministry of Electricity
MOEN	Ministry of Environment
MOF	Ministry of Finance
MOH	Ministry of Health
MOI	Ministry of Interior
MOO	Ministry of Oil
MOP	Ministry of Planning
MOT	Ministry of Transport
MOU	Memorandum of Understanding
MP2010	Master Plan 2010
<b>N</b>	
NDP	National Development Plan
NIC	National Investment Commission
NPO	Non-Profit Organization
NYC	New York Convention
<b>O</b>	
OECD	Organisation of Economic Co-operation and Development
OGPCP	Office of Government Public Contract Policy

OIETAI	Organization for Investment, Economic and Technical Assistance of Iran
OPEC	Organization of Petroleum Exporting Countries
OSS	One Stop Shop
<b>P</b>	
PAC	Procurement Assistance Center
PB	Parsons Brinckerhoff
PDCA	Plan, DO, Check, Act or Plan DO, Check, Adjust
PIC	Provincial Investment Commission
PN	Public Notice
PVC	Polyvinyl Chloride
<b>R</b>	
RCDC	Radioactive Contamination Detection Certificate
REB	Real Estate Bank
RIC	Regional Investment Commission
RTGS	Real Time Gross Settlement
RUSF	Resource Utilization Support Fund
<b>S</b>	
SAGIA	Saudi Arabian General Investment Authority
SAMA	Saudi Arabian Monetary Agency
SASO	Saudi Arabian Standards Organization
SIDF	Saudi Industrial Development Fund
SME	Small and Medium sized Enterprise
<b>T</b>	
TBI	Trade Bank of Iraq
TEU	Twenty-foot Equivalent Unit
TVET	Technical Vocational Education and Training
<b>U</b>	
UAE	United Arab Emirates
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
UNDG	United Nations Development Group
UNDG ITF	United Nations Development Group Iraq Trust Fund



UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNSCR	United Nations Security Council Resolution
UQP	Umm Qasar Port
USAID	United States Agency for International Development
USD	United States Dollar

**V**

VAT	Value Added Tax
VOC	Verification of Conformity

**W**

WB	World Bank
WBDB	World Bank Data Bank
WB ITF	World Bank Iraq Trust Fund
W/S	Workshop

## Chapter 1 Introduction

This is the Final Report of the “Data Collection Survey on Business Environment in Iraq” (hereinafter referred to as the “Survey”).

This chapter introduces the framework and methodology of the Survey followed by the structure of the Report.

### 1.1 Framework of Survey

This section summarizes the framework of the Survey including its background, objective, surveyed areas, work schedule, and implementation structure.

#### 1.1.1 Background

The Survey was implemented with special attention given to the following factors constituting the business environment in Iraq, as generally observed at the time when the Survey was planned.

##### (1) Growing economy and expanding markets

Iraq has been maintaining high economic growth<sup>1</sup> in recent years and is projected to maintain even higher growth in years to come. Further, the country possesses a young and rapidly-growing population<sup>2</sup>, thereby enlarging expectations for future market expansion. Foreign companies are now looking at Iraq as a potential investment and business destination. Iraq’s macro-economic overview and consumer market trends are presented in detail in Chapter 3.

##### (2) Huge demand for investment and regulatory reform for investment promotion

Meanwhile, rehabilitation of aging and war-devastated infrastructure as well as development of new infrastructure has become one of the most significant issues in Iraq. This issue should be tackled on a large scale and in an urgent way in order to more quickly improve the livelihood of people and enable realization of sustainable economic development of the country.

The Iraqi government recognizes the huge necessity to attract private investment both to tackle the issue mentioned above and to develop non-oil/gas industries, to thereby diversify the sources of national income and generate more employment opportunities. The government has thus been making political and institutional efforts to promote private investment; these efforts include enforcement of Investment Law No. 13 of 2006 which provides for establishment of the National Investment Commission and various benefits rendered to the investors.

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1 As later explained in Chapter 3, Iraq’s gross domestic product was three times bigger in 2010 than that in 2004.

2 As later explained in Chapter 3, about 70 percent of the Iraq’s population was 30 years old or below in 2010.

The scale of investment requirements in combination with regulatory and institutional reform for private investment promotion are encouraging foreign companies, especially those surrounding Iraq, to expand business with and in Iraq. These factors have also been evoking, though in a relatively moderate manner, interest among Japanese companies in doing business with and in the country.

### (3) Risks and issues

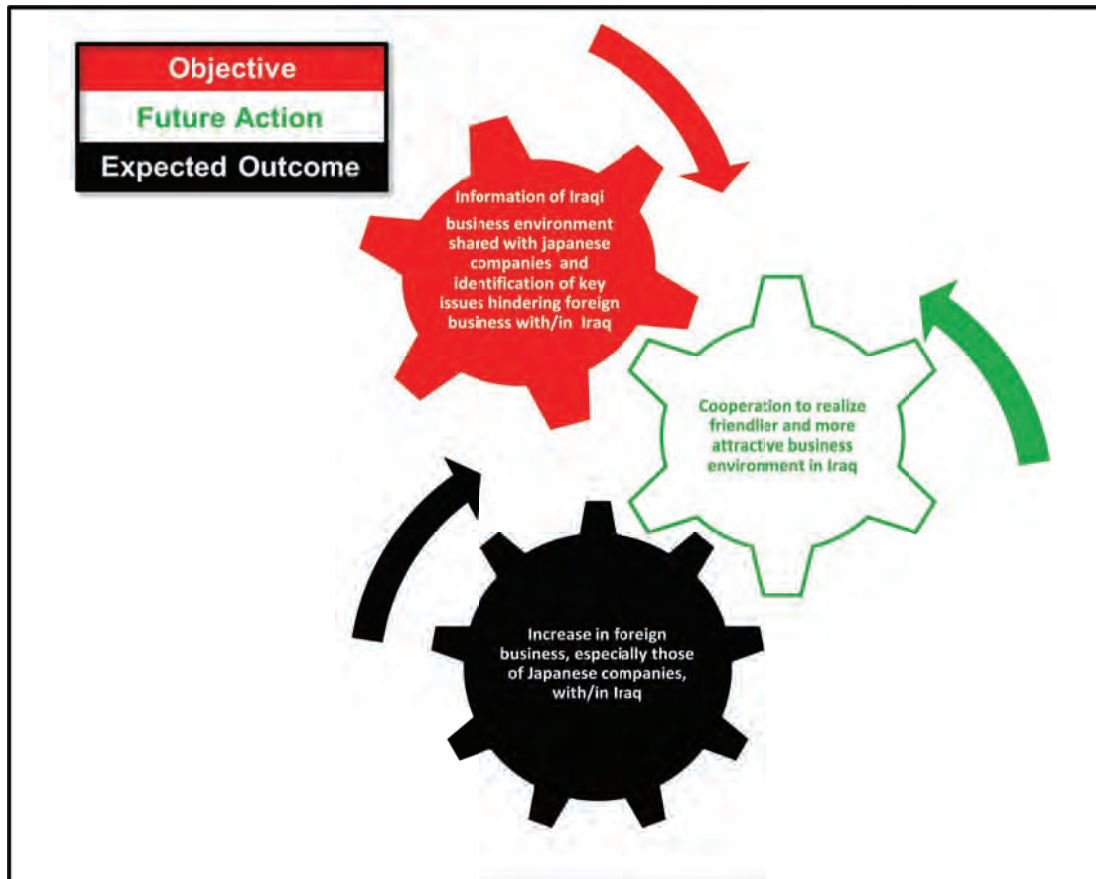
On the other hand, Iraqi business still involves many risks and issues which include, among many others, political instability, security issues, frequent changes in regulations, unorganized customs clearance procedures, uncertainty related to trade account settlement, and lack of experience in use of international standards in various business processes. Furthermore, these risks and issues are fluid and difficult to predict in reality; they cannot be analyzed as if they are in a stable status or are common to all the processes in a business flow.

Therefore, it is of primary importance to have reliable, realistic, and up-to-date information about such risks and issues in order to fully understand the business environment in Iraq. In other words, efforts to improve business environment in Iraq should start with collection and analysis of such reliable, realistic and up-to-date information.

#### **1.1.2 Objective and expected outcome**

The objective of the Survey is to obtain reliable, realistic and updated information on the business environment in Iraq and identify the issues to be tackled for improvement of the environment. The obtained information is to be made available to private companies in Japan which may utilize it for considering a future foray into Iraqi business. At the same time, the identified issues will become part of the informational basis on which the Japan International Cooperation Agency (JICA) formulates its policy and future cooperation activities in Iraq so as to make the business environment of the country friendlier to foreign companies, Japanese companies in particular. It follows from this that the expected outcome from achievement of the Survey objective is an increase in business activities of Japanese companies with and in Iraq in the future.

Figure 1.1-1 depicts the relationship between the objective and expected outcome of the Survey.



Source: JICA Survey Team.

**Figure 1.1-1 Objective and Expected Outcome**

### 1.1.3 Surveyed areas

Areas covered by the Survey included the whole area of Iraq and the countries surrounding Iraq, namely, Jordan, Lebanon, Turkey, and the United Arab Emirates (UAE).

The Survey was conducted to gain an understanding of the business environment in the Kurdistan Region separately from the rest of Iraq, as the business environments of these two areas are different from each other, making it irrational to discuss them using the same framework. Thus, the current Report, where appropriate, overviews factors of the business environment in the Kurdistan Region in a separate section.

Meanwhile, the Survey undertook a two-fold approach to the business environment in Iraq; both by analyzing the internal conditions in Iraq and by starting from the standpoints of companies in the surrounding countries which are doing business with and in Iraq. These companies have been expanding their activities in Iraqi business in recent years, thereby accumulating a great deal of experience and lessons about the business environment in the country.

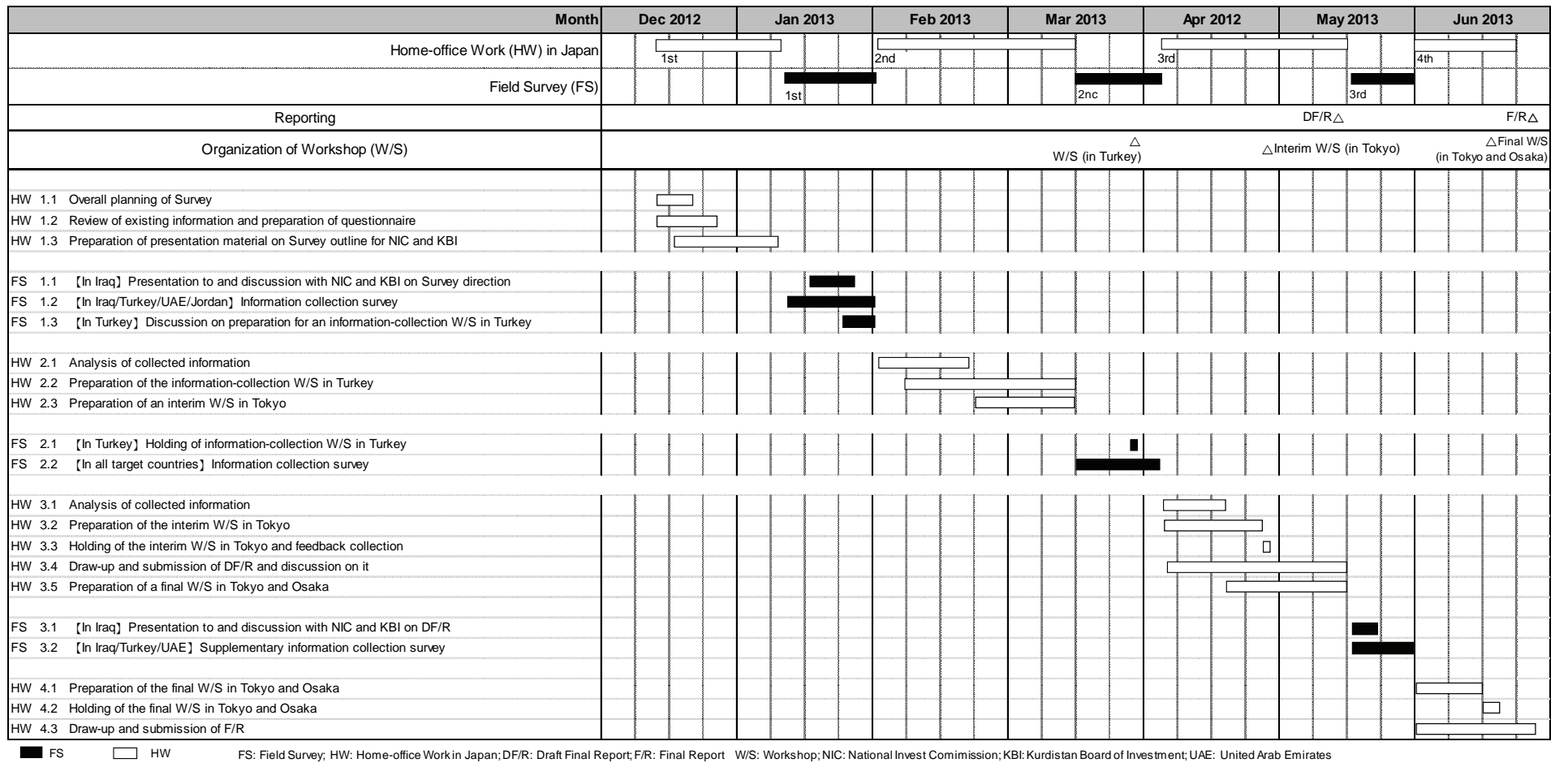
#### **1.1.4 Activities and schedule**

Figure 1.1-2 shows schedule of activities performed in the Survey. The Survey commenced in December 2012 and was completed in June 2013 with four Home-office Work periods in Japan and three Field Surveys in Iraq and the surrounding countries.

The JICA Survey Team carried out interviews with about 100 private and public stakeholders, as well as four workshops in Japan and Turkey with about 330 participants in total<sup>3</sup>, thereby obtaining the wide range of related information.

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<sup>3</sup> These participants include those who attended one or more workshops.



Source: JICA Survey Team

Figure 1.1-2 Schedule of Survey Activities

## 1.1.5 Survey team

Table 1.1-1 shows members of the JICA Survey Team and their responsibility.

**Table 1.1-1 Survey Team Members and Area of Responsibility**

Name	Title	Assigned Work
<b>Mr. Hironobu ADEGAWA</b>	Leader	1) Survey management and supervision of Survey Team
<b>Mr. Hirofumi YAMAUCHI</b>	Investment Legal System	1) Analysis of constitution and a law system in Iraq 2) Analysis on investment-related laws/regulations in Iraq 3) Analysis on Iraq's business environment and identification of issues in it from the perspectives of the investment legal system 4) Analysis of current status of "Agreement between Japan and the Republic of Iraq for the Promotion and Protection of Investment" 5) Analysis of current status of lawyers' activities in Iraq and its surrounding countries and utilization by the foreign companies
<b>Mr. Satoshi YAMADA</b>	Business Environment Survey	1) Analysis on factors that constitute business environment in Iraq 2) Identification and analysis of issues in business environment of Iraq 3) Analysis on accounting and taxation systems in Iraq 4) Analysis and identification of issues related to infrastructure development in Iraq
<b>Mr. Keisuke SUGIYAMA</b>	Organization and System / Coordination 1	1) Analysis on organizational structure, capacity and activities of related organizations in Iraq 2) Analysis of socioeconomic indicators of Iraq 3) Analysis on inward/outward FDI and domestic investment in Iraq 4) Analysis of organization and activities of chambers of commerce and industry in Iraq 5) Analysis of visa granting process of Iraq
<b>Ms. Hiroko HASHIMOTO</b>	Organization and System / Coordination 2	1) Analysis on Iraq's business environment from the standpoint of the investors in the surrounding countries 2) Analysis of Iraqi businesses by the companies in the surrounding countries 3) Analysis of activities and capacity of the organizations in the surrounding countries which assist companies in doing business with/in Iraq 4) Analysis on business environment-related projects by other foreign donor agencies than JICA

Note: FDI stands for foreign direct investment

Source: JICA Survey Team.

## 1.2 Survey Methodology

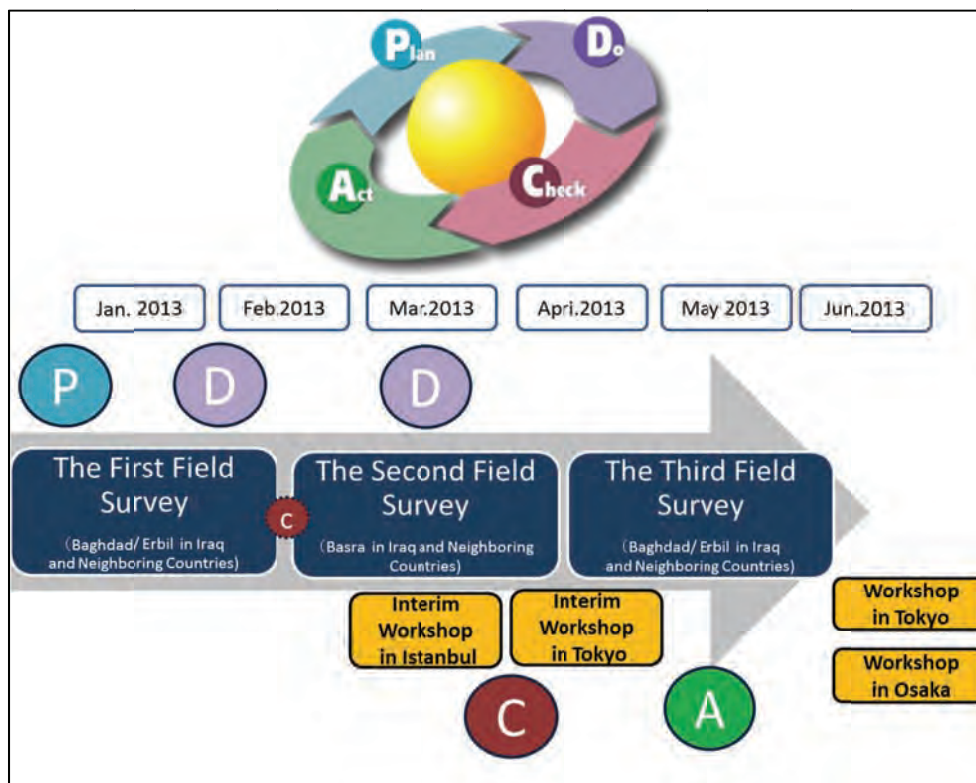
In order to deliver the expected outcome of the Survey as stipulated in 1.1.2, the JICA Survey Team adopted the survey methodology described below, with consideration given to the following.

- Limited time and restrictions on the field survey in Iraq due to the security requirements
- Limited access to the reliable and original information and database in relation to the business environment in Iraq

- Different business paradigms and business customs in the Middle East countries, including Turkey

### 1.2.1 PDCA

The JICA Survey Team adopted the PDCA (plan–do–check–act or plan–do–check–adjust) as the core methodology for the Survey. The PDCA is an iterative four-step management method used in business for the control and continuous improvement of processes and products. Based on the survey schedule stated in 1.1.4 and the PDCA Cycle, the JICA Survey Team established the survey plan as presented in Figure 1.2-1.



Source: JICA Survey Team.

**Figure 1.2-1 Survey Plan Using the PDCA Method**

The key steps in the survey plan are the Interim Workshops in Istanbul and Tokyo to check the validity of the interim results of the Survey and identify key issues in the business environment in Iraq for the private sector.

### 1.2.2 Field survey with multi-viewpoints

The survey plan ensures that the analysis of information collected in Iraq, the neighboring countries (Jordan, Lebanon, Turkey, and UAE) and Japan is made from a variety of perspectives.



This is because the context of the information varies depending on intentions and business paradigms that each information provider possesses, as shown in Table 1.2-1.

**Table 1.2-1 Perspectives of Different Information Providers**

Category of Information Providers	Intention toward Business Development	Understanding of the Business Environment
Iraqi government sector	Aggressive	Positive
Iraqi private sector	Aggressive	Positive
Multilateral and bilateral donor agencies	Supportive	Objective (partially negative)
Government sector in neighboring countries	Supportive	Relatively positive
Private sector in neighboring countries	Aggressive	Relatively positive
Japanese private sector	Relatively conservative	Relatively negative

Source: JICA Survey Team.

### 1.2.3 Approach to realities

The survey plan gives primary importance to knowing realities of the business environment in Iraq as follows.

#### (1) Gap in information

Most of the information provided by the Iraqi government and its agencies emphasizes the attractiveness of the Iraq market and the considerable improvements that have been made in the business environment. On the other hand, many reports by international organizations point out that there are still the various defects in the Iraqi business environment, which make it difficult for foreign companies to do business with and in Iraq. There is the huge gap between pieces of information about the business environment in Iraq given by various parties; in other words, there exists unclarity as to what is real and what is not.

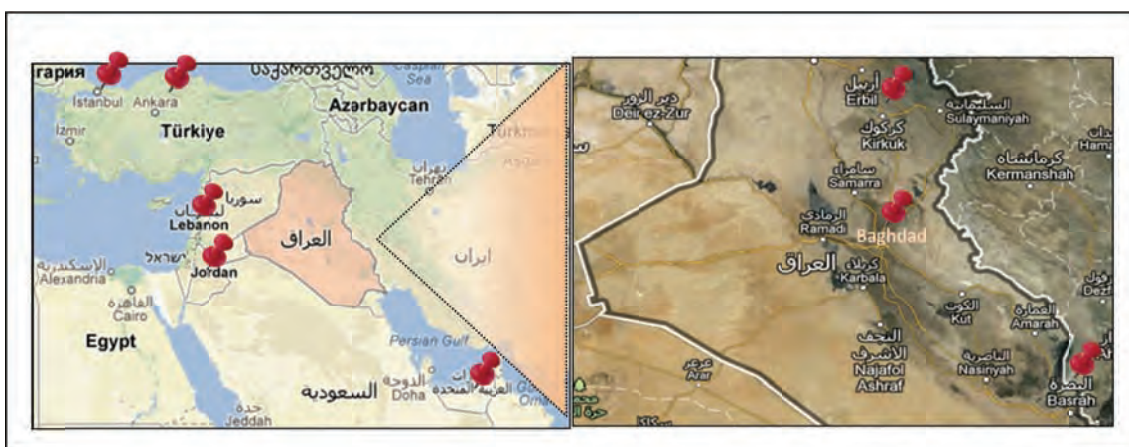
Hence, knowing the realities of the business environment in Iraq was set as the first priority of the Survey.

#### (2) Approach to realities

In order to know the realities, it is of great importance to pay actual visits to the Iraqi organizations and project sites and hold discussions with various Iraqi people on concrete issues. In addition, it is necessary to meet and discuss with companies which are doing business with and in Iraq and thus facing the realities of the business environment in the country.

As mentioned earlier, the JICA Survey Team repeated the meeting with parties related to the

business in Iraq for about 100 times in the field surveys.



Source: JICA Survey Team.

**Figure 1.2-2 Survey Locations**

### 1.3 Structure of Report

Following the current chapter, Chapter 2 presents a summary of the Survey results; these results include information which is not covered by other chapters, but is important to be offered.

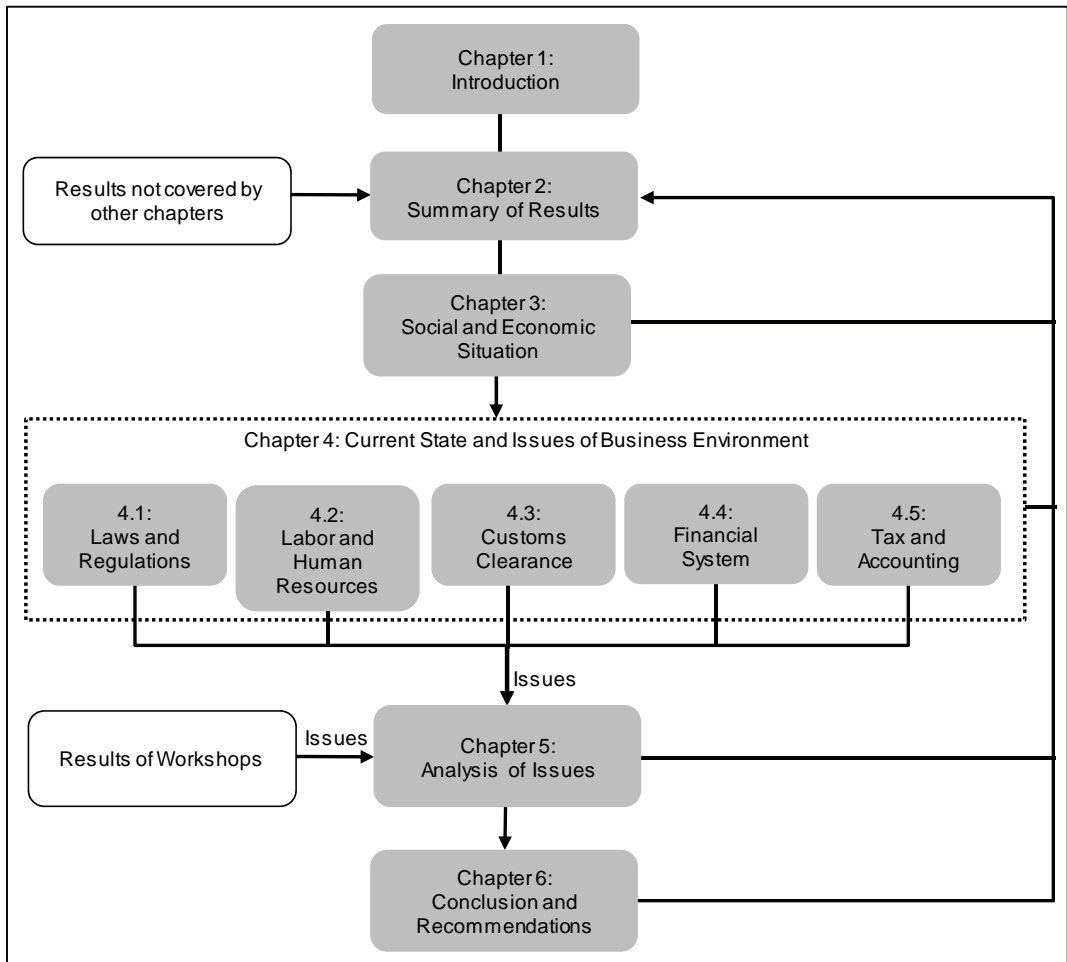
Chapter 3 provides an overview of the social and economic situation in Iraq, which is the very basis of the whole business environment in the country.

Chapter 4 analyzes factors that constitute the business environment in Iraq, focusing on laws and regulation (in 4.1), labor and human resources (in 4.2), customs clearance (in 4.3), financial system (in 4.4) and tax and accounting system (in 4.5). The chapter studies the current state of these business environment factors, thereby identifying key issues that should be addressed in each of the business environment factors.

Chapter 5 then analyzes the key issues identified in Chapter 4 and the workshops conducted in Turkey and Japan, as well as through comparative study between the business environment in Iraq and that in the neighboring countries.

Finally, Chapter 6 offers conclusion as well as recommendations to tackle these issues so as to make the Iraq's business environment friendlier to foreign companies, Japanese companies in particular.

Figure 1.3-1 illustrates the structure of the Report explained above.



Source: JICA Survey Team.

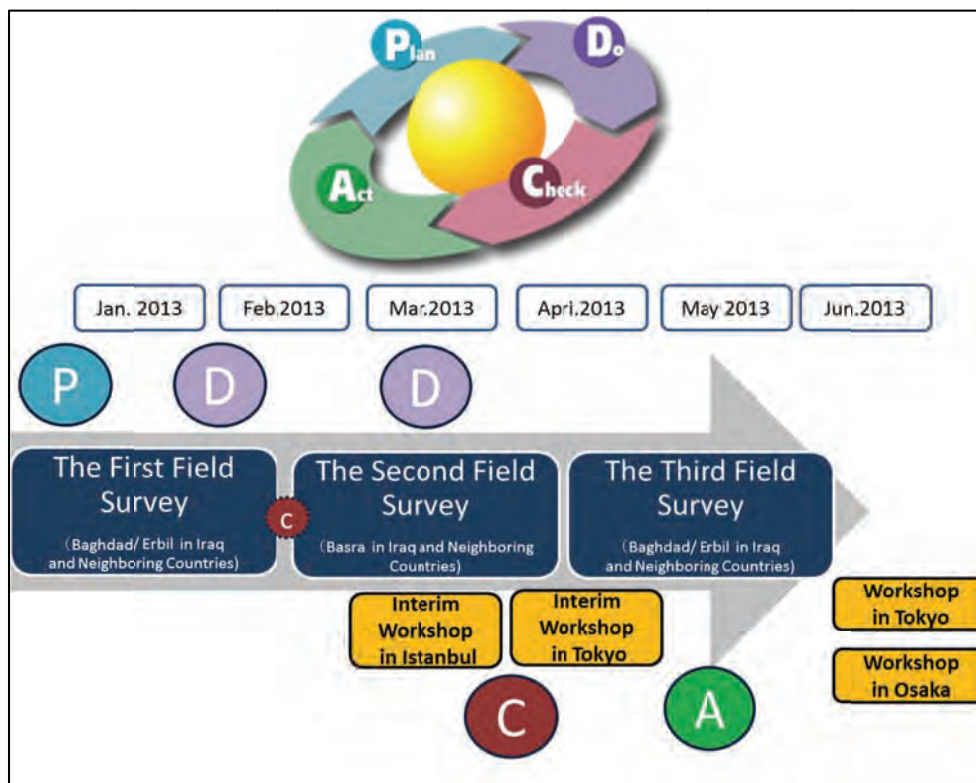
**Figure 1.3-1 Structure of Report**

## Chapter 2 Summary of Survey Results

This chapter broadly summarizes results of the Survey as a whole. Details of the results, which are related to specific factors constituting business environment in Iraq, are provided from the next chapter onward. Meanwhile, these chapters do not necessarily cover all the results that have been obtained in the Survey; especially those which cannot be included in consideration of the logical structure of the Report. Hence, this chapter contains a summary of the results that are not discussed in other parts of the current Report as well.

### 2.1 Schedule and Process of Survey

The JICA Survey Team adopted the PDCA (plan–do–check–act or plan–do–check–adjust) as the core methodology for the Survey. Figure 2.1-1 shows the schedule and process of the survey based upon the PDCA cycle.



Source: JICA Survey Team.

**Figure 2.1-1 Survey Schedule with the PDCA Method**

### 2.2 Results of Field Survey

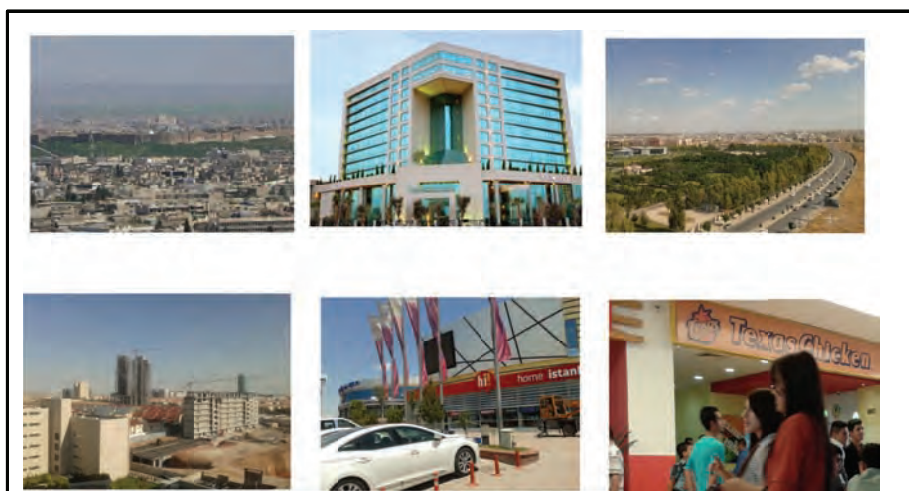
The following is a summary of results of the field surveys conducted in Iraq and its neighbouring countries, namely, Jordan, Lebanon, Turkey, and the United Arab Emirates

(UAE).

### 2.2.1 Survey in Iraq

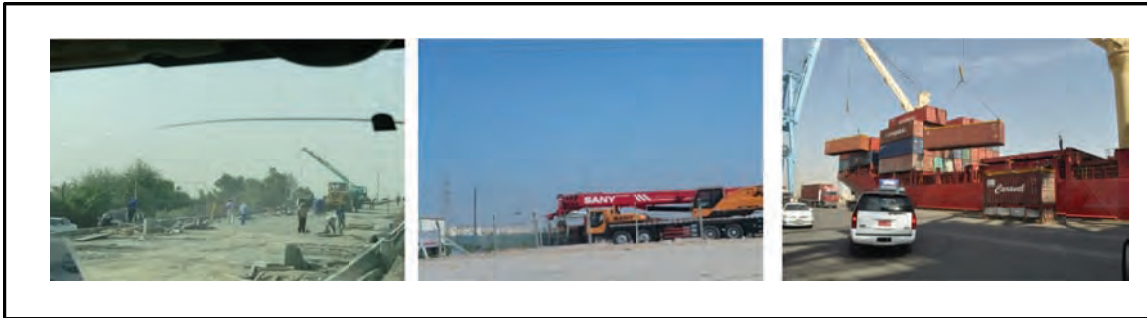
Results of the field surveys carried out in Iraq revealed the following situation regarding the business environment in the country.

1. Recent development of the Iraq's private sector, private company groups in particular, is significant, especially in the Kurdistan Region.
2. In addition to the private companies in the neighboring countries, those from Korea and China have expanded their business in Iraq aggressively, especially in the fields of the construction (infrastructures and city developments) and sales of consumer durables (cars and electric appliances).
3. Oil and gas companies in the United States and European countries are also active. Their interests have changed to cover the downstream projects (refinery, gas treatments, and petrochemical projects).
4. The business environment in Iraq has been steadily improving for these years. However, there still remain various issues to be improved.
5. The governmental policies and the framework for promotion of private business with and in Iraq have been established. However, the actual capacity for the promotion is still limited.
6. The major reasons behind the issues and obstacles in doing business with and in Iraq were identified as follows.
  - Lack of the human resources for the international business
  - Lack of the updated system and equipment for the international business
  - Consequence of defects arising from instability and insecurity in Iraqi society



Source: Taken by JICA Survey Team.

**Figure 2.1-2 Pictures Taken in Erbil City**



Source: Taken by JICA Survey Team.

**Figure 2.1-3 Pictures Taken in Basra Governorate**

## **2.2.2 Survey in neighboring countries**

Results of the field surveys carried out in the neighbouring countries revealed the following situation regarding the business environment in Iraq.

### **(1) Private companies doing business with and in Iraq**

Private companies in the neighbouring countries which have aggressively developed the business in Iraq are categorized as follows.

#### **1) Iraqi-origin private companies in the neighboring countries**

After 1990's, many Iraqi companies and people moved and changed their business registrations to the neighboring countries such as Jordan and Lebanon. Many of them are currently expanding their business in Iraq by utilizing their business channels in the country.

#### **2) Non-Iraqi private companies in the neighboring countries**

Construction companies and traders in Turkey have significantly developed their business in Iraq. Especially, the presence of the Turkish companies in the Kurdistan Region is remarkable. Companies related to the oil and gas industry in Lebanon, Jordan and UAE are very keen to develop their business in Iraq. Increase of the presence of UAE in Iraq business was outstanding even during the period of the Survey.

### **(2) Experience of private companies in the neighboring countries in Iraq business**

The private companies in the neighbouring countries have ample experience in doing business in Iraq, including the management of security, communication with local communities, and negotiations with the bureaucratic organizations in Iraq. These companies, in the meetings with the JICA Survey Team, often presented their strength in the business in Iraq by referring to

accumulation of their experience in the communications with Iraqi local tribes: the effective relationship with the local tribes was identified as one of the factors that smoothens the business in Iraq.

### (3) Issues faced by private companies in the neighboring countries

The private companies in the neighbouring countries pointed out several issues in the business environment in Iraq that should be addressed to improve the environment. The following issues are their major concerns.

- Custom clearance and trade-related tax/duty issues
- Delay in payments and difficulties in recovery of the retention money
- Obtaining the working visa

## **2.3 Workshops**

As mentioned in 1.2.1, the Interim Workshops in Istanbul and Tokyo were the key steps in the survey plan to check validity of the interim results of the Survey and the identification of key issues in the business environment in Iraq. The workshops in Tokyo and in Istanbul were effective, as the JICA Survey Team was able to have active discussion with Turkish and Japanese private companies, receiving various requests for the Survey and opinions related to the business environment in Iraq. The following summarizes the results of the workshops.

### **2.3.1 Interim Workshop in Istanbul**

The workshop was organized by JICA in cooperation with the Turkish Contractors Association in Istanbul, Turkey on March 27, 2013. The workshop was attended by 41 representatives from Turkish private companies and public agencies, and 20 from Japanese companies, other foreign companies, and the organizer. The following is the photos of the Workshop taken by JICA Survey Team in Iraq.



Source: Taken by JICA Survey Team.

**Figure 2.1-4 Pictures of Interim Workshop in Istanbul**

The following is a summary of a questionnaire survey conducted to the workshop participants, asking the most concerned issues for Turkish companies doing business with and in Iraq.

**Table 2.3-1 Issues of Greatest Concern for Turkish Companies**

Impediment	%	Impediment	%	Impediment	%
1. Political instability/political tension	59%	14. Access to finance	24%	27. Tribals	12%
2. Security	59%	15. Default	24%	28. Local expeditors	12%
3. Customs procedures	53%	16. Bribery & corruptions	24%	29. CBI capacity	12%
4. VISA procedues	47%	17. Skilled manpower	24%	30. TBI capacity	12%
5. Frequent changes in regulation	41%	18. Water supply	24%	31. Taxation not defined by regulation	12%
6. Custom regulations	41%	19. Standardization & transparency of bidding /procurement system	18%	32. Tax administration	6%
7. Electricicity supply	35%	20. Accountng system	18%	33. Border security	6%
8. Private security	35%	21. Judicial system	18%	34. Tax incenteives	6%
9. Transportation	29%	22. Local engagement	18%	35. Tax rates	0%
10. Banking system	29%	23. Company registration	18%	36. Access to land	0%
11. Labor regulation	29%	24. Intellectual property rights	18%	37. Exchange control	0%
12. Import/Export control	24%	25. Business licensing and operation permits	18%	38. Labor dispute	0%
13. Telecommunication	24%	26. L/C issuance	12%	39. Others	0%

Source: JICA Survey Team (same as Table 5.3-1)



### 2.3.2 Interim Workshop in Tokyo

The workshop was co-organized by JICA and Japan Cooperation Center for the Middle East (JCCME) in Tokyo on April 24, 2013. The workshop was attended by 104 representatives from Japanese private companies and public agencies (excluding the organizer). The following is the photos of the Workshop taken by JICA Survey Team in Iraq.



Source: Taken by JICA Survey Team.

**Figure 2.1-5 Pictures of Interim Workshop in Tokyo**

The following table shows a result of a questionnaire survey that was conducted to the workshop participants, asking the issues that concern most them in doing business with and in Iraq.

**Table 2.3-2 Issues of Greatest Concern for Japanese Companies**

Business environment	No. of response	Share of the response (%)
Political uncertainty and security	88	100
Complex laws and regulations, frequent changes, uncertainty, etc.	45	51
Financial clearance and settlement	30	34
Customs clearance	25	28
Obtaining VISA	17	19
Contract negotiation and contractual coverage	15	17
Human resources	15	17
Bidding and procurement	11	13
Foreign remittance	9	10
Others	2	2

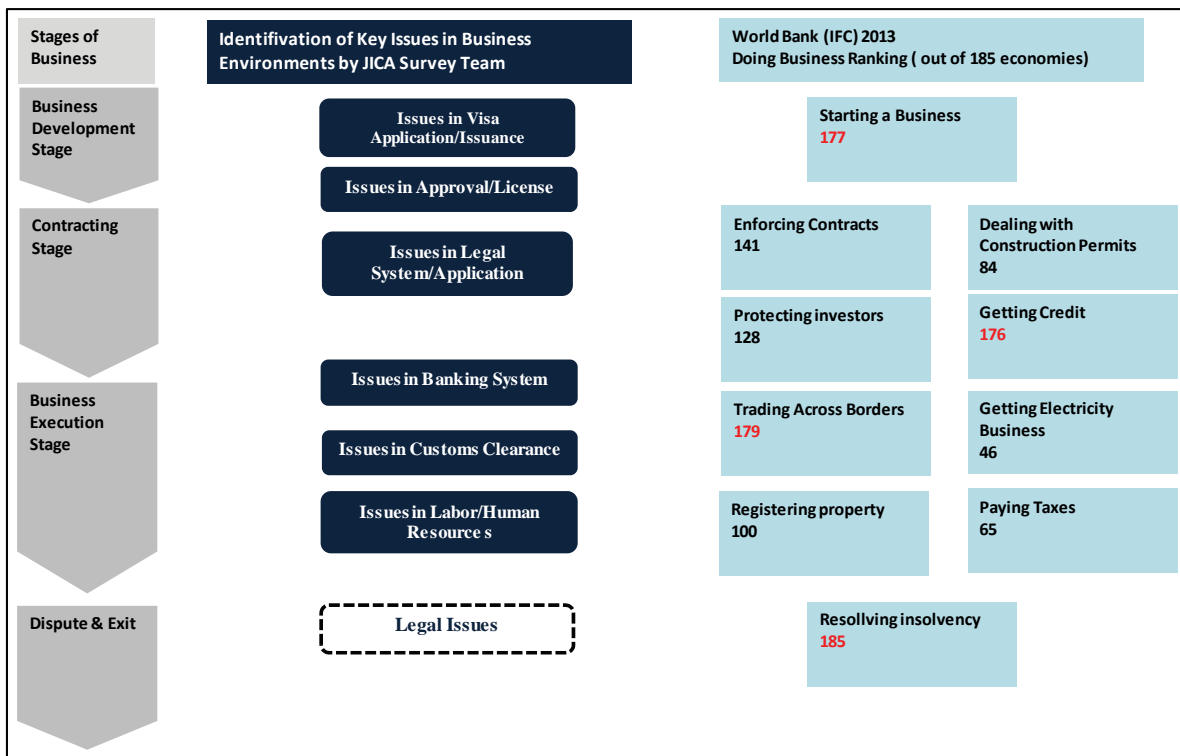
Source: JICA Survey Team (same as Table 5.3-2)

## 2.4 Identification of Key Issues

As a result of the whole Survey, the JICA Survey Team identified the following as the key issues in the business environment in Iraq.

- Issues in Visa application and issuance
- Issues in approval and license
- Issues in a legal system and application
- Issues in banking system
- Issues in customs clearance
- Issues in labor and human resources

The details are presented in Chapter 4 and 5. The following figure shows a matrix of the stages of business and key issues. In the figure, scores of the World Bank “2013 Doing Business” are added for reference.



Sources: JICA Survey Team and the World Bank

**Figure 2.4-1 Key Issues and Stages of Business**



## Chapter 3 Social and Economic Overview in Iraq

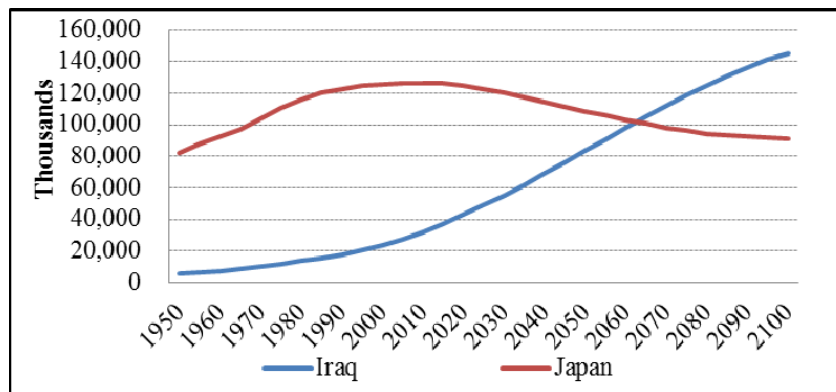
This chapter provides an overview of the social and economic environment in Iraq, which is the very basis of the business environment in the country. Regarding the social environment, the current status of the population, labor market and living conditions are explained. The economic overview includes review on major economic statistics and the activity of Japanese companies. The chapter then summarizes the current state of infrastructure development in Iraq, as the infrastructure relates closely to the economic environment. The chapter, at the end, reviews the cooperation measures taken by the international donor agencies in the field of economic and social environment in Iraq.

### 3.1 Social Environment

A brief overview of statistics on social aspects of Iraq is provided in this section. The section starts with the current status and future outlook of the population in Iraq. Then, unemployment statistics and the level of education achieved are given. Finally, the section introduces several datasets on living conditions.

#### 3.1.1 Population

According to an estimate of the United Nations (UN)<sup>1</sup>, the population of Iraq was about 32 million in 2010 and the yearly population growth rate was around 3%. Investors are interested in the Iraqi market potential as a large middle income class of consumers is expected in the near future concomitant with recovery of the economy. The UN forecasted that the population would reach 50 million in 2030 and would be 100 million in around 2060.



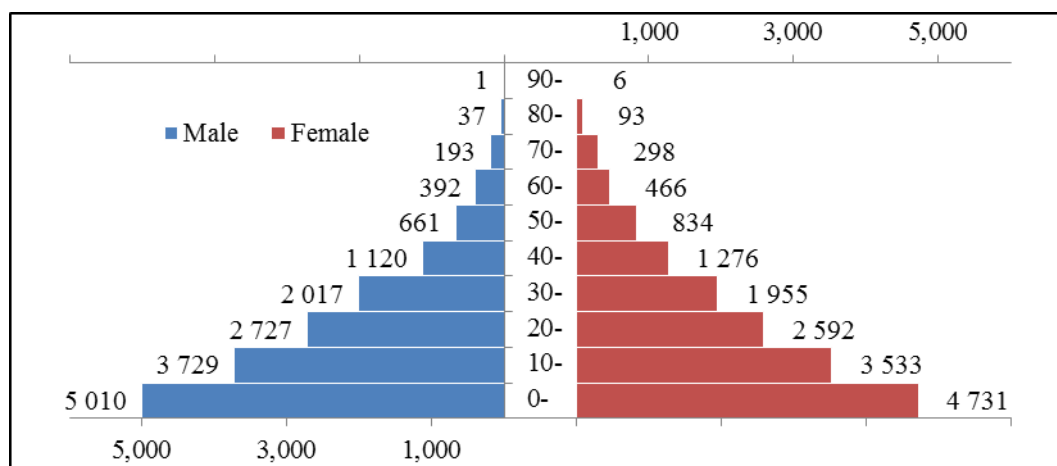
Note: Estimates start after 2010.

Source: UN

**Figure 3.1-1 Population Prospects**

<sup>1</sup> United Nations (2010), "World Population Prospects: The 2010 Revision"

The share of the population below 30 years of age was about 70% (in 2010). According to the National Development Plan for the Years 2010-2014 (NDP)<sup>2</sup>, “the diversity among youth from an educational, cultural and skill perspective is considered as one of the main challenges for [the] Iraqi economy” and “Effective policies to promote youth, as well as educate and employ youth” is a key to sustainable development of Iraq.



Source: UN

**Figure 3.1-2 Population by Age and Gender (2010)**

Iraq is divided into 19 governorates. Baghdad, the capital, is the largest governorate in terms of population. The average size of a household in Iraq is around seven persons.

According to the NDP, the spatial development pattern has led to the concentration of population, economic activity and services in a few big cities. Table 3.1-1 shows distribution of the population, housing units and households among the governorates.

<sup>2</sup> Ministry of Planning (2010), “National Development Plan for the Years 2010-2014”, pp. 23

**Table 3.1-1 Population, Housing Units and Households**

Governorate	Number of Housing Units	Number of Households	Total Population	
Ninevah	438,885	425,861	3,106,948	
Kirkuk	221,171	234,697	1,325,853	
Diala	214,024	202,171	1,371,035	
Al-Anbar	194,096	178,283	1,483,359	
Baghdad	1,064,175	1,037,189	6,702,538	
Babylon	252,025	245,682	1,729,666	
Kerbela	157,990	149,408	1,013,254	
Wasit	157,905	152,777	1,150,079	
Salah AL-Deen	204,309	180,542	1,337,786	
Al-Najaf	183,549	177,132	1,221,228	
Al-Qadisiya	146,733	140,848	1,077,614	
Al-Muthanna	86,038	84,603	683,126	
Thi Qar	220,910	214,554	1,744,398	
Maysan	125,808	122,847	922,890	
Basra	327,185	338,232	2,405,434	
<b>Total</b>	<b>3,994,803</b>	<b>3,884,826</b>	<b>27,275,208</b>	
Kurdistan Region	Erbil	302,457	293,353	1,532,081
	Duhouk	147,578	152,127	1,072,324
	AL-Sulaimaniya	365,717	365,959	1,784,853
<b>Total</b>	<b>815,752</b>	<b>811,439</b>	<b>4,389,258</b>	
<b>Grand total</b>	<b>4,810,555</b>	<b>4,696,265</b>	<b>31,664,466</b>	

Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

### 3.1.2 Labor market and education

The most recent statistical survey indicates that the unemployment rate in Iraq was 15.34% in 2008. Though the rate was decreasing in total terms, that of the young generation (15-24 years) was 30.0% and the rate for women was at 32.5% in the same year. According to the NDP, the private sector's role in creating job opportunities, as well as a need for an effective job-creating policy is of vital importance.

Table 3.1-2 presents the unemployment rate in each governorate.

**Table 3.1-2 Unemployment Rate**

Unit: %

	2003	2004	2005	2006	2008 *
Ninevah	31.20	36.20	18.21	27.48	21.91
Kirkuk	19.40	31.30	17.91	7.90	12.63
Diala	31.20	34.70	17.81	18.47	14.62
Al-Anbar	33.30	25.00	-	-	13.77
Baghdad	33.00	28.50	16.80	15.74	11.77
Babylon	21.60	13.50	10.97	14.10	12.34
Kerbala	14.00	13.00	17.52	18.53	14.20
Wasit	16.00	17.10	7.25	8.82	12.71
Salah AL-Deen	25.40	16.90	20.14	18.36	18.01
Al-Najaf	18.10	21.60	23.73	18.90	14.48
Al-Qadisiya	23.50	35.20	26.03	19.89	14.78
Al-Muthanna	28.20	29.90	27.75	22.94	24.89
Thi Qar	46.20	46.90	33.24	27.82	30.81
Maysan	30.50	24.60	21.78	18.68	16.58
Basrah	15.50	10.50	7.90	12.46	15.51
Kurdistan					
Duhouk	-	-	-	-	16.91
Erbil	-	-	-	-	13.22
Sulaimaniya	-	-	12.75	13.75	11.88
:					
Total	28.10	26.80	17.97	17.50	15.34

Note: Survey was not conducted in 2007.

Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

As shown in Table 3.1-3, the illiteracy rate of the population of above 10 years of age was 19.1% in 2007. The total of “Intermediate,” “Secondary or vocational,” “Technical diploma” and “Bachelors and above” accounted for 27.5%.

As in many developing countries, the young generation forms a very high percentage of the demographic pyramid. According to the NDP, “Iraqi youth have suffered from multiple problems – having been victims of irresponsible policies that pushed them through the hell of war, and then failed to find sufficient and suitable employment opportunities for them, then tried to place them in the framework of a normal public life. Furthermore, no policies have given them training, preparation, health and cultural services, and so on.”

**Table 3.1-3 Level of Education (2007)**

Unit: % of population above 10 years of age

	Total	Geographical division			Locality		
		Kurdistan Region	Baghdad	Other govvs.	Gov. center	Other urban	Rural
Illiterate	19.1	27.4	12.4	19.9	14.4	17.1	28.4
Only read	2.4	3.8	1.2	2.6	2.1	2.1	3.2
Read & write	21.5	24.7	16.8	22.6	20.5	19.9	24.8
Primary	29.2	23.4	32.5	29.1	29.1	30.4	28.0
Intermediate	11.6	9.1	16.7	10.2	13.6	13.2	7.0
Secondary or vocational	6.9	5.2	9.3	6.4	8.6	7.5	3.8
Technical diploma	4.6	3.0	5.2	4.7	5.5	5.2	2.5
Bachelors and above	4.4	2.4	5.9	4.2	5.9	4.3	2.1
Not specified	0.3	0.8	0.2	0.2	0.3	0.4	0.2

Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

### 3.1.3 Daily life

Statistics on how Iraqi people spent their daily lives in terms of time and the objectives of expenditures of household money in 2007 are shown in Tables 3.1-4 and 3.1-5.

The average Iraqi person spent nine to ten hours in bed. Employed persons worked six hours in the working day (assuming five workdays a week). The average Iraqi spent three hours a day watching television.

Regarding the expenditure of the average household, the weight of food stuffs and non-alcoholic beverages was 33.2 % of total expenditure and the weight of dwellings, water, gas, electricity and other fuels was around 29.0 %. These two basic items for living account for more than 60 % of the total expenditure.



**Table 3.1-4 Overall Average Time Spent by Activity for a 7-Day Week (2007)**

Unit: Minutes per day

	Total	Working	Unemployed	Housekeeper
Sleeping	574	540	615	573
Eating	92	89	92	96
Medical care	10	9	9	10
Personal hygiene	34	38	35	29
Food preparation	55	18	20	135
House cleaning	46	12	17	109
Caring for children	25	10	11	58
Work in garden	3	3	5	3
Manual work	3	2	3	6
Other house work	49	23	28	95
Work related activity	99	268	25	5
Religious activity	42	47	45	44
Commuting to work	31	89	0	0
Getting fuel	3	5	4	1
Car maintenance	3	5	5	0
Shopping	16	17	34	16
Phone calls	3	4	6	2
Internet (not work or school)	1	1	2	1
Commuting to school	3	0	0	0
Attending class	26	0	0	0
Homework and research	25	10	10	8
Watching television	179	155	248	166
Reading	7	5	7	3
Sports and hobbies	13	5	22	2
Social visits	55	54	125	44
Political activities	1	1	1	1
Other nonwork	41	32	73	35
<b>Total</b>	<b>1440</b>	<b>1440</b>	<b>1440</b>	<b>1440</b>

Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

**Table 3.1-5 Average per Household Monthly Expenditure for Main Groups at Price Paid, by Governorate (2011)**

Unit: Thousand Iraq Dinar

Items	Expenditure	Weight
Food stuffs and non-alcoholic beverages	367.35	33.2%
Alcoholic beverages tobacco & narcotics	6.41	0.6%
Clothing and footwear	86.03	7.8%
Dwellings, water, gas, electricity & other fuels	321.05	29.0%
Furnishings, household equipment and maintenance for house commodities	66.40	6.0%
Health	45.35	4.1%
Transport	101.12	9.1%
Communication	33.84	3.1%
Recreation and culture	20.86	1.9%
Education	7.39	0.7%
Rest.& hotels	10.99	1.0%
Miscellaneous commodities and services	39.84	3.6%
<b>Total Expenditure</b>	<b>1106.63</b>	<b>100.0%</b>

Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

A high rate of population growth has meant that the availability of housing is of particularly high importance and this has increased the demand for construction. In addition to rectifying the shortage of housing, the Iraqi government faces challenges in facilitating the improvement of housing conditions.

The NDP recognized that accompanying the need to improve the supply of housing in terms of the number of units and quality of housing, there was serious need to improve environmental conditions for the safety and quality of home life by provision of services such as the supply of drinking water and removal and treatment of wastewater and garbage. Table 3.1-6 shows proportions of persons who suffered from different adverse conditions of the home environment in 2007.

**Table 3.1-6 Adverse Conditions of the Home Environment (2007)**

Unit: %

Persons suffering from adverse condition in or near their homes	Percent
Smoke and gases	13.8
Dust	28.1
Foul odor	28.2
Noise	22.0
Insects and rodents	49.9
Garbage and dirt	36.1
Stagnant waters	56.4
Sewage outlets	36.3
Excessive dampness	39.0
Insufficient ventilation	15.1
Security risks	30.7
Insufficient light	28.2
Other	3.5

Source: Central Organization of Statistics and Information Technology, Ministry of Planning

## 3.2 Economic Environment and Activity of Japanese Firms

This section provides an overview of the economic environment and activities of Japanese companies in Iraq. Regarding the economic environment, production, budgets, international trade and investment are examined.

### 3.2.1 Economic overview

#### 3.2.1.1 Gross Domestic Product (GDP)

After sovereignty was transferred to the Iraqi Interim Government in June 2004, Iraq entered a steady process of reconstructing the society and rebuilding the economy. Security and business environment conditions have continued to improve and oil production and exports are recovering. As a result, more foreign investors are showing interest in expanding business in Iraq.

Though the international financial crisis hit the Iraqi economy in 2009, the economy has expanded steadily since 2004. Iraq's GDP in 2010 was three times as big as that of 2004. The rapid recovery of oil production and exports contributed to the rebuilding of the economy. According to a forecast by International Monetary Fund (IMF)<sup>3</sup>, this trend is expected to remain unchanged and the GDP will reach around US\$370 billion in 2018. Per capita GDP will be

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3 IMF (2013), "World Economic Outlook -April 2013"

around 9,185 USD in the same year.

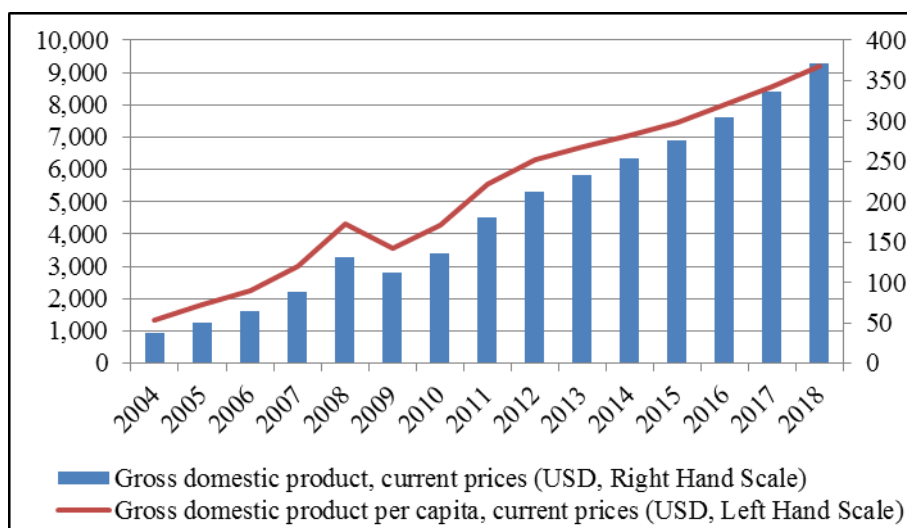
**Table 3.2-1 Iraqi GDP**

Unit: IQD

Year	GDP (Millions of IQD)	Per Capita GDP (IQD)
2003	29,585,789	1,123,227
2004	53,235,359	1,961,509
2005	73,533,599	2,629,675
2006	95,587,955	3,274,233
2007	111,455,813	3,754,986
2008	157,026,062	5,135,263
2009 (E)	139,330,211	4,423,686
2010 (E)	177,008,632	5,456,838

Note: IQD denotes Iraqi dinar

Source: Central Organization of Statistics and Information Technology, Ministry of Planning.



Note: Estimates after 2010.

Source: IMF.

**Figure 3.2-1 Iraq's GDP in US Dollars**

As shown in Table 3.2-2, compared with other emerging and developing countries in the world, the GDP growth rate of Iraq is much higher than most of them. The compound annual growth rate between 2013 and 2018 is estimated at around 8.5 %. As is explained below, future realities will largely depend on external factors, namely the oil market, and outcomes of policies taken by the Iraqi government to diversify the nation's economic activity.

From an Iraqi government perspective, high level of growth is necessary to create job opportunities especially for members of the young generation who will enter the job market in coming years. In the NDP, the Ministry of Planning had the objective of increasing the GDP by 9.4 % between 2010 and 2014 and to thereby generate 3 to 4.5 million new jobs. As the large young population continues to enter the labor market, it is assumed that this high growth rate is

necessary to keep unemployment from increasing and, as a result to keep Iraqi society stable. The current situation regarding labor in Iraq is reviewed in 4.2 in the current Report.

**Table 3.2-2 GDP Forecasts by Group (Constant Prices)**

Unit: Year to year percent change

	2012	2013	2014	2015	2016	2017	2018
<b>Iraq</b>	<b>8.4</b>	<b>9.0</b>	<b>8.4</b>	<b>8.3</b>	<b>9.0</b>	<b>8.5</b>	<b>8.3</b>
World	3.2	3.3	4.0	4.4	4.5	4.5	4.5
Advanced economies	1.2	1.2	2.2	2.6	2.6	2.6	2.5
Major advanced economies (G7)	1.4	1.3	2.2	2.5	2.5	2.5	2.3
Emerging and developing economies	5.1	5.3	5.7	6.0	6.1	6.1	6.2
Developing Asia	6.6	7.1	7.3	7.6	7.7	7.7	7.7

Source: IMF.

According to GDP statistics by sector, as shown in Table 3.2-3, the share of mining and quarrying was around 42 % in 2010; it is the largest contributor to GDP. Social and personal services, and transport, communication and storage followed it.

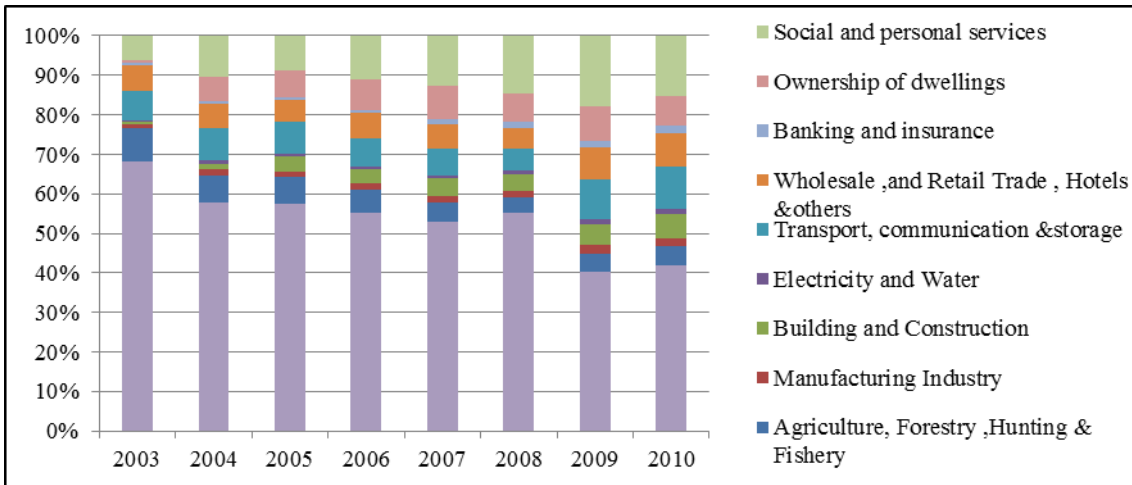
**Table 3.2-3 GDP by Sector (2010)**

Unit: Million Iraqi dinars

Activity	Value	Share, percent
Agriculture, forestry, hunting & fishery	8,657,391	4.9%
Mining and quarrying	74,357,162	41.8%
Manufacturing industry	3,916,565	2.2%
Building and construction	11,061,618	6.2%
Electricity and water	1,979,847	1.1%
Transport, communication & storage	19,415,249	10.9%
Wholesale and retail trade, hotels & others	14,940,165	8.4%
Banking and insurance	3,203,986	1.8%
Ownership of dwellings	13,106,653	7.4%
Social and personal services	27,459,352	15.4%
Total by activity	178,097,987	
Less imputed bank service charge	1,089,355	
<b>GDP</b>	<b>177,008,632</b>	

Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

Though the oil production and export increase, as shown in the following figure, the share of mining and quarrying has gradually decreased. In keeping with the improvement of security and restructuring of society, the shares of social and personal services and building and construction have increased. At the same time, the share of manufacturing industry has remained small and unchanged. The necessity of diversification of the economic activity has been recognized in the government sector since long ago. However, the situation has not changed very much.

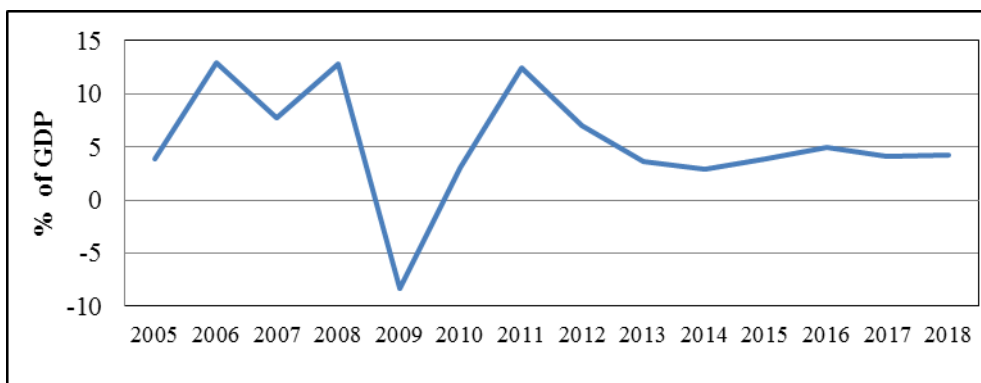


Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

**Figure 3.2-2 Shares of GDP by Sector**

### 3.2.1.2 Current account balance and budget balance

The current account balance has been in surplus in recent years except in 2009, thanks to increases in oil production and exports. According to an IMF forecast<sup>4</sup>, the balance is expected to record surpluses in the coming years. However, the future of the current account balance depends largely on the production of oil and its price in the world market. This is examined in section 3.2.1.3.



Note: Estimates after 2010.  
Source: IMF.

**Figure 3.2-3 Current Account Balance**

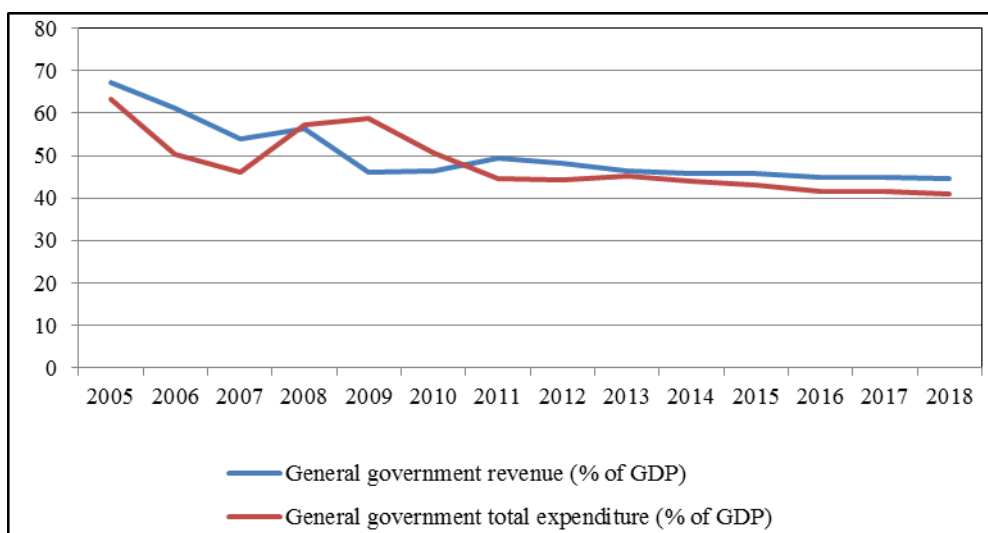
The main source of activity in the Iraqi economy is the Iraqi government itself. General

4 IMF (2013), "World Economic Outlook -April 2013"

government revenue was around 50 % of its GDP in 2010, and the largest part of the revenue comes from the value of the crude oil exported. In short, the Iraqi economy relies heavily on oil to fund the state’s budget. The oil revenue is distributed to Iraq people through the budget mechanism controlled by the Iraqi government. Hence, any decrease in the growth rate of oil export and volatility in oil price places the economy at risk.

In addition to the risk represented by oil exports, risk also exists in the public sector. Without improvement of the institutional framework, there is a risk of under-execution of the capital budget planned by the cabinet. The importance of public administration and management is recognized by the government and donors. For example, the IMF has commented as follows<sup>5</sup>.

“With regard to the fiscal sector, the budget must be managed carefully to maintain macroeconomic stability, meet Iraq’s large social and investment needs while continuing to accumulate buffers to address oil market volatility, and ensure medium-term fiscal sustainability. At the same time, Iraq needs to strengthen fiscal institutions and public financial management to make sure that the large oil revenues are used effectively and transparently.”



Note: Estimates after 2010.  
Source: IMF.

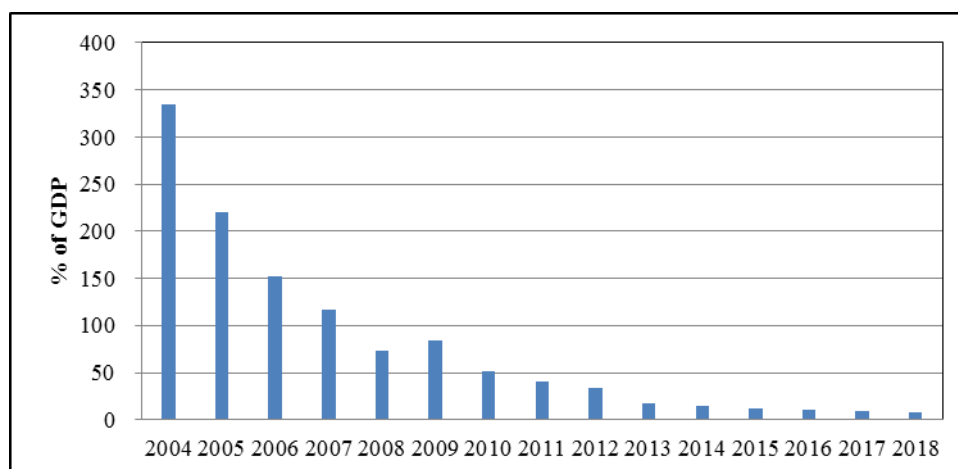
**Figure 3.2-4 General Government Revenue and Expenditure**

The continuation of budget surpluses is decreasing the general government debt. In the meantime, the foreign currency reserves held by the Central Bank of Iraq are increasing. This increase is a factor adding stability to the exchange rate and inflation rate. Since January 2008, the exchange rate has been stable, currently standing at 1166 Iraqi dinar<sup>6</sup> (IQD)/USD. The IMF<sup>7</sup>

5 IMF, Article IV Discussions with Iraq Material, <http://www.imf.org/external/np/sec/pr/2013/pr1387.htm> (accessed 20 April 2013)

6 Central Bank of Iraq’s indicative rate on May 2, 2013

forecasts that the inflation rate will be stable at around 4 % in coming years.



Note: Estimates after 2010

Source: IMF

**Figure 3.2-5 General Government Gross Debt**

### 3.2.1.3 Oil sector

Iraq produced 3.12 million barrels per day in the fourth quarter of 2012. Iraq is now the second largest producer of crude oil in Organization of Petroleum Exporting Countries (OPEC) after Saudi Arabia which produced around 10 million barrels per day in the same quarter. As for oil reserves, the Iraqi government announced in 2010 an increase in proven oil reserves in its territory from 115 billion barrels to 143 billion barrels<sup>8</sup>. This placed Iraq in the second place in the world behind Saudi Arabia in terms of the size of proven reserves of crude oil.

According to the IMF, oil production in 2017 will be 12.20 million barrels per day in the best-case scenario. In the conservative-case scenario, the production is expected to be around 5.35 million barrels per day in the same year. As long as the price remains stable, the budgetary deficit will not be an issue for the Iraqi government.

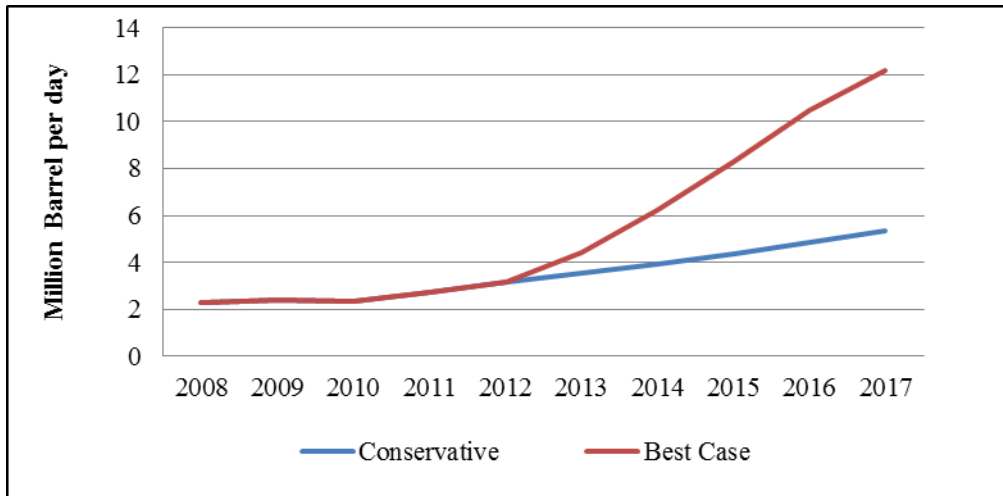
Considering the fact that the total demand of crude oil of the world is 90.6 million barrels per day<sup>9</sup> in 2013, Iraq will be more influential in regard to the demand-and-supply condition of the market in coming years.

7 IMF (2013), "World Economic Outlook -April 2013".

8 IMF (2011), "Iraq: Second Review Under the Standby Arrangement, Requests for Waiver of Applicability, Extension of the Arrangement, and Rephasing of Access - Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Iraq".

9 International Energy Agency (2013), "Oil Market Report".





Note: Estimates after 2013.

Source: IMF.

**Figure 3.2-6 Crude Oil Production Scenarios**

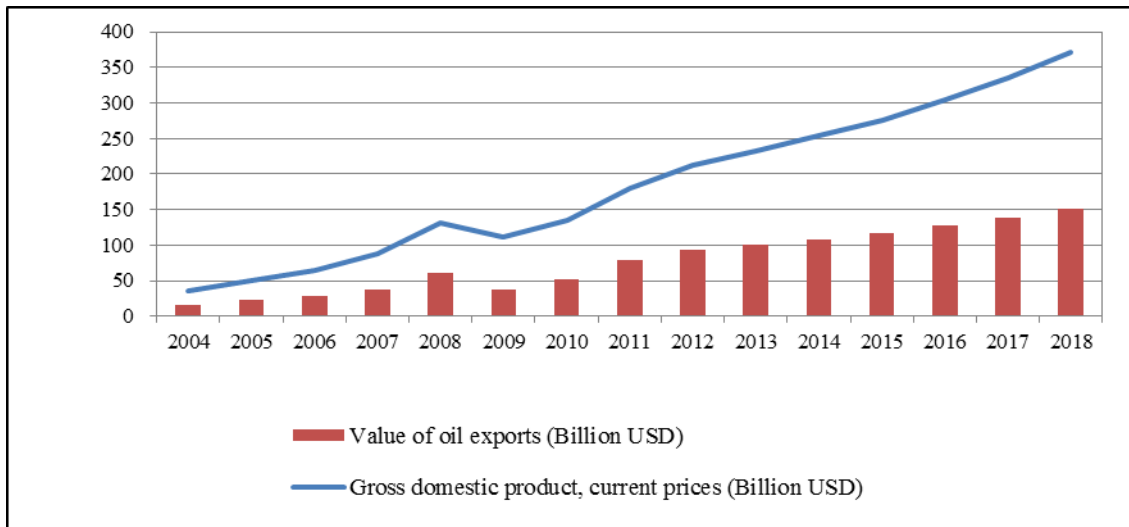
In the long run, Iraq will achieve higher production levels. However, there are several bottlenecks in the export infrastructure that have to be addressed. According to a report of the IMF<sup>10</sup>, the following are objectives of investments that are planned as means to increase oil exports.

- Additional single point moorings and additional pipelines to the Basra oil terminal which is the largest point of export
- Construction of new domestic pipelines to connect the southern fields to the northern pipeline to Turkey, and a new pipeline to Syria.
- The construction of desalination plants to produce water for injection in the fields, and storage facilities.

As is explained above, the Iraq economy depends on development of the oil sector. The improvement of export facilities is a key to enable sustained economic development.

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10 IMF (2011), "Iraq: Second Review Under the Stand- By Arrangement, Requests for Waiver of Applicability, Extension of the Arrangement, and Rephasing of Access - Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Iraq"



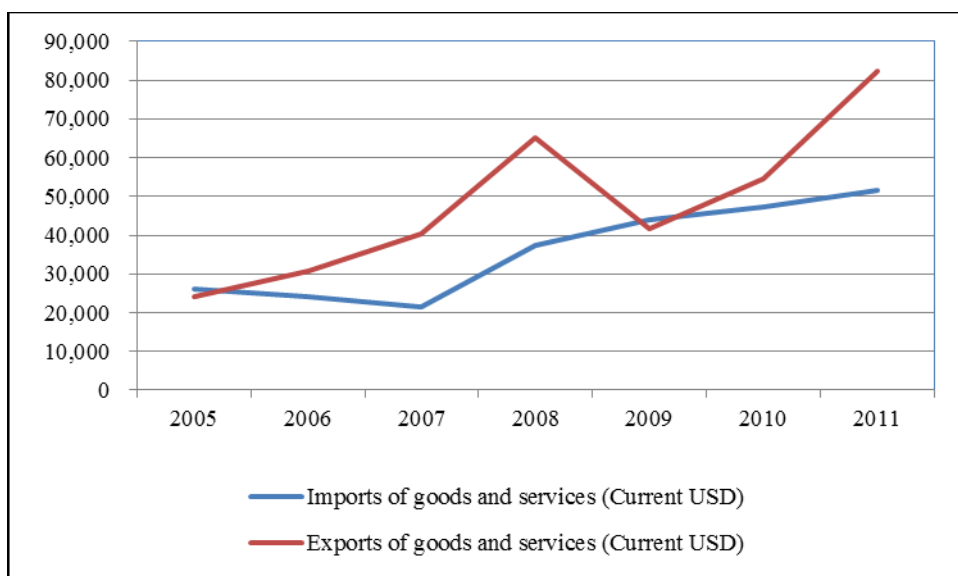
Note: Estimates after 2013.

Source: IMF.

**Figure 3.2-7 GDP and Oil Export**

### 3.2.2 International trade

Both exports and imports increase in tandem with the continuous expansion of the economy. After the financial crisis hit, exports in 2009 shrank drastically. However, exports recovered quickly after a one-year dip. Imports have increased as domestic demand has steadily increased.



Source: World Bank.

**Figure 3.2-8 Exports and Imports**

Iraq has increased exports to India rapidly. India has become one of the biggest trading export markets for Iraq. The United States, also an important market for Iraqi products, in 2011 imported from Iraq as much as India did; each country imported Iraqi products amounting to USD16 billion. China and Korea follow these two countries. The value of import from Iraq by China was around 9 billion USD in 2011, and Korea imported 8 billion. Japan is ranked in the fifth position after Korea and imported Iraqi products with a value of 3 billion USD.

As for imports, the shares of two neighboring countries, Turkey and Syria, are large. Turkey exported 9 billion USD of its products in 2011. Syria exported around 7 billion USD in the same year. China, the United States and Korea follow these two countries. The rates of increase of imports from China and Korea have been rapid. Imports from Japan are gradually increasing while they are still very small compared with those of Asian countries and they ranked 16<sup>th</sup>.

**Table 3.2-4 Trading Partners**

Exports

Unit: Millions of US Dollars

	2005	2006	2007	2008	2009	2010	2011
India	2	3,768	5,912	8,730	5,310	6,638	15,932
United States	8,770	11,119	10,813	20,974	8,836	11,476	15,786
China, P.R.: Mainland	378	594	693	1,255	2,979	5,697	9,467
Korea	614	823	2,800	3,843	3,466	4,025	8,306
Japan	402	940	992	1,367	1,277	3,115	3,374
Netherlands	294	535	1,234	1,604	1,321	1,496	3,027
Italy	1,834	2,537	3,698	5,306	3,239	3,242	2,617
Spain	1,112	1,479	1,528	1,693	1,025	984	2,521
Canada	995	1,475	1,396	2,155	1,128	1,862	2,479
France	469	831	1,283	2,015	1,076	1,198	1,065
Syrian Arab Republic	488	584	689	902	613	803	1,036
Morocco	57	4	7	433	585	646	1,021
Brazil	523	597	272	1,186	800	739	898
Taiwan, Province of China	666	797	1,861	1,993	1,794	1,754	868
Greece	31	-	52	33	630	809	749
Austria	-	52	463	1,016	540	105	580
Germany	2	13	52	181	107	190	454
Jordan	25	7	11	66	150	212	282
Thailand	209	300	57	8	17	-	84
Turkey	417	342	586	1,201	866	1,231	79

## Imports

Unit: Millions of US Dollars

	2005	2006	2007	2008	2009	2010	2011
Turkey	3,023	2,848	3,093	4,308	5,636	6,640	9,141
Syrian Arab Republic	3,114	3,729	4,398	5,759	3,915	5,129	6,616
China,	449	540	755	1,319	2,021	3,960	4,213
United States	1,509	1,643	1,732	2,335	1,952	1,811	2,674
Korea	75	120	231	405	863	1,321	1,687
Germany	378	504	482	490	926	992	1,302
Jordan	809	698	784	890	941	1,004	1,108
France	290	186	301	272	643	483	762
Italy	398	180	144	328	898	648	743
India	165	211	280	496	521	763	738
Thailand	157	219	223	470	316	498	738
Ukraine	85	46	32	157	260	380	671
Egypt	62	51	54	381	423	459	488
Brazil	55	174	99	117	266	317	440
Australia	240	101	9	155	253	81	436
Japan	143	219	133	227	347	341	375
Netherlands	83	70	77	134	239	308	371
Lebanon	60	74	162	296	298	294	338
Oman	44	44	63	253	172	225	290
United Kingdom	252	155	267	294	232	276	274

Source: IMF.

As shown in Table 3.2-5, in 2008, 99 % of total exports from Iraq were accounted for by crude oil, while Iraq's oil product imports accounted for 9 % of total imports. Though the detailed data are lacking, judging from investment data, machinery and equipment have a big portion in imports. Investment data is examined in section 3.1.3.

With regard to the outlook for change in the value of imported oil products, it is appropriate to examine the possibility of increases in the capacity of refining in Iraq. According to a report issued by National Investment Commission<sup>11</sup>, though 10 refineries exist on paper, only three are operating. The Ministry of Oil planned to increase its refinery capacity by 150% in 10 years by 2017, seeking 15 to 20 billion USD investments for the construction of four new refineries and sizeable expansions to the existing facilities.

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<sup>11</sup> National Investment Commission (2009), "Investment Overview of Iraq"

**Table 3.2-5 Trade by Commodity**

## Exports

Commodity	2008	
	Value (Millions of IQD)	Value (Millions of US\$)
Crude oil	48,355,866	41,330
Oil products		
Regular fuel oil	379,548	324
Naphtha	702	1
Distillation residues	0	0
Total oil products	380,250	325
Commodity exports	164,326	137
Total Exports	48,900,442	41,792

## Imports

Commodity	2008	
	Value (Millions of IQD)	Value (Millions of US\$)
Oil product imports		
LPG	185,100	158
Gasoline	1,107,408	947
Kerosene	39,674	34
Gasoil	507,968	434
Total oil product imports	1,840,150	1,573
Total imports	20,217,192	17,279

Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

**3.2.3 Investment****3.2.3.1 Domestic investment**

In keeping with recovery of the economy, fixed capital formation has grown. The public sector leads in this change and the contribution of the private sector remains low.

The public sector contributed to almost 90 % of gross fixed capital formation in Iraq in 2009. Private sector investment activity is still at a low level.

The Iraqi government recognizes the role of the private sector in increasing the job opportunities especially for the young generation. The NDP states that one of the objectives of the plan is to “strengthen the role of the domestic and foreign private sectors, either in terms of the magnitude of investment anticipated within the country, estimated at about 46 %, or in terms of job opportunities.”

**Table 3.2-6 Gross Fixed Capital Formation by Public and Private Sectors at Current Prices**

Unit: Million Iraqi dinars

Year	Public Sector	Private Sector	Total
2000	1,314,915	150,338	1,465,253
2001	2,305,426	226,015	2,531,441
2002	1,797,425	401,652	2,199,077
2004	2,487,718	370,089	2,857,807
2005	9,743,477	438,885	10,182,362
2006	16,013,395	897,759	16,911,155
2007	6,861,040	669,365	7,530,404
2008	22,455,103	785,436	23,240,539
2009*	13,880,745	1,069,497	14,950,242

Note: Estimate for 2009

Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

As is explained earlier in this section, the Iraqi government plays a particularly important role in the economy. The revenue of the oil sector is distributed to other sectors through the budget mechanism. As can be seen in Table 3.2-7 which illustrates the distribution of the GDP, almost half of the value of GDP was the operating surplus in the mining and quarrying sector in 2008.

**Table 3.2-7 Functional Distribution of Gross Domestic Product by Economic Activities at Current 2008 Prices**

Unit: Million Iraqi dinars

Activities	Compensation of Employees	Operating Surplus	Total
Agriculture , forestry, hunting & fisheries	2,063,966	3,978,052	6,042,018
Mining and quarrying	690,837	86,830,364	87,521,201
Manufacturing industry	1,580,077	1,064,096	2,644,173
Building and construction	1,493,102	350,577	1,843,678
Electricity and water	3,692,141	2,893,678	6,585,819
Transport, communication and storage	2,793,648	5,779,958	8,573,606
Wholesale & Retail trade; hotels; others	746,554	7,646,003	8,392,556
Banking and insurance	243,400	2,159,403	2,402,803
Ownership of dwellings	0	11,026,981	11,026,981
Social and personal services	21,097,063	2,313,686	23,410,748
<b>Total</b>	<b>34,400,786</b>	<b>124,042,798</b>	<b>158,443,584</b>
<b>Shares</b>	<b>21.7%</b>	<b>78.3%</b>	

Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

In addition to improving the efficiency and transparency of public-sector financial

management, promoting a greater role of the private sector in the economy is also important. In the NDP<sup>12</sup>, the challenges facing the private sector in Iraq were identified as follows.

- Absence of a suitable investment environment.
- Lack of clarity on the private sector's role in effective development.
- Overly complex government procedures on the business front.
- Shortage of laws and regulations that activate the private sector's role in economic activities.
- Shortage of the specialized banking system's credit capabilities.
- The Iraqi stock market lags behind and is far removed from developed financial rules and principles adopted internationally.
- Increases in interest rates.
- Reliance on state protection and support systems as opposed to competition.
- Economic reform programs lack the necessary economic financial, legal and administrative measures.
- Inadequate infrastructure and basic services for the private sectors.
- The private sector's inadequate knowledge, information and technology.

To address the issues listed above, the NDP proposed the following policies to increase the private sector's activity.

- An economic policy that has a clear vision and goals, is founded on building the economy by defining, describing, and distributing roles between the private and public sector, and does so in a manner that ensures gradual transition to a market economy at the lowest cost.
- A tax policy that enhances the private sector's role in economic activities and supports its economic and financial roles through tax incentives, rates and the scope of deductions.
- An investment policy that makes infrastructure and basic services a strategic goal (electricity, water, fuel), supports the effectiveness of private investment, and enhances access to foreign investments in the economic arena.
- A national employment policy whose objectives are defined based on a vision of the private sector as a generator of employment opportunities and a supporter of sustainable growth.
- A fiscal policy supportive of the principle of competition for private sector activities (the private industry sector), particularly as regards social security systems, as well as labor rights and wages in the private sector
- An enhanced production policy aimed at diversifying the production infrastructure through the private sector

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12 Ministry of Planning (2010), "National Development Plan for the Years 2010-2014", pp. 172

- An economically efficient credit policy that seeks to grant concessionary credit to the private sector at attractive interest rates to support productivity goals (agriculture, industry and tourism)
- Development of the Iraqi stock market so it embodies a proper and technologically advanced foundation based on international standards for financial service provision; enhances the prestige of Iraqi investors; and secures their international financial dealings in a modern dynamic manner.

**Table 3.2-8 Gross Fixed Capital Formation by Economic Activities**

Unit: Million Iraq dinars

Activities	2004	2005	2006	2007	2008	2009*
Agriculture, forestry, hunting & fisheries	18,268	214,248	666,771	17,639	54,300	7,793
Mining and quarrying	451,696	2,402,588	2,641,465	191,584	148,559	101,438
Manufacturing industry	197,086	66,003	3,218,392	189,468	269,942	382,852
Building & construction	92,473	117,104	35,331	7,866	7,412	102,646
Electricity and water	1,368,936	1,950,984	4,163,628	1,422,241	1,284,435	517,901
Transport, communication & storage	44,156	830,696	1,115,468	104,559	250,774	131,427
Wholesale and retail trade; ,hotels; Others	31,425	140,471	117,106	101,143	73,860	514,979
Banking and insurance	29,605	76,836	107,327	77,694	131,719	281,517
Ownership of dwellings	220,133	352,809	771,083	504,319	574,924	810,314
Social and personal services	404,030	4,030,623	4,074,581	4,913,892	20,444,613	12,099,375
<b>Total</b>	<b>2,857,807</b>	<b>10,182,362</b>	<b>16,911,155</b>	<b>7,530,404</b>	<b>23,240,539</b>	<b>14,950,242</b>

Note: Estimate for 2009

Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

As shown in Table 3.2-8, social and personal services accounted for almost 90 % of gross fixed capital formation in 2009.

According to a report issued by the NIC<sup>13</sup>, the government of Iraq increased its budget allocation to the Ministry of Health from approximately 16 million USD in 2001 to roughly 4 billion USD in 2009, suggesting a fundamental shift in the government priority to healthcare.

In connection with social and personal services, housing is an important sector. The report estimates that, as the population grows and refugees return, the housing shortfall will become more serious.

13 National Investment Commission (2009), "Investment Overview of Iraq"



**Table 3.2-9 Gross Fixed Capital Formation by Type of Assets**

Unit: Million Iraqi dinars

	2004	2005	2006	2007	2008	2009*
Building	492,754	3,462,687	3,444,575	2,556,482	5,603,250	5,150,376
Other constructions and works	315,564	2,735,677	3,035,607	1,705,070	6,032,709	2,422,228
Machines and equipment	1,564,107	2,046,437	5,941,359	2,393,882	9,189,463	5,554,081
Furniture and fixtures	287,724	831,584	1,299,907	154,015	447,527	257,110
Transportation vehicle	174,409	861,716	2,270,268	699,929	1,912,487	1,424,626
Plants and livestock	9,148	39,069	94,740	1,894	7,001	7,440
Other assets	14,102	205,193	824,699	19,134	48,102	134,381
<b>Grand Total</b>	<b>2,857,807</b>	<b>10,182,362</b>	<b>16,911,155</b>	<b>7,530,404</b>	<b>23,240,539</b>	<b>14,950,242</b>

Note: Estimate for 2009.

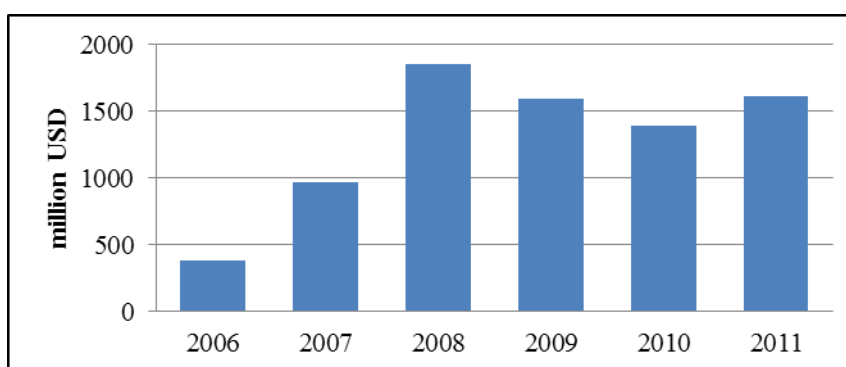
Source: Central Organization of Statistics and Information Technology, Ministry of Planning.

### 3.2.3.2 Foreign investment

Accompanying progress in economic and social recovery, foreign investors are becoming more interested in investing in Iraq. In 2011, the total value of foreign direct investment (FDI) was around 1,500 million USD. Although the presence of Japan is limited, an upward trend of FDI is observed.

According to a report issued by Dunia Frontier Consultants<sup>14</sup>, the total amount of foreign commercial activity in 2011 was 55.67 billion USD. Particularly high growth has continued for four consecutive years since 2008. The amount of increase averaged 13.24 billion USD a year since 2008. “Foreign commercial activity” includes investments, service contracts and other revenue-generating activities that involve foreign-domiciled firms operating in Iraq.

In the meantime, the outflow of investment from Iraq is quite small. The outflow of investment could play important role for the Iraqi economy as explained in Box 3-1.



Source: UN

**Figure 3.2-9 Foreign Direct Investment (million USD)**

14 Dunia Frontier Consultants, "Foreign Commercial Activity in Iraq 2011 Year in Review"

**BOX 3.2-1: FDI Outflow from Iraq and Business Activities of Iraqi-owned Companies Abroad**

The value of FDI outflow from Iraq remains low compared to the FDI inflow and domestic investment. According to the United Nations Conference on Trade and Development (UNCTAD<sup>15</sup>), the annual FDI outflow from Iraq from 2006 to 2011 ranged between 8 million US dollars in 2007 and 305 million US dollars in 2011; the annual average was 103.5 million US dollars. There was no FDI outflow recorded between 2003 and 2005 during which damage from the Iraqi War was still enormous. These figures suggest that Iraq's capital mobilization is predominantly limited to being inside the country.

In the meantime, there are a number of Iraqis residing outside Iraq, especially in neighboring countries. For example, the United Nations High Commissioner for Refugees (UNHCR<sup>16</sup>) estimates that there are about 450,000 Iraqi refugees in Jordan as of January 2013; 14,000 in Turkey, and 8,000 in Lebanon. There also are non-refugee residents in these countries. Not a few of these Iraqis have been able to mobilize capital to form and operate their own businesses. They are able to take advantage of their business network in Iraq and knowledge and know-how of business indigenous to it, thus making active investments in and business with their home country.

In Jordan, Iraqis who own and run the businesses in the country set up a council called "Iraqi Business Council in Jordan (IBC)" in order partly to promote trade and investment between Jordan and Iraq and develop the private sector in the latter. IBC has around 200 members from various industrial sectors, with 2,800 companies affiliated with them, in many countries including Iraq. According to the IBC, the main market for Iraqi-owned companies in Jordan used to be in Iraq, or they were concerned with exporting to the Iraq market; however, these companies, since the end of the Iraq War in 2003, have been diversifying their markets into domestic markets in Jordan as well as export markets in other countries. Similar councils also exist in Lebanon, Turkey and the United Arab Emirates (UAE).

To attract more investment from abroad, improvement in the business environment is essential. According to the World Bank, the scores given to the business environment of Iraq are low. According to the Bank's report<sup>17</sup>, Iraq was ranked 165 in the ease of doing business among 185 economies for 2013, after it had ranked 163 in 2012. Major indicators related to business environment are listed in Table 3.2-10.

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15. UNCTAD, "World Investment Report", various years

16 UNHCR website, "Where we work", <http://www.unhcr.org/pages/49c3646c206.html> (accessed 13 April 2013)

17 World Bank, "Doing Business 2013"

**Table 3-2-10 Business Environments in Iraq**

	2012	2013
<i>Doing Business Ranking among 185 economies</i>	163	165
<i>Major Indicators</i>		
Time required to get electricity (days)	47	47
Cost to export (US\$ per container)	3,550	3,550
Documents to export (number)	10	10
Time to export (days)	80	80
Cost to import (US\$ per container)	3,650	3,650
Documents to import (number)	10	10
Time to import (days)	82	82
Strength of legal rights index (0=weak to 10=strong)	3	3
Time required to enforce a contract (days)	520	520
Procedures to enforce a contract (number)	51	51
Time required to register property (days)	51	51
Procedures to register property (number)	5	5
Cost of business start-up procedures (% of GNI per capita)	81.1	81.1
Time required to start a business (days)	74	74
Start-up procedures to register a business (number)	10	10
Time to prepare and pay taxes (hours)	312	312

Source: World Bank "Doing Business 2013".

### 3.2.4 Overview of economy in Kurdistan Region

The information and data provided above cover the whole area of Iraq. In the meantime, the Kurdistan Regional Government has its own statistics office, thereby collecting, compiling and providing information and data of the region. This section gives a brief overview of economy in the Kurdistan Region by referring to the data provided by the Kurdistan Region Statistics Office, subject to data availability.

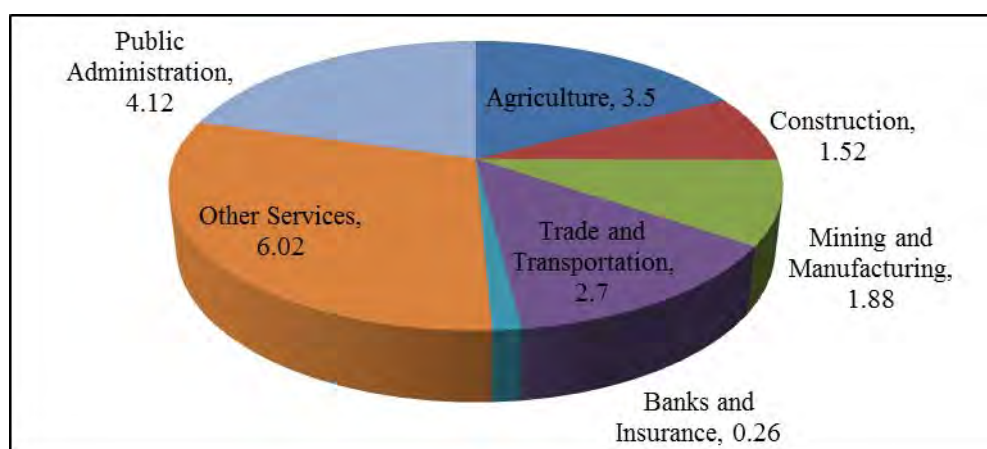
#### (1) GDP

GDP of the Kurdistan Region in 2011 was 20 billion USD and Per Capita GDP was 3,773 USD. The two biggest sectors contributing to the GDP were "Other services" and "Public Administration". The share of these two sectors accounted for 50.7% of the total.

**Table 3.2-11 Estimation of GDP in Kurdistan Region (2011)**

Item	Figure
GDP (billion USD)	20.0
GNI (billion USD)	28.8
Per Capita GDP (USD)	3,773
Per Capita GNI (USD)	5,433

Source: Kurdistan Region Statistics Office



Source: Kurdistan Region Statistics Office

**Figure 3.2-10 Sector-wise GDP in Kurdistan Region**

(2) Unemployment rate

The unemployment rate among the population of age 15 and above was 6.0% in 2010. By education status, the unemployment rate of “Secondary and Lower” was 43.1 %.

**Table 3.2-12 Unemployment Rate in Kurdistan Region**

Region	Unemployment Rate
<b>Kurdistan Region</b>	<b>6.0</b>
Erbil	4.0
Sulaymanya	7.4
Duhok	6.4

Source: Kurdistan Region Statistics Office

**Table 3.2-13 Unemployment Rate in Kurdistan Region by Education Status**

Unit: %

	Illiterate	Secondary and lower	Institute and Higher	Other
Erbil	37.4	48.7	12.9	1.0
Sulaymanya	37.8	47.5	14.2	0.6
Duhok	51.7	27.1	21.2	0.0
<b>Kurdistan Region Total</b>	<b>40.9</b>	<b>43.1</b>	<b>15.5</b>	<b>0.5</b>

Source: Kurdistan Region Statistics Office

### (3) Personal expenditure

The total expenditure of individuals in the Kurdistan Region was 269.9 thousands Iraqi dinars per month in 2011. In terms of items for the expenditure, “Soft drinking” and “Dwelling, Water, Gas, Power and Other Fuels” are the two biggest. The two accounted for 55.8% of the total.

**Table 3.2-14 Distribution of Expenditures among Various Items in Kurdistan Region (2011)**

Unit: %

Items for Expenditure	Kurdistan Total
Goods and other services	3.5
Restaurant and Hotels	0.9
Education	0.7
Feast, Mourning, Culture	2.4
Communication	3.0
Transportation	12.9
Health	4.5
Furniture and Maintenance	7.4
Dwelling, Water, Gas, Power and Other Fuels	25.0
Clothes and Shoes	8.4
Alcohol Drinking	0.4
Soft Drinking	30.8

Source: Kurdistan Region Statistics Office

### 3.2.5 Business of Japanese companies with and in Iraq

Current business activities of Japanese companies with and in Iraq are generally characterized as being trade-oriented and service-oriented, and on a project basis with the government as the client. In keeping with improvement in the security situation in Iraq, Japanese companies are beginning to gear up for Iraq business. As mentioned below, there have emerged the cases in

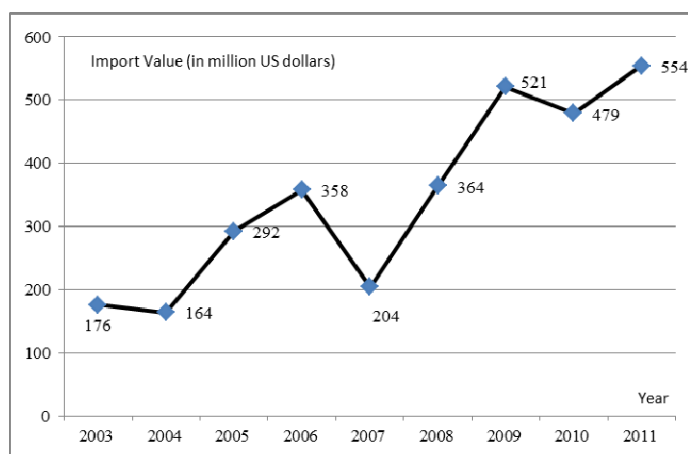
which Japanese companies have established offices in Iraq and have been awarded business contracts from the Iraqi government.

(1) Direct investment

Although official statistics are not available, the value of Japan's FDI outflow to Iraq is perceived to be very low. This is not only because business of Japanese companies with and in Iraq still remains at a moderate level, but because Japanese companies are usually involved in Iraq business without commitment of capital. They are mostly involved in the business in the form of trading through agents in Iraq or its neighboring countries, provision of services, particularly engineering services, or business activities through representative offices or branch. There are some cases in which a Japanese company holds a share in a joint venture with a foreign company for a specific project in Iraq; however such a case is still rare and found only on a project-by-project basis.

(2) Trade

On the other hand, imports of Iraq from Japan have been on an upward trend. According to UNCTAD, the value of Iraq's merchandise imports from Japan in 2011 amounted to 554 million US dollars, of which 82.5% was of machinery and transport equipment. The value stood at 176 million US dollars in 2003 when the Iraqi War took place, indicating a three-fold increase in eight years. Figure 3.2-11 presents time series changes in value of Iraq's merchandise imports from Japan.



Source: UNCTAD, UNCTADSTAT

**Figure 3.2-11 Merchandise Imports of Iraq from Japan (2003-2011)**

(3) Establishment of offices and Japanese expatriates

The Japan Cooperation Center for the Middle East (JCCME), an independent, non-profit

foundation authorized and supervised by the Japanese Ministry of Economy, Trade and Industry, confirms that there were fifteen offices of eleven Japanese companies established in Iraq as of August 28, 2012; ten in Baghdad, four in Basra, and one in Erbil<sup>18</sup>. Japanese nationals are, however, usually not stationed in these offices on a regular basis due largely to security concerns. The number of Japanese expatriates in Iraq is not publicly known, as the Ministry of Foreign Affairs of Japan does not disclose the data in due consideration that to do so may cause an insecure situation for the expatriates in the country.

#### (4) Business development

Table 3.2-15 summarizes cases of recent business development by Japanese companies in Iraq. Information in the table has been compiled by JCCME and the Japan External Trade Organization (JETRO) based on public announcements of the respective companies and press reports.

**Table 3.2-15 Recent Japanese Business Developments with/in Iraq**

Company	Field	Outline	Announced in
SHIMADZU Corporation	Health care	A contract awarded from Ministry of Health to install 133 medical X-ray units at public hospitals	January 2013
Hitachi Plant Technologies Ltd., and Sumitomo Corporation	Oil, Water	An MOU with South Oil Company regarding water treatment system for oil production	June 2012
Toyota Tsusho Corporation	Power	A contract awarded from Ministry of Electricity for development of 24 new substations	June 2012
INPEX Corporation	Oil	A successful bid with Lukoil in the fourth licensing round to win Block 10 in south Iraq	May 2012
Toyo Engineering Corporation	Oil	A general engineering service agreement with South Oil Company	April 2012
KUBOTA Corporation	Agriculture, Water	A contract awarded from Ministry of Water Resources to replace pumps for irrigation.	February 2012
JGC Corporation	Power	A contract awarded from Ministry of Electricity to renovate cooling water facilities at a thermal power plant in Nassiriyah in south Iraq	February 2012
Mitsubishi Corporation	Gas	A joint venture agreement with South Gas Company and Royal Dutch Shell Plc for a project known as Basra Gas Co. to capture gas from oil fields	November 2011
Chiyoda Corporation	Oil	A contract awarded from North Refineries Company for replacement work for furnaces at the North Refinery in Baiji	November 2011

Source: Public announcements of each company and press reports compiled by JCCME and JETRO

18 JCCME, Presentation Material, [http://www.jccme.or.jp/japanese/seminar/pdf/28\\_1020\\_3.pdf](http://www.jccme.or.jp/japanese/seminar/pdf/28_1020_3.pdf) (accessed 10 April 2013)

### 3.3 Infrastructure

This section reviews the current state of infrastructure development in Iraq including the free trade zones.

#### 3.3.1 Infrastructure in Iraq

The NDP 2010-2014 identified several development plans for the Iraqi economy, with concrete objectives. To achieve these objectives, the NDP estimates that the investment required will be around 218 trillion Iraqi dinars, i.e., US\$186 billion, during 2010-2014. In the required investments, that for infrastructure, including electricity and water projects and transportation projects is remarkable as shown in the following table.

**Table 3.3-1 Distribution of Anticipated Investments of the 2010-2014 Development Plan**

Category	Percent
Agricultural Sector	9.5%
Industrial Sector	30.0%
Oil	15.0%
Electricity	10.0%
Conversion Industries	5.0%
Transportation and Communication Sector	9.0%
Construction and Services Sector	17.0%
Education Sector	5.0%
Regional Development	12.5%
Kuedistan Region	17.0%
Total	100.0%

Source: NDP 2010-2014, Ministry of Planning

After the NDP was published, the Iraqi government made a number of announcements that it intended to focus on infrastructure, especially by electricity-related investments. The 2012 budget highlights this focus. The US\$100 billion budget for the infrastructure investment was 21% larger than that of 2011, and included investment in electricity projects that increased by 31% to US\$5.6 billion.

Budget allocations for infrastructure are expected to continue to be strong. The announcement of a US\$250-275 billion investment plan for infrastructure to take place between 2013 and 2017 was made in September 2012 by the Iraqi government.



### 3.3.1.1 Electricity

#### (1) Current status of power demand and supply

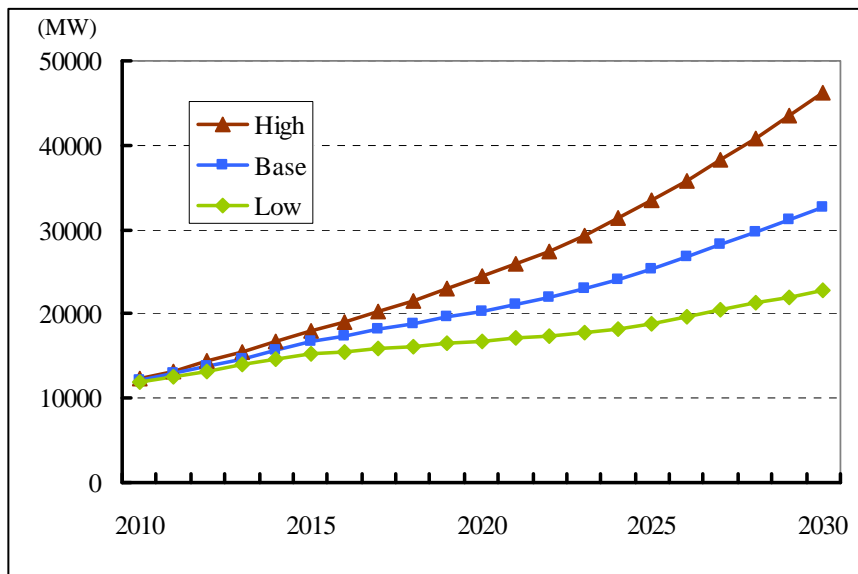
In December, 2010, the final report on the Iraqi Power Development Master Plan was released by Parsons Brinckerhoff (PB), consultant to the Ministry of Electricity (MOE). The Master Plan (hereinafter referred to as “MP2010”) gives the power demand forecast and power development plan as follows.

#### 1) Current status of power demand and supply

Power demand in 2010 is expected to reach approximately 12,000MW assuming Iraqi power system is developed as planned. Meanwhile, the installed capacity in 2010 was only 9,700MW including 700MW of the electricity imported from Iran. However, the reliable installed capacity could be lower than 9,000MW due to the problem of the high forced outage rate in Iraqi system. Therefore, Loss of Load Probability (LOLP) is likely to be 72%. It means that load shedding has frequently occurred – in 6,300 hours of the 8,760 hours in a year.

#### 2) Power demand forecast

In the MP2010, 7% GDP growth and, accordingly, a huge power demand, are expected even after 2011 as shown in the figure below.



Source: JICA Report of Preparatory Study for Development of Southern Large Scale Thermal Power Plant in the Republic of Iraq prepared based on MP2010

**Figure 3.3.1 Demand Forecast of Electricity in Iraq**

In Base Case, electricity demand increases by 20,000MW in 20 years. This means that the power demand increases 1,000MW every year.

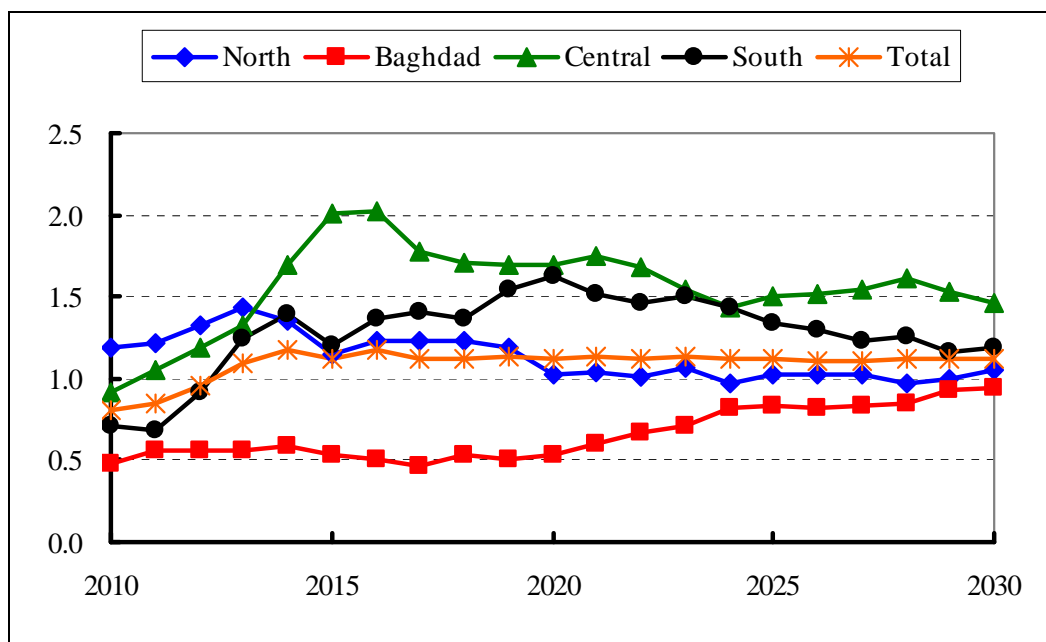
### 3) Power development plan

The principle points in the Iraqi Power Development in MP2010 are:

- The target LOLP is 0.3% to ensure reliable power supply in future. This is equivalent to 26 hours a year as the Loss of Load Expectation (LOLE) figure.
- Short term development of simple cycle gas turbine (GT) power generating plants is urgent to eliminate power shortages such as seen recently. These power plants should be fueled by utilizable resources nearby for the short term regardless of fuel type and cost effectiveness.
- In subsequent years the fuel used should be converted to gas in consideration of cost effectiveness, by developing gas pipeline systems.
- Since the simple cycle GT power plant is low in thermal efficiency, upgrading to a combined cycle GT power plant is planned; this would be by adding a steam turbine to the existing two gas turbines in order to improve its thermal efficiency.

#### (2) Regional power demand and supply

Assuming the future power demand in each region is increased, demand-supply balance in each region and year is expected as below.



Source: JICA Report of Preparatory Study for Development of Southern Large Scale Thermal Power Plant in the Republic of Iraq prepared based on MP2010

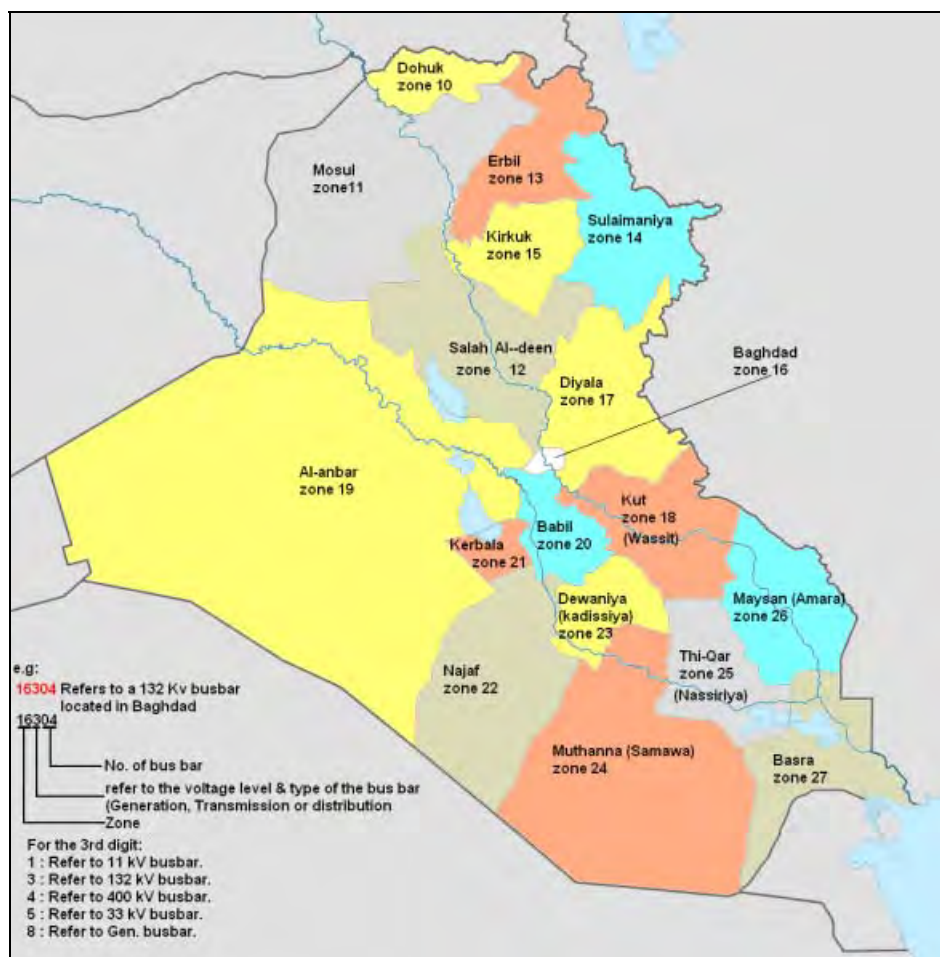
**Figure 3.3-2 Demand and Supply Balance by Region**

In the Baghdad area, the power generating capacity is in short supply and cannot meet the power demand. Therefore, a large amount of electricity needs to be acquired from the central

region of Iraq.

(3) Power network systems

Iraq is divided into six regions and 18 sub-regions as shown in Figure 3.3-3. Table 3.3-2, below, shows the relationship between regions and sub-regions.



Source: JICA Report of Preparatory Study for Development of Southern Large Scale Thermal Power Plant in Republic of Iraq prepared based on MP2010

**Figure 3.3-3 Sub-regions in Iraq**

**Table 3.3-2 Regions and Sub-regions in Iraq**

Region	No.	Sub-region Name	Region	No.	Sub-region Name
1. North	10	Duhok	4. West	19	Al-anbar
	11	Mosul	5. South-west	20	Basil
	12	Salah Al-deen		21	Kerbal
2. East	13	Erbil		22	Najaf
	14	Sulaimaniya		23	Dewaniya (Kadissiya)
	15	Kirkuk		6. South	24
3. Central	16	Baghdad	25		Thi Qar (Nasiryah)
	17	Diyala	26		Maysan (Emara)
	18	Kut	27		Basra

Source: JICA Report of Preparatory Study for Development of Southern Large Scale Thermal Power Plant in Republic of Iraq prepared based on MP2010

In Iraq, a 400kV network has served as the interconnection line for wheeling between regional power systems that are configured as 132kV network systems. Two 400kV single circuit transmission lines run between Basra and Baghdad and have length of about 500km. They transmit power generated by the major power plants in southern Iraq. Another two 400kV transmission lines are in northern Iraq between Mosul and Baghdad and have the length of about 400km. The western line has two circuits and the eastern one is a single circuit. There are three circuits in total connecting the North regional system and Central regional system.

### 3.3.1.2 Water and sanitation

#### (1) Water supply

As described in NDP 2010-2014, this sector suffered dramatic neglect after 1991, which resulted in a decline to a low level of service provision, both quantitatively and qualitatively. Water is collected and processed by the Ministry of Municipalities and Public Works for 14 provinces and the districts and areas within the province of Baghdad. The total population was estimated to be approximately 22 million in 2007; the number supplied with water was 17.8 million. The number of the proposed projects was 245, in addition to 2,128 water complexes with different production capacities distributed across all provinces and rural areas.

The quantity of water produced each day was 7.2 million cubic meters, and the scale of the current shortage was 2.6 million cubic meters, thus the shortage was 21 percent and the percentage of the total population served was 79 for the year 2008 as noted in the following table.

**Table 3.3-3 Water Services in the Provinces in 2008**

Province	Number of active projects	Capacity (m3/day)	Number of working complexes	Capacity (m3/day)	Total capacities (m3/day)	Population per 2007 estimates	Population Served	Shortage Percent
Ninawa	39	778,827	77	128,160	906,987	2,901,809	2,466,537	15
Kirkuk	14	479,746	134	105,600	585,346	918,288	808,093	16
Baghdad	10	237,080	186	234,752	471,832	2,897,473	2,346,953	19
Diyala	25	286,963	134	153,600	440,563	1,610,828	1,320,878	18
Salah ad Din	19	270,200	148	246,048	516,248	1,237,059	1,136,594	18
Babil	18	245,920	173	282,104	529,024	1,707,508	1,400,156	18
Najaf	9	224,560	86	121,952	346,512	1,117,624	900,527	19
Karbala	7	233,310	107	222,864	456,174	924,085	776,231	16
Wasit	19	181,100	229	239,232	420,332	1,097,949	812,482	26
Anbar	21	372,418	155	241,368	613,786	1,542,152	1,295,407	16
Maysam	13	68,600	159	224,192	292,792	845,498	608,785	28
Muthanna	6	124,260	36	62,208	186,468	636,297	538,126	17
Diwaniya	13	198,773	173	169,792	368,565	1,018,072	753,373	26
Dhi Qar	19	109,140	118	258,720	367,860	1,666,932	1,333,545	30
Basrah	13	201,800	213	536,800	738,600	1,952,030	1,366,241	30
<b>Total</b>	<b>245</b>	<b>4,012,697</b>	<b>2,128</b>	<b>3,227,392</b>	<b>7,241,089</b>	<b>22,073,604</b>	<b>17,863,928</b>	<b>21</b>

Source: NDP 2010-2014, Ministry of Planning

The Iraqi government intends to ensure that safe drinking water meeting international standards shall be accessible by all provinces' residents in rural and urban areas. The concrete objectives are:

- To reduce the number of people with no access to safe drinking water
- To promote water projects or water reservoirs to increase 10 percent in urban areas and 26 percent in rural areas
- To avoid shortages and ensure that drinking water of sufficient quality and quantity through other means such as:
  - Bringing service to areas not previously serviced
  - Providing safe drinking water that meets all international standards for all users in the urban and rural areas
  - Ensuring that the water processed is of high quality and meets international standards
  - Reducing the water shortages in all the provinces
  - Reducing service level disparities among provinces as well as between rural and urban areas.

## (2) Sanitation

As described in NDP 2010-2014, the current status of the sanitation system in Iraq is still below the required level. The percentage of the population in the provinces, with the exception of the outskirts of Baghdad and the Kurdistan Region, that was served by a sanitation system was about 26 percent in 2009. Inadequacies of this sector have contributed to polluting the environment and endangering the health of citizens, as most waste water is discharged in rivers and streams used as a source of drinking water by many residents of villages and rural areas which are not served by the potable water networks. The following table shows the number of projects and residents served in 2009.

**Table 3.3-4 Sanitation Projects in the Provinces in 2009 (Excluding the Kurdistan Region)**

Province	Design Capacity (m <sup>3</sup> /day)	Number of people served	Number of sewage water stations	Number of Pumps	Network length (km)
Ninawa	17,820	61,500	5	14	51
Kirkuk	3,500	9,000	2	5	26
Salah ad Din	27,000	82,000	16	62	345
Diyala	21,600	22,610	1	-	74,691
Anbar	7,000	35,500	6	12	125
Baghdad	3,000	12,000	13	10	7,500
Babil	12,000	55,000	4	22	128
Karbala	41,000	165,000	7	14	224
Najaf	42,000	180,000	19	17	125
Diwaniya	12,000	50,000	-	31	175
Wasit	-	-	-	-	-
Muthanna	1,000	4,000	5	5	16,277
Dhi Qar	18,000	95,000	14	11	13,617
Maysam	30,000	75,000	31	68	120
Basrah	118,100	1,000,000	65	98	866,436
<b>Total</b>	<b>354,020</b>	<b>1,846,610</b>	<b>188</b>	<b>369</b>	<b>979,840</b>

Source: NDP 2010-2014, Ministry of Planning

Huge investments, reaching 750 billion Iraq dinars for the period 2004–2008, were allocated to sanitation in the various provinces (excluding the city of Baghdad). High drainage rates, 90 percent, were achieved, despite which sanitation services remained limited and the sanitation infrastructure deteriorated. As a result, there was no noticeable improvement in these services.

### 3.3.1.3 Transportation

The transport sector is one of the important industrial sectors; the importance of this sector is self-evident as many Iraqis need to move about and communicate in order to accomplish everyday tasks and engage in other activities.

The transport sector activities consist of roads and bridges, passenger and cargo transport, railway transport, ports, shipping and civil aviation. According to NDP 2010-2014, the following are the major points to be achieved:

- Increasing the efficiency of the existing transportation network and its capacity
- Integrating transport network systems
- Increasing and improving the efficiency and performance of the transport sector institutions, facilities and its companies
- Increasing rail transportation and decreasing damage of roads
- Reducing accidents in the transport network
- Reducing the time for transportation between major cities

- Contributing to strengthening the economic independence of Iraq through transport-related improvements
- Reducing transportation cost
- Strengthening Iraq's geographical position in the international transport and transit trade
- Increasing the sector's contribution to GDP
- Increasing the role of the private sector in various transportation business areas, particularly for operation and delivery services

Iraq at one time owned a large fleet of trucks, under the Ministry of Trade. The large fleet was severely damaged by several destructive incidents in the past and does not now satisfy the demand for cargo transportation. That the demand is not satisfied is also due to inadequate management of the transport sector together with excess employment as compared with the number of persons required to match the demand. Despite the reduced capacity, a total of 4,670 persons are working in the public land transportation company, which aggravates the management of the company. The government of Iraq plans to privatize the company including introduction of management by public and private partnership. Against the background of the issues mentioned above the current status of land transportation is as follows.

The following figure shows major roads and railways in Iraq.



Source: JICA Report of Preparatory Survey on New Fertilizer Plant and ITT Project prepared based on Information of Ministry of Transport

**Figure 3.3-4 Existing Major Roads and Railways in Iraq**

## (1) Road transport

A six-lane international expressway was developed in 1987 to link the Arabian Gulf States with the Mediterranean Sea. The road was from the Jordanian border through Al Rutbah to Tulayah near An Najaf, then to Ash Shaykh and Ash Shuyukh in the south of Iraq, and finally to Safwan at the Kuwaiti border. According to the NDP 2010-2014, the total length of highways (excluding outside the municipal boundaries and Municipality of Baghdad) was about 48,941 km, as follows:

- Highways: 1,084 km
- Arterial roads: 11,254 km
- Rural roads: 10,357 km
- Border roads: 11,000 km
- Secondary roads: 15,246 km

As for the bridges, there were 1,260 concrete and steel bridges, and 52 floating bridges scattered throughout the country; however this network did not satisfy the needs of the country, especially in rural areas. According to international standards, each 100 inhabitants/km<sup>2</sup> of population density requires 1 km/km<sup>2</sup> of roads, and road density in Iraq is around 0.19 km/km<sup>2</sup>, and what is required is for this ratio to reach 0.75 km/km<sup>2</sup>, which means that the road network should be increased by up to 240,000 km and if the unpopulated desert area is excluded, the need for new roads is up to 20,000 km.

Before 2003, Iraq's highway network was considered to be in a fairly good condition in terms of efficiency and capacity, but due to what it suffered during the war in 2003 and its aftermath, this network suffered significant deterioration and destruction as a result of military operations and acts of sabotage, as well as the lack of security and periodic maintenance. On the other hand, the increase in the number of vehicles brought into the country after 2003 has greatly increased. Furthermore the increase in fuel and asphalt prices after 2003 led to increasing the cost of execution and maintenance of the road projects and road projects have not been implemented as a result. The Iraq Master Plan prepared in 2005 noted the condition of the existing network as follows.

- 6 percent is in good condition
- 56 percent is in fair maintenance condition
- 31 percent is in bad condition
- 7 percent is in very bad condition

## (2) Railway transport

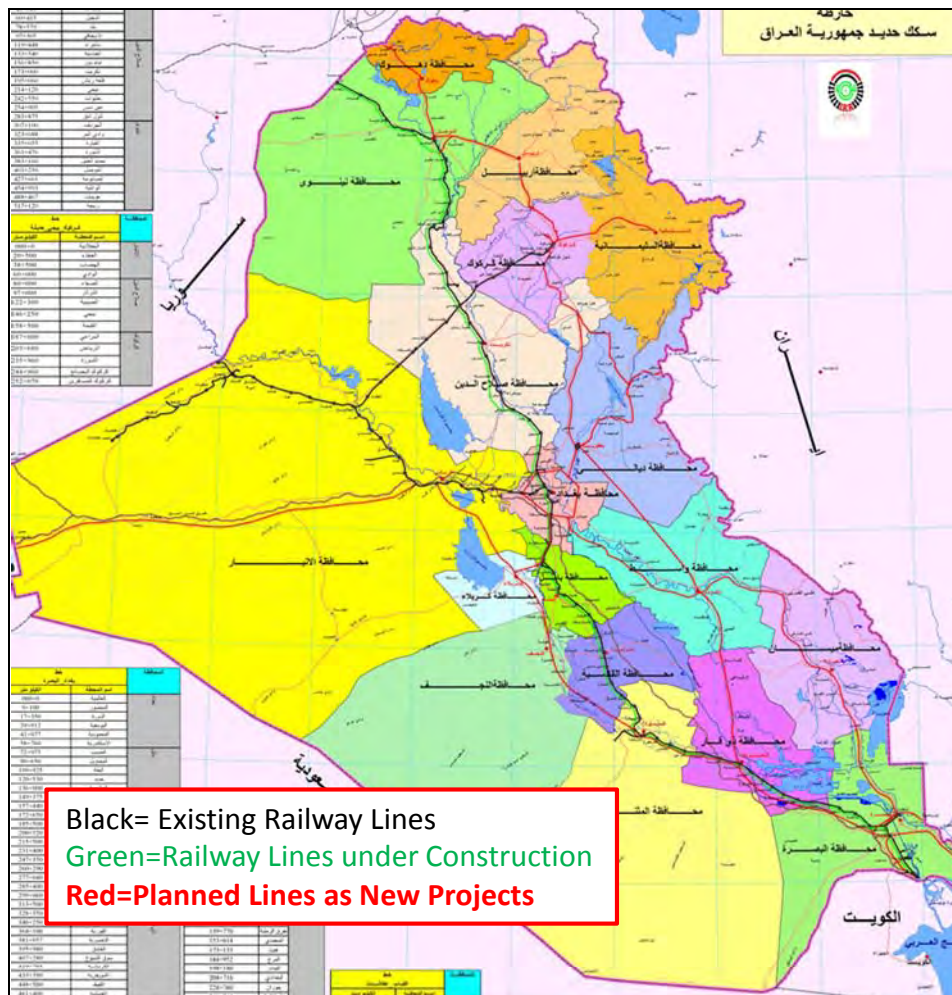
In many cases, rail transport is more efficient than trucking over distances longer than 300 km.



Iraq possesses an extensive railway network. Iraq Republic Railways Company (IRR), one of the state owned companies, is responsible for the management of the all railway system in Iraq. During its years under sanctions, half the goods imported to Umm Qasar Port were carried to inland destinations via the railway network. The existing railway network, which is part of the transport multimodal network, consists of five main lines.

All are standard gauge, single track lines. There is only one section with double track, on the Baghdad – Husaibah line, from Sheik Dari station to Rutba Road station (length 104 km). The total length of the existing railway network is 1901 km and there are 108 stations. In addition to the main lines, there are several branch lines serving industrial and military sites. The main branch lines have a length of about 400 km, but there are at least 150 km of minor branch lines; most of them are not in active use.

The railway map below shows the existing lines, the lines to be made double track (under construction) and the new lines.



Source: IRR

Figure 3.3-5 Railway Map in Iraq

The rehabilitation of railways in Iraq has been an ongoing activity, but the current transportation capacity is very limited.



Source: JICA Report of Preparatory Survey on New Fertilizer Plant and ITT Project.

**Figure 3.3-6 Pictures of Railways**

### (3) Ports

General Company for Port of Iraq (GCPI), one of the state owned companies, is responsible for the management of all the ports in Iraq. In accordance with the NDP 2010-2014, there are the four ports (Umm Qasr, Khor Al-Zubair, Al-Magal and Abou Flous) under operation in Iraq. The current capacities of Al-Magal port and Abou Flous port are very limited (less than 5,000 tons per year).

#### 1) Umm Qasar Port

Umm Qasar Port (UQP) is the biggest Iraqi foreign trade cargo port and the only port facing the Arab Bay of the Arabian Gulf. UQP is the most multifunctional primary port and water depth is enough to enable large cargo ships to moor. The port is located close to the border of Kuwait near the entrance of the Arabian Gulf on the west bank of the Khor Al Zubayr River, approximately 90 km upstream from the northwest edge of the Arabian Gulf. The port is located about 70 km from the southern entry point to the city of Basra. The UQP was constructed in 1965. Since the completion of an urgent dredging project by the United Nations Development Programme (UNDP) in 2003, 50,000 Dead Weight Tonnage (DWT) vessels have been able to enter UQP at high tide and the functioning of the port recovered to a limited extent. However, the required water depth was not achieved for the entire area of the channel and port basin, and consequently, the cargo handling operations are now only 50 percent of the port's former capability. Siltation in the 50 nautical mile approach channel was a problem even though the UNDP and Japan assisted in dredging and wreckage removal in 2009-2012. The Port of Dubai has also helped to reestablish procedures for passenger and cargo transport.

The following is an aerial view and the overall layout of UQP.

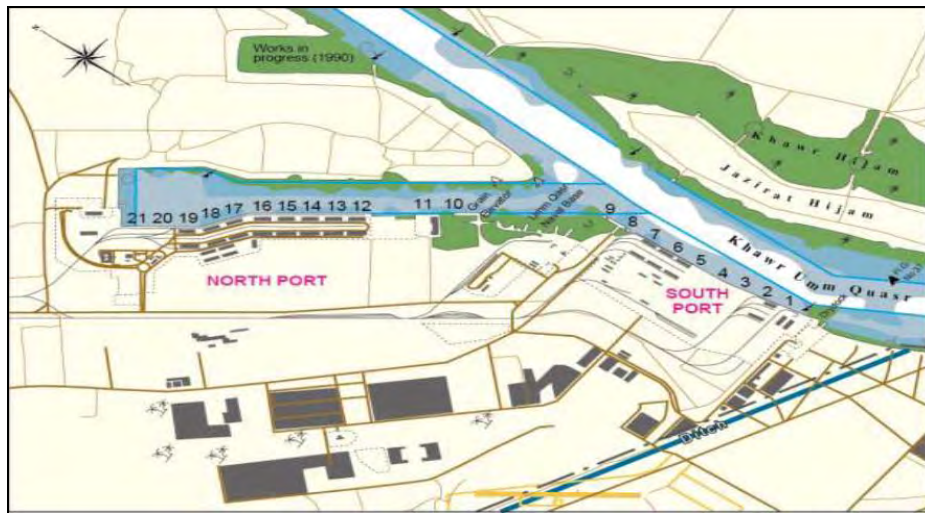


Source: GCPI

**Figure 3.3-7 Aerial View and Overall Layout of Umm Qasr Port**

There is an inlet and wharves along the river as shown above.

UQP is described in a document provided by GCPI as having 21 berths (north and south port; see below).



Source: GCPI

**Figure 3.3-8 Jetty at Umm Qasr Port**



Source: Taken by JICA Survey Team

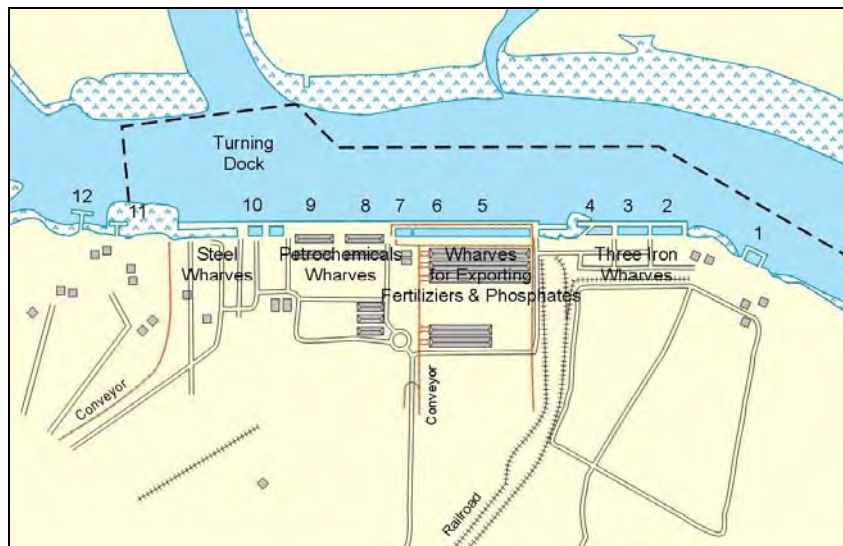
**Figure 3.3-9 Pictures of Umm Qasr Port**

As shown in the above photographs, there are container yard and loading facilities in both the north and south ports.

## 2) Khor Al-Zubail Port

Khor Al-Zubail Port (KZP) is 60 km from the center of Basra City, 105 km from the northern end of the Arabian Gulf, and about 20 km from UQP. It was constructed in 1975-1980. KAZ was operated as a free trade zone and industrial port supporting industrial development in Basra and its vicinity. Soon after the end of the war in 2003, the general cargo berths were operated by Maersk Sealand Line for two years. Management of port operations was handed over to GCPI on March 3, 2005. In 2010 a joint operating contract for berth No. 8 was made with the German company, Marlog (MARTRADE Group).

KZP was designed to handle general cargo and bulk cargo such as wheat, fertilizer, phosphate and petrochemicals imports and exports, as well as sponge iron and iron ore imports. The bulk handling facilities include conveyors and ship loaders for fertilizer exports and ship unloaders for iron ore imports. The iron ore handling facilities comprise open stockyards located within the port complex, equipped with belt conveyors, stackers, and bucket wheel stackers/ reclaimers. The designed water depth at the berth front is -12 m. According to the latest available bathymetric survey conducted in 2005, water depth varied from 8.2 m to 8.5 m. No survey has been conducted since then. Current water depth is between 6 m and 8 m due to the lack of dredging operation for maintenance. Berth Nos. 2 and 3 had not been used till recently due to the existence of shipwrecks along the berths. The following figure shows the layout of KZP.

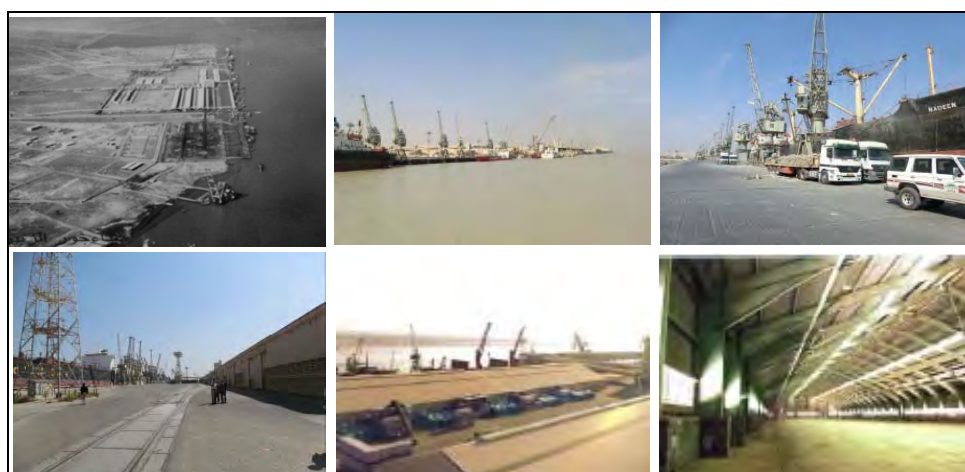


Source: GCPI.

**Figure 3.3-10 Jetty at Khor Al-Zubail Port**

General Cargo Berth No. 1 is being used as a temporary anchorage for empty cargo ships and temporary berth for salvaged ships. Berth No. 1 will be tendered for concession soon and five companies including British Petroleum have been invited. Berth Nos. 2 and 3 have no records of being used by GCPI for cargo handling from 2006 to 2011. After removing the salvaged vessels from berths, cargo ships carrying general cargo such as cement, have been using these berths. Berth Nos. 6 and 7 have been used for fertilizer and phosphate. These berths were planned to be used for exporting fertilizer products by MTI, however at presently Berth No. 6 is used for unloading general cargo mainly from India. Cargo ships carrying general cargo such as bagged sugar, rice, cement, and soya beans also use these berths. Berth No. 8 was used for petrochemicals. A concession contract was made with Marlog in 2010. Berth No. 9 was used for petrochemicals. Presently tankers use this berth for imports of petrochemical products and exports of fuel oil.

Berth No. 10 was used for sponge iron imports. This berth was planned to be used for importing sponge iron. Presently tankers use this berth, which is under Ministry of Oil (MOO)'s management, for imports of petrochemical products and exports of fuel oil. Berth No. 11 was used for raw iron imports. This berth was planned to be used for importing iron ore. Presently tankers use this berth for imported petrochemical products under MOO's management. Berths Nos. 9 to 11 are under control of MOO at present. The Berth No. 12 was used for the general cargo. A 125 MW capacity Turkish power barge is berthed here and is under GCPI management.



Source: Taken by JICA Survey Team

**Figure 3.3-11 Pictures of Khor Al-Zubail Port**

### 3.3.2 Infrastructure in Kurdistan Region

The speed of the reconstruction of infrastructures in the Kurdistan Region is higher than other areas of Iraq. Especially transportation and communication infrastructure in the cities are better

to a great extent. However, there are still huge demands for the improvement of infrastructure in the Kurdistan Region as much as in other areas of Iraq.

#### (1) Electricity

Increase of the demand for the electricity is very large in the Kurdistan Region due to development of the industries and up-grading of life of the people. According to the Ministry of Electricity of the Kurdistan Regional Government, the electric power demand grew by 12.38% a year during 2004-2009. The Ministry of Planning of the Kurdistan Regional Government forecasted that the annual growth rate of the demand for electricity per capita in the region would be 11% in its “Regional Development Strategy for Kurdistan Region 2012-2016” published in March 2011.

The Kurdistan Regional Government has been very keen to promote reconstruction of the existing power plants and development of new power projects. The following table shows the record of the development of power projects in the region from 2004 to 2009.

**Table 3.3-5 Produced Electric Power by Source 2004-2009**

Unit: MWh

Source	2004	(%)	2005	(%)	2006	(%)	2007	(%)	2008	(%)	2009	(%)
Locally Generated	277.6	84.82%	227.0	65.15%	197.8	40.57%	148.9	30.59%	227.8	45.57%	577.5	71.05%
From other areas in Iraq	0.0	0.00%	0.0	0.00%	133.6	27.41%	193.4	39.73%	165.0	33.01%	92.7	11.41%
Import												
From Turkey	49.7	15.18%	121.4	34.85%	156.1	32.02%	144.5	29.68%	102.7	20.54%	137.4	16.90%
From Iran	0.0	0.00%	0.0	0.00%	0.0	0.00%	0.0	0.00%	4.4	0.88%	5.2	0.64%
Total	327.3	100.00%	348.4	100.00%	487.5	100.00%	486.8	100.00%	499.9	100.00%	812.8	100.00%

Source: Regional Development Strategy for Kurdistan Region 2012-2016

#### (2) Water supply and sanitations

The regional government has strived to improve the status of water supply and sanitations in the region. The supply of drinking water and the sewerage networks have been increasingly improved in the region. The average of population accessing potable water reached about 92% in the governorates' centers and 60% in their outskirts and rural areas in 2009 as shown in the following table.

**Table 3.3-6 Number of Portable Water Stations and Served Population 2009**

Governorate	Number of stations	Rate of served population		Volume of daily produced water (m <sup>3</sup> )
		Governorate Center	Outskirts	
Erbil	6	96%	65%	410,600
Duhok	2	95%	70%	192,000
Sulaymaniyah	3	85%	45%	322,000
Total	11	92%	60%	924,600

Source: Regional Development Strategy for Kurdistan Region 2012-2016

There is a lack of completed figures on percentage of population provided with sewerage network services during the past years. However, according to the Regional Development Strategy for Kurdistan Region 2012-2016, the rate of population that has access to the modern sanitation system (waste water treatment system) is very limited in the region.

### (3) Transportation

The Kurdistan Regional Government identified that the transportation sector in the region has a number of characteristic features that distinguish it from the other sectors of economy. Following are the important features identified by the regional government:

- This sector is one of the highly important national economy spheres. Its importance originates from the direct and daily impact it has on citizens' lives.
- This sector is closely interlinked with other economic sectors, and has direct and effective impact on their development, as well as on the process of economic integration. The other economic sectors can never prosper or progress without proper and efficient services and infrastructures.
- The sector covers long distances, and the majority of this sector projects covers more than one area or governorate. Therefore, the projects of this sector require huge investments with regard to construction and maintenance.
- This sector has huge opportunities for (local and foreign) private sector contribution, including investment in the area of implementation and operation of a large number of the sector projects.

The following is the situation of transportation sector in the region in 2008.

#### 1) Roads

The total length of road network in the region in 2008 was about 11,179 km, of which the

arterial (main) roads represented about 20.9%, secondary roads about 36.5%, and rural roads about 42.6%.

## 2) Railway services

The Kurdistan Region lacks the railway service at present. IRR is also responsible for the reconstruction and development of the railway service in the region.

## 3) Civil aviation

The region has two international airports in Erbil and Sulaymaniyah. The work is underway for building the third airport in the Duhok governorate.

### **3.3.3 Issues in Infrastructure Development in Iraq**

It is necessary to promote investments in infrastructure projects in Iraq for enhancing reconstruction and development of the Iraqi economy and industries. The following is the issues relating to infrastructure development in Iraq, especially from the perspective of industrial projects.

#### (1) Electricity

The stable procurement of power is one of the key requirements for implementations of industrial projects in Iraq.

#### (2) Water supply

It is also a crucial issue to procure required industrial water for, among others, power projects, oil and gas projects, petrochemical projects and fertilizer projects in Iraq.

### **3.3.4 Free zones**

There are currently four free trade zones in Iraq, called “Free Zones,” officially attached to the General Commission for Free Zones (GCFZ) under the Ministry of Finance. The Commission was established pursuant to the “General Commission for Free Zone Law No. 3 of 1998 (hereinafter referred to as “Law No. 3 of 1998”).” GCFZ manages development and operation of Free Zones under the “Instructions No. 4 of 1999 for Administration of Free Zone and Systemizing the Business of Investors inside Framework of the Zones (hereinafter referred to as “Instructions No. 4 of 1999”)<sup>19</sup>” which was issued according to Article No. 9 of the Law No. 3 of 1998.

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<sup>19</sup> GCFZ’s website, <http://freezones.mof.gov.iq/fil/kawanenaran%20.pps> (accessed April 18, 2013).



Free Zones are located within Iraq's political boundary; however, they are regarded as outside Iraq's customs boarder. Hence, goods imported into and exported from the Zones are exempted from all the trade-related taxes and duties except 5% Reconstruction Levy<sup>20</sup>, unless the goods are transferred to domestic areas where customs are enforced<sup>21</sup>. Free Zones provide, among others, customs clearance services, warehousing, storage, and distribution facilities. They are, therefore, mostly utilized for trans-shipment, export-processing and re-export purposes. In addition, investors in Free Zones can enjoy various benefits as explained in this section.

#### (1) Location

Of four Free Zones officially attached to GCFZ, three, namely, Khor Al-Zubair, Ninewa/Farafel, and Al-Qaim are currently in operation<sup>22</sup>, while the remaining one, Fallujah, is still in a planning stage. Table 3.3-7 summarizes locational factors of these four Free Zones, while Figure 3.3-12 shows location of them.

**Table 3.3-7 Locational Factors of Free Zones**

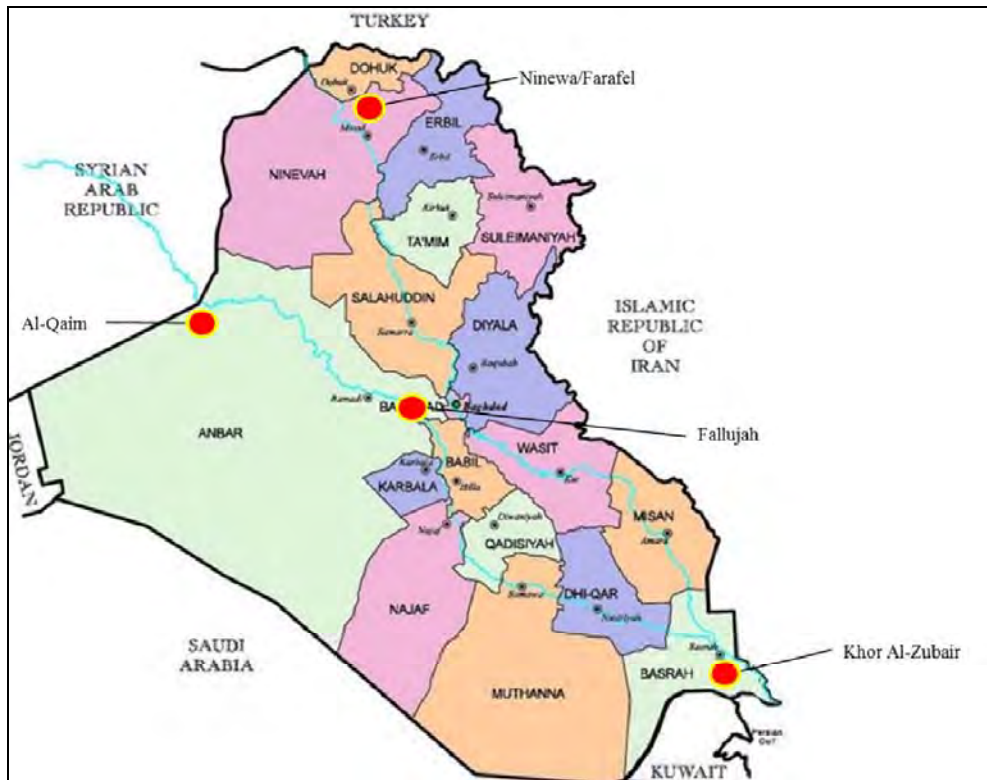
Free Zone	Locational Factors
Khor Al-Zubair	<ul style="list-style-type: none"> <li>- Governorate: Basra</li> <li>- Location: 45 km southwest of Basra city Nearby Khor Al-Zubair port and 20 km from Umm Qasr port; Near Safwan terminal with Kuwait and Al-Shalamchaa terminal with Iran</li> <li>- Area: 1 km<sup>2</sup> with expanding area of 18 km<sup>2</sup></li> </ul>
Ninewa /Farafel	<ul style="list-style-type: none"> <li>- Governorate: Ninewa</li> <li>- Location: 20 km north from Mosul (capital of the governorate) On crossroads of roads and railways to reach Turkey, Syria, Jordan, Basra, and Iran.</li> <li>- Area: 4.9 km<sup>2</sup></li> </ul>
Al-Qaim	<ul style="list-style-type: none"> <li>- Governorate: Al-Anbar</li> <li>- Location: Nearby Iraq-Syria boarder Near roads and railways to connect Turkey, Jordan, Basra, and Iran.</li> <li>- Area: 0.3 km<sup>2</sup></li> </ul>
Fallujah (planned)	<ul style="list-style-type: none"> <li>- Governorate: Al-Anbar</li> <li>- Location: 70 km west of Baghdad On the western international highway linking Iraq with Jordan, Syria, Saudi Arabia and Kuwait.</li> <li>- Area: 8.5 km<sup>2</sup></li> </ul>

Source: GCFZ website, <http://freezones.mof.gov.iq/index%20en.html> (accessed 18 April 2013)

20 Refer to 4.3 of the current Report for details of the Reconstruction Levy.

21 There is currently no customs duty in Iraq. Thus, goods imported into the Free Zones and those into the area inside the customs boarder incur the same tax-related cost; only the Reconstruction Levy at 5%. However, if the Iraqi government resumed the customs duty based upon a new customs law, the Zones would become more beneficial for the importers. Refer to 4.3 of the current Report for details of the new customs law.

22 According to the GCFZ in the Khor Al-Zubair Free Zone, only the Khor Al-Zubair Free Zone and Ninewa/Farafel Free Zone are truly in operation; 90% of land plots in the former has already been occupied (Source: An interview with GCFZ in the Khor Al-Zubair Free Zone on March 19, 2013).



Source: JICA Survey Team processing a map downloaded from <http://iraqpictures.org/map-of-iraq/> (accessed 18 April 2013)

**Figure 3.3-12 Location of Free Zones**

(2) Benefits

According to the Law No. 3 of 1998, Free Zones are established to push development of the economy and social progress in Iraq through attraction of domestic and foreign capitals which provide job opportunities, access to developed technologies, and increase of foreign currency through export expansion. Since investment in Free Zones contributes to meeting Iraq's national interests, various benefits are provided to promote the investment. The main benefits, especially for foreign investors, are listed below.

- a. Legal status and business establishment
  - No restrictions on investors' nationality
  - Free to choose the legal status of the investment project (individual, company, partnership)
  - Right to waive the contract partially or fully to the third party
  - No need for a local partner; 100% equity participation is allowed for foreign investors

- Free to choose business activities<sup>23</sup> except for actions disallowed by other laws in force, such as weapon manufacturing industries, environmentally polluting industries and those banned because of place of origin
- Free to summon and employ foreign employees with easy procedures to grant them entry Visa and residency

b. Contract terms

- Long-term land allocation (lease) contract
  - Fifteen years for commercial and service activities with a renewable option; the renewable period should be no more than the period of the contract
  - Twenty-five years for industrial activities with a renewable option; the renewable period should be no more than the period of the contract
- Low land lease fee
  - Three US dollars/m<sup>2</sup> per year for paved land (in case of the Ninewa/Farafel Free Zone)
  - Two US dollars/m<sup>2</sup> per year for non-paved land (same as above)
  - Five to fifteen US dollars/m<sup>2</sup> per year for building and facilities (same as above)
  - Twenty five percent reduction of lease fee for industrial activities except that for building and facilities (same as above)
  - Five US dollars/m<sup>2</sup> per year for any investment projects (in case of the Khor Al-Zubair Free Zone)

c. Tax and money transfer

- Exemption from all the taxes and duties on goods imported into and exported from the Zones, unless the goods are transferred to domestic areas where customs are enforced
- Exemption from all the taxes and duties on capitals, profits and revenues from the investment over the course of project period including project foundation period
- No restriction on admission or remittance of foreign currency (including profits and invested capital)
- Exemption from the income tax of foreign employees

d. Customs clearance

- No need to prepare certificates of origin and quality inspection certificates for goods entering Free Zones; only the bill of lading or shipping documents are required (all the documents are necessary when the goods enter domestic areas where customs are enforced)

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23 These 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

- No restriction on time allocation for a cargo that stays inside as long as the cargo are in a good shape and storage fees are accordingly paid
- Exemption from customs and transit duties on goods transferred between Free Zones

### (3) Fees

#### 1) Contract fees

Investment in Free Zones involves contract fees. The Instructions No. 4 of 1999 stipulate the non-refundable application fee (100 US dollars) and the fee for disclaiming the right to the leased land to the third party (500 US dollars). In addition, the contract sample available from GCFZ's website<sup>24</sup> states that an investor needs to pay a guarantee amounting to 100% of the annual lease fee; 90% of the paid guarantee will be returned after finishing construction of the operation facility and obtaining a license to operate (working license). The remaining 10% is returned to the investor on termination of the contract. The investor needs to pay 1,000 US dollars for obtaining the working license with renewal fee of 150 US dollars per year.

However, according to an explanatory paper which JICA Survey Team received from GCFZ in the Khor Al-Zubair Free Zone on March 19, 2013, a Free Zone sets its own contract fees, indicating that the contract fees are not common to all the Free Zones. For example, the application fee for the Khor Al-Zubair Free Zone is 250 US dollars as opposed to 100 US dollars as stipulated in the Instructions No. 4 of 1999. The fee for obtaining the working license is 2,000 US dollars with renewal fee of 500 US dollars per year. In addition, the investor is charged with 50 US dollars for obtaining the investor ID.

#### 2) Fees in operation

The amount of fees incurred in daily operation varies with the contracts and the Free Zones. The following is a list of general fees for operations in the Khor Al-Zubair Free Zone where the JICA Survey Team visited on March 19, 2013<sup>25</sup>.

- Ten US dollars for depositing and clearing a cargo
- 1% of the cargo value estimated by the customs office in the Zone is imposed as service charge for any cargo released from the Zone;
- 1% of the monthly value of the project activity as the project service charge; and
- Twenty US dollars for surrendering of goods.

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<sup>24</sup> GCFZ website, <http://freezones.mof.gov.iq/index%20en.html> (accessed 18 April 2013)

<sup>25</sup> The fees for other Free Zones are unclear, as the JICA Survey Team did not visit them to study, while no public information on this matter is available.

#### (4) Investment procedure

The investor in the Free Zones needs to follow the following investment procedure<sup>26</sup>.

- a. Submission of application to GCFZ with:
  - Clarification of desired location of the investment project
  - Record of the past projects
  - Any document to confirm sound economic and financial conditions (such as a membership certificate of the chamber of commerce and industry)
  - Application fee and the fee for obtaining the working license
  - Filled-out application form
  - Three copies of economic feasibility study of the investment project
- b. Advance payment
  - Advance payment for the amount equivalent to one-year lease fee for the land of the investment project after approval of the application
- c. Signing of the contract and record of land delivery document
- d. Submission and approval of the construction plan prepared by a locally registered engineering consultants
  - Submission of the construction plan within 30 days from the date of the contract
  - Approval from GCFZ of the plan
- e. Construction
  - Commencement of the construction within 90 days from the approval notification of the plan from GCFZ
  - Completion of the construction; within six months for the service projects, twelve months for the commercial projects, and eighteen months for the industrial projects
- f. Granting of the working license
  - Granting of the working license after completion of the construction

The foreign investor may be required to submit the following additional documents in response to the request made by GCFZ on a case-by-case basis:

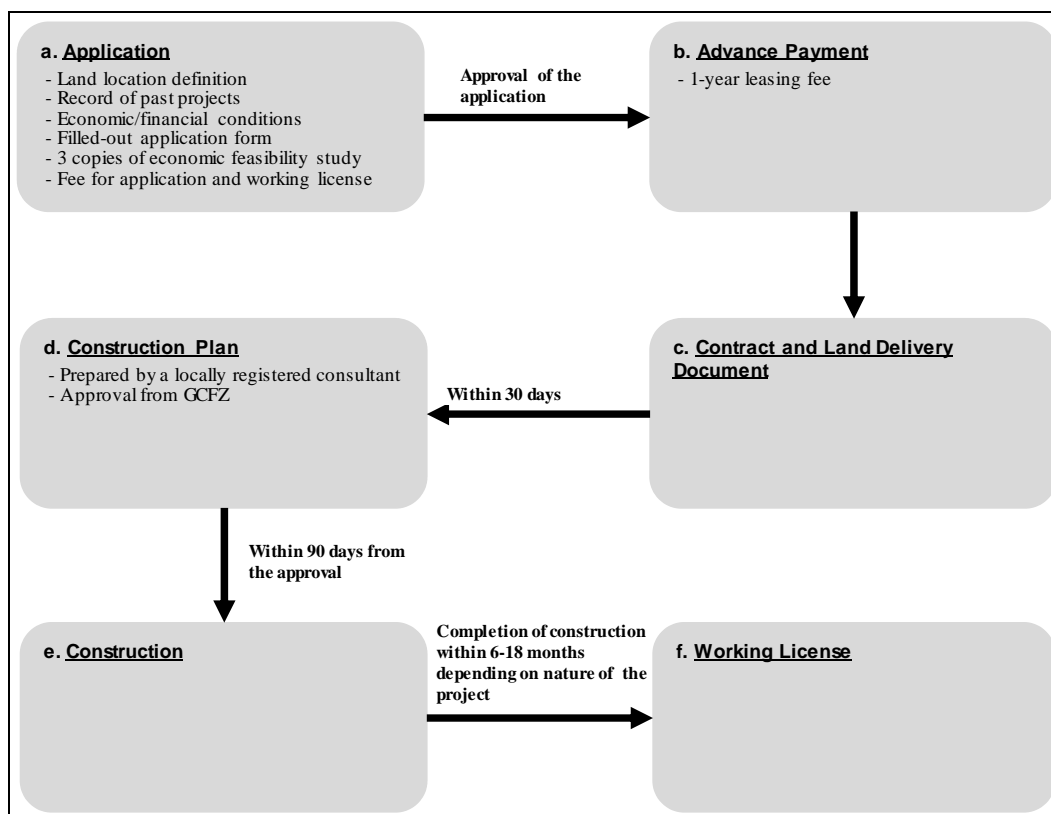
- Articles of incorporation;
- A list of board of directors (in case the list is not found in the articles of incorporation);

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<sup>26</sup> GCFZ website, <http://freezones.mof.gov.iq/index%20en.html> (accessed 18 April 2013)

- Authorization from the representative director for the investment project; and/or
- Three copies of a passport (in case the investor is an individual).

Figure 3.3-13 summarizes the investment procedure explained above.



Source: GCFZ's website, <http://freezones.mof.gov.iq/index%20en.html> (accessed 18 April 2013)

**Figure 3.3-13 Procedure for Investment in Free Zone**

### **BOX 3.3-1 New Free Zones and Other Forms of Industrial Estates**

#### **1. New Free Zones**

In September 2012, a joint venture was established between GCFZ and a Dubai-registered company called Basra International Oil & Gas Hum Limited (BIOGH) to develop an oil/gas-dedicated Free Zone near the existing Khor Al-Zubair Free Zone. Area of the new Free Zone extends to 11 km<sup>2</sup>, 11 times bigger than that of the Khor Al-Zubair Free Zone. This is the first case where a Free Zone is developed on a public-private-partnership basis and targets a specific industry. All the industries related to the oil and gas industry, including those supporting it, will be able to become a tenant in the Zone. BIOGH will operate the Zone based upon a concession contract of 25 years with renewable option for

another 25 years.

According to GCFZ's website<sup>27</sup>, GCFZ also plans to develop new Free Zones near Baghdad International Airport and Al-Najaf International Airport in the future. In addition, GCFZ is studying the requests submitted from the governorates to establish Free Zones; these governorates include Wasit, Dyala, Al-Muthana, Salah-Al-Deen and Babylon. There have also been several media reports that GCFZ has approved of new Free Zones in Baghdad which would be developed by the private sector; however, the JICA Survey Team have not confirmed the information from the official sources.

## 2. Other Forms of Industrial Estates

### (1) Industrial zone

Ministry of Industry and Minerals, pursuant to the "Industrial Investment Law No. 20 of 1998," develops so-called "Industrial Zones" to provide improved services to investors in terms of environment, health, and social infrastructure including water, sewerage, roads, electricity and communication. Industrial Zones mostly target small and medium sized enterprises in the industry sector. Ministry of Industry and Minerals have selected eight industrial zones in six governorates including Thi Qar, Basra, Ninewa, Babylon, Wassit and Al-Anbar<sup>28</sup>.

### (2) Investment zone

National Investment Commission (NIC) proposes to develop, with agreement of the Council of Ministers, so-called "Investment Zones" pursuant to Article 9 of the "Investment Law No. 13 of 2006 (hereinafter referred to as the "Law No. 13 of 2006")." Investment projects in the Investment Zones would benefit from developed infrastructure, streamlined administrative procedures, and all the incentives and services prescribed in the Law No. 13 of 2006, including One Stop Shop function<sup>29</sup>. NIC proposes industry-specific Investment Zones to be established as follows<sup>30</sup>:

- Hatein Zone (Babylon governorate) for industry;
- Baghdad International Airport Zone (Baghdad governorate) for commercial and logistical services;
- Basra Investment Zone (Basra governorate) for transport and logistical services as well as some petrochemical manufacturing industry;
- Al-Anbar Investment Zone (Al-Anbar governorate) for construction, glass and ceramic industries;
- Ninewa Investment Zone (Ninewa governorate) for advanced and specialized mechanical industries; and
- Middle Euphrates Investment Zone (Governorate not specified) for food industry.

As of May 2013, Investment Zones are still in the proposal stage.

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27 GCFZ website, <http://freezones.mof.gov.iq/index%20en.html> (accessed 18 April 2013)

28 Middle East and North Africa (MENA)-Organisation of Economic Co-operation and Development (OECD) Investment Programme, "Designing an Investment Zones Strategy for Iraq", March 2011

29 Refer to 4.1 of the current Report for details of the incentives and services under the Law No. 13 of 2006.

30 MENA- OECD Investment Programme, "Designing an Investment Zones Strategy for Iraq", March 2011

### **3.4 Donor Approaches to Improving the Iraqi Business Environment**

Following the adoption of the United Nations Security Council Resolution 1483, according to Paragraph 8, an international coordination mechanism was created for all donor governments and agencies to integrate their efforts to support the reconstruction of Iraq. Thus, the United Nations Development Group (UNDG) and the World Bank (IBRD, International Bank for Reconstruction and Development) took the lead in creation of the International Reconstruction Fund Facility for Iraq (IRFFI) which was the mechanism to collect donors' funds and allocate them to the most needed projects and programs. The coordinated international effort has significantly benefited the people and the government of Iraq by improving their fiscal, monetary and financial management, infrastructure (electricity, energy, transport, water supply and sanitation, urban development) situation, and human resources (education, health, capacity building of public administration), thus improving the overall business environment of the country.

This section summarizes the coordinated activities of multilateral donor agencies, namely, UN agencies, the World Bank Group, and the IMF.

#### **3.4.1 UN and World Bank initiative**

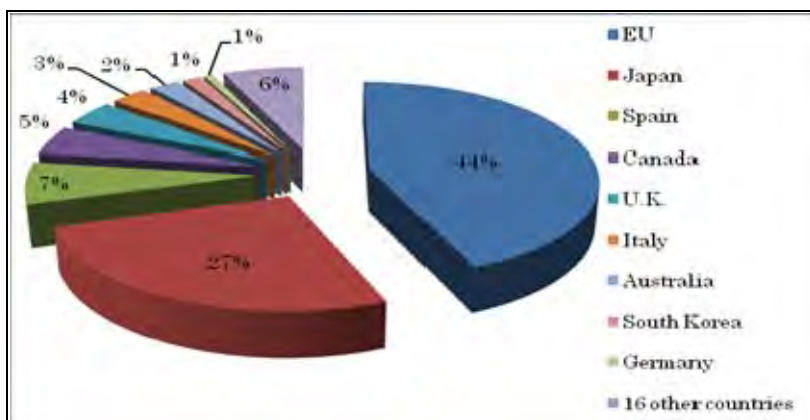
On 24 June 2003, acting on the request of the Group of Seven finance ministers and central bank governors for a multilateral effort to rebuild and develop Iraq, the UN hosted a conference at which representatives of 52 countries as well as UN agencies, World Bank and representatives of the Coalition Provisional Authority (CPA), the US-run interim administration in Baghdad, assembled. It was decided that a liaison group for the meeting, which would consider priority needs for 2004, was to be set up to include all donor governments who wanted to participate in the planning of reconstruction of Iraq.

In the following months, the UN and World Bank were assigned to implement a detailed needs assessment for Iraq and to design a mechanism to enable donors to channel their resources and coordinate their support for reconstruction and development activities in Iraq. In October 2003, as a result, the IRFFI was created. IRFFI, which consisted of the United Nations Development Group Iraq Trust Fund (UNDG ITF) and the World Bank Iraq Trust Fund (WB ITF), was to be administered by the UN and the World Bank in close coordination with the Iraqi authorities and donors.

As of the end of 2010, total donor deposits into the UNDG ITF amounted to 1,358 million US dollars (USD), of which the top five contributors were the European Union (EU) (594 million USD), Japan (361 million USD), Spain (93 million USD), Canada (64 million USD) and the United Kingdom (56 million USD), as shown in Figure 3.4-1. Under UNDG ITF, there is no one-to-one relationship between donor contribution and individual projects, but all funds are assigned at the level of a specific sector or sub-sector and/or specific participating organizations



(i.e., 21 UN agencies). As of the end of 2010, the top five earmarked sectors were governance (25% of total) which included elections, economic development (18.6%), education (15.4%), health (10.7%), and infrastructure (9.1%).



Source: 2010 Annual (Eleventh) Progress Report on Activities Implemented under the United Nations Development Group Iraq Trust Fund of the International Reconstruction Fund Facility for Iraq (May 2011), Chapter 8.2, Table 8-2.

**Figure 3.4-1 UNDG ITF: Donor Contributions**

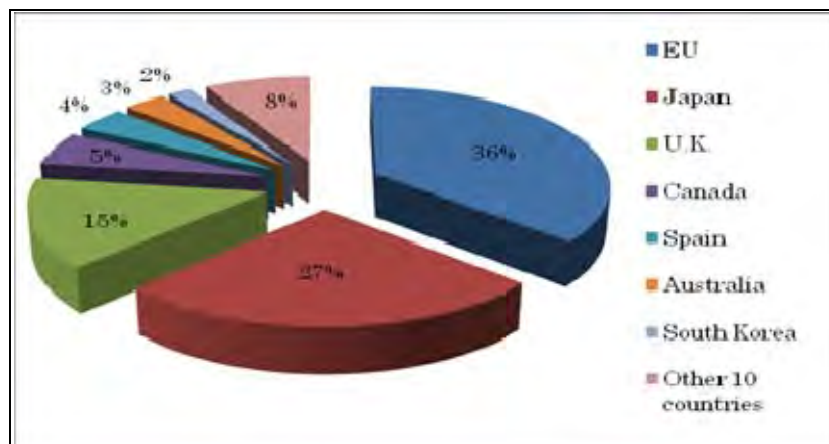
With regard to WB ITF,<sup>31</sup> as of end-February 2013, it had financed 26 projects, including 9 completed and 17 active ones<sup>32</sup>. Of the total WB ITF deposits of 494.4 million USD, the top five contributors were EU (179.7 million USD), Japan (130.6 million USD), the United Kingdom (71.4 million USD), Canada (26.7 million USD) and Australia (16.1 million USD), as shown in Figure 3.4-2. By sector, the top five were water supply, sanitation and urban reconstruction (22% of total), budget support (19%), education (16%), electricity/energy (14%), and transport (11%).

Both UN ITF and WB ITF are scheduled to be terminated on December 31, 2013.

31 World Bank Operations in Iraq, 28 February 2013,

[http://siteresources.worldbank.org/IRAQEXTN/Resources/IQ\\_Datasheet\\_Feb\\_2013.pdf](http://siteresources.worldbank.org/IRAQEXTN/Resources/IQ_Datasheet_Feb_2013.pdf)

32 Ibid. Note: Active projects include Water Supply, Sanitation & Urban Recon.( 110.0 million USD), Baghdad Water Supply & Sanitation (65.0 million USD), School Construction & Rehabilitation (60.0 million USD), Community Infrastructure (Supplement) (25.5 million USD), Public Finance Management (16.0 million USD), Capacity Building II (10.1 million USD) and Banking Sector Reform (10.0 million USD).



Source: IBRD Operations in Iraq, 28 February 2013, “Donor Deposits to Iraq Trust Fund,” at [http://siteresources.worldbank.org/IRAQEXTN/Resources/IQ\\_Datasheet\\_Feb\\_2013.pdf](http://siteresources.worldbank.org/IRAQEXTN/Resources/IQ_Datasheet_Feb_2013.pdf).

**Figure 3.4-2 WB ITF: Donor Contributions**

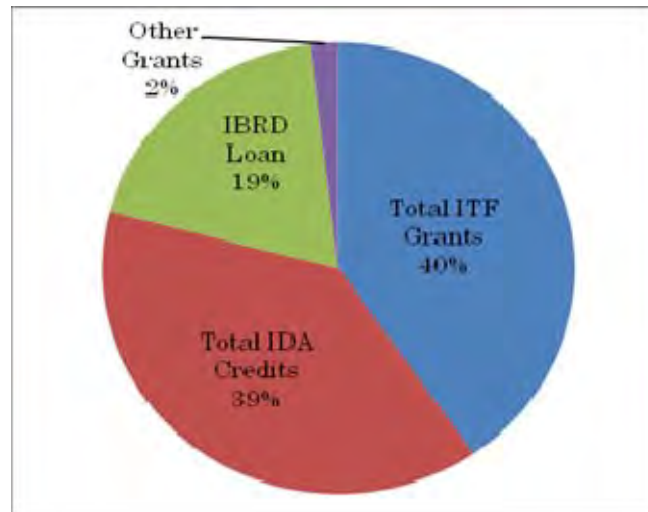
### 3.4.2 World Bank group

The World Bank resumed its engagement in Iraq in 2003 with the preparation of Watching Briefs with the UN agencies (i.e., United Nations Children's Fund (UNICEF), UNDP, and the UN Economic and Social Commission for Western Asia), following its approval of three grants under the Post-Conflict Fund<sup>33</sup> to build a knowledge base in the key sectors of human development, macroeconomics, water and power. The data contained in these Watching Briefs were utilized later for the preparation of the UN/World Bank Joint Iraq Needs Assessment, which was issued in October 2003.

The World Bank has implemented its development programs for Iraq on the basis of three Interim Strategy Notes (ISN) and a Country Partnership Strategy. As of February 2013, 42 projects were approved and financed through WB ITF grants (530.2 million USD), IDA (508.5 million USD), IBRD (250.0 million USD) and other grants (24.9 million USD), as shown in Figure 3.4-3.

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<sup>33</sup> Created in July 1997, the Post-Conflict Fund, with the objective to position the World Bank through constructive engagement in conflict-affected countries where normal instruments and budget provisions cannot apply, provides grants to a range of partners, financing socio-economic analyses, watching briefs, transitional support strategies, small-scale pilot reconstruction activities, and policy studies and forums.



Source: World Bank Operations in Iraq, 28 February, “Project Portfolio” 2013 [http://siteresources.worldbank.org/IRAQEXTN/Resources/IQ\\_Datasheet\\_Feb\\_2013.pdf](http://siteresources.worldbank.org/IRAQEXTN/Resources/IQ_Datasheet_Feb_2013.pdf).

**Figure 3.4-3 Fund Sources for World Bank Operations in Iraq (as of February 2013)**

The First (March 2003 to December 2003), the Second (fiscal years 2006-2007) and the Third (fiscal years 2009-2011) ISNs were concerned with support for Iraq’s reconstruction efforts, building the capacity of state institutions, and laying the foundation for long-term growth through analytic work, technical assistance and training, and investments in infrastructure, health, education and social protection projects, as well as through a IBRD Development Policy Loan supporting public financial management, pension reform, and financial sector reform.

Under the Country Partnership Strategy for the fiscal years 2013-2016 period, the World Bank Group shifted to a new modality of engagement with Iraq, namely, from transactional project assistance to support for institutional development, selective IBRD investments, analytical and advisory assistance, and reimbursable technical assistance. There are three main pillars of activities: a) strengthening state institutions to improve the management of financial resources, including the continuation of the ongoing Extractive Industry Transparency Index (EITI) program; b) supporting economic diversification and sustainable growth, focusing on state-owned enterprise reform and public-private partnerships, and on financial sector reform; and c) improving the delivery of basic services (namely, energy, transport, water, education, health) and social protection.

### 3.4.3 IMF

The IMF has been providing policy advice and technical expertise to Iraqi authorities to assist their efforts a) in maintaining macroeconomic stability and b) in rebuilding fiscal, monetary and

financial institutions. With the support of four IMF programs<sup>34</sup> since 2003, macroeconomic stability of the country has been regained (the Central Bank of Iraq (CBI) has succeeded in keeping inflation under control – in the single-digit range – and maintaining a stable exchange rate) and progress has been made in the modernization of the financial sector through the development of institutional capacity and governance infrastructure of the Iraqi authorities.

The IMF has been working closely with the World Bank in the areas of macroeconomic and fiscal sustainability, revenue management, reform of domestic subsidies, financial sector reform (state bank restructuring, strengthening of the payment system and banking supervision and regulation), public debt management, and capacity building of statistical agencies. At the same time, in some areas the World Bank provided inputs to the IMF and in other areas vice versa. In the areas of monetary and credit policies, exchange rate management, tax policy and administration, and balance of payments issues, the IMF has the dominant role, whereas in the areas of emergency support to rehabilitate vital public services (such as education, health, water supply and sanitation, urban infrastructure, power and telecommunications), the World Bank has the dominant involvement.

**Table 3.4-1 World Bank and IMF Collaboration Areas**

<p><b>WB alone:</b> Emergency support to rehabilitate vital public services (through ITF &amp; IDA funded projects), education, health, water supply and sanitation, urban infrastructure, power and telecommunications</p>	<p><b>IMF alone:</b> Monetary &amp; credit policies, exchange rate management, tax policy and administration, and balance of payments issues</p>
<p><b>IMF &amp; WB:</b> Macroeconomic &amp; fiscal sustainability, revenue management, reform of domestic subsidies, financial sector reform (state bank restructuring, strengthening of payment system and banking supervision and regulation), public debt management, and statistical capacity building</p>	
<p>Policy advices on subsidy reform, pension system and social protection, oil revenue governance, public finance management, civil service and payroll reform, restructuring of SOEs and public banks, investment climate, and trade policy and facilitation.</p>	<p>Macroeconomic policies, debt sustainability analysis, monetary policy, and management of aggregate expenditures</p>
<p><b>WB inputs to IMF</b></p>	<p><b>IMF inputs to WB</b></p>

Note: WB denotes the World Bank

Source: IMF. Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding (3 March 2011), Annex II.

<sup>34</sup> Four programs are Emergency Post Conflict Assistance Program (<http://www.imf.org/external/np/sec/pr/2004/pr04206.htm>), 2005 Stand By Arrangement (<http://www.imf.org/external/np/sec/pr/2005/pr05307.htm>), 2007 Stand By Arrangement (<http://www.imf.org/external/pubs/ft/scr/2007/cr07301.pdf>) and 2010 Stand By Arrangement (<http://www.imf.org/external/np/sec/pr/2010/pr1060.htm>).

The third Stand-By Arrangement for Iraq (approved in 2010) expired in 23 February 2013, but IMF intends to continue its support to Iraq to further improve the conditions of the following important matters<sup>35</sup> :

- a. Strengthening of financial management, including the phasing-out of off-budgetary spending practices, and reliance on state-owned bank financing to support public enterprises
- b. Further strengthening of the financial sector, including refining CBI's monetary policy instruments, strengthen banking supervision, and accelerating the banking system restructuring
- c. Liberalization of foreign exchanges which is currently provided through auctions

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35 IMF Press Release No. 13/87 (21 March 2013), "IMF Mission Concludes Article IV Discussions with Iraq

## Chapter 4 Current State and Issues of Business Environment

### 4.1 Laws and Regulations

Laws and regulations are one of the most important factors determining the business environment. This section, which provides information and analysis related to laws and regulations in Iraq, focuses on commercial activities. The following contents of this section show the approach for the study on the laws and regulations in Iraq.

#### 4.1.1 Overview of legal framework in Iraq

- 4.1.1.1 The legislation system
- 4.1.1.2 The judiciary structure and court system in Iraq
- 4.1.1.3 The Constitution

#### 4.1.2 Basic laws in Iraq

- 4.1.2.1 The Civil Code
- 4.1.2.2 Civil Procedure and Actions Law
- 4.1.2.3 Commercial law

#### 4.1.3 Laws and regulations related to doing business in Iraq

- 4.1.3.1 Visas and immigration
- 4.1.3.2 Establishment of business entity in Iraq (Representative Office and Branch)
- 4.1.3.3 Establishment of a company in Iraq
- 4.1.3.4 Agency agreements
- 4.1.3.5 Public Procurement Law and regulations
- 4.1.3.6 Contracting (Governing law, jurisdiction and arbitration)
- 4.1.3.7 Laws and regulations for finance
- 4.1.3.8 Taxation
- 4.1.3.9 Intellectual property rights
- 4.1.3.10 Dispute resolution

#### 4.1.4 Investment law

- 4.1.4.1 Privileges and guarantees under the Investment Law No. 13 of 2006
- 4.1.4.2 Investor obligations under the Investment Law No. 13 of 2006
- 4.1.4.3 National Investment Commission and provincial Investment Commissions

#### 4.1.5 Other laws and regulations

- 4.1.5.1 Environmental regulations
- 4.1.5.2 Laws and regulations for power projects

#### 4.1.6 Laws and regulations in Kurdistan Region

- 4.1.6.1 Company registration in kurdistan Region
- 4.1.6.2 Kurdistan region - Investment Law 2006

#### 4.1.7 Legal issues for doing business in Iraq

- 4.1.7.1 Enactments (passages) of law bills (draft laws)
- 4.1.7.2 Licenses and approvals
- 4.1.7.3 Enforcement foreign arbitration awards

Source: JICA Survey Team.

**Figure 4.1-1 Survey Approach for Laws and Regulations in Iraq (Contents)**

#### 4.1.1 Overview of the legal framework in Iraq

The current legal framework in Iraq consists of the laws and regulations in three historical categories (as shown in the following figure): 1) laws of the previous regime, 2) orders and notes by the Coalition Provisional Authority (CPA) and Iraqi Transitional Government, and 3) the new laws made after the adoption of the new Constitution in 2006. During the period of the Iraqi Transitional Government, the Transitional Administrative Law (TAL) was the basis of various regulations, and functioned as an interim constitution until the end of 2005, which calls for Iraq to have a permanent republican, federal government system, with power shared among the central government, 18 governorates (provinces), and local and municipal governments.

There are still some matters in the relations among those laws and regulations that are unclear, or conflicting. This is one of the issues in the Iraqi business environment.

Year	~2003	2003~2006	2006~
Constitution	Costitution	2004 Transitional Administraitive Law	2006 Constitution
Major Laws	1951 Civil Code 1951 Civil Procedure Law 1984 Commercial Law		
Laws for Business	1997 Company Law (No.21) 1997 State Company Law (No.22)	2004 Registration Instruction	
Company Laws			
Laws for Trade	1984 Trade Law No.30 1991 Law on registration Agent (No.4) 2000 Commercial Agency Law (No. 51)	2003 CPA PN. 9 and 54	
Laws for Procurement	Public Procurement Law		2008 MOP Instruction No.1
Laws for Taxation	1982 Laws of Income Taxation (No.113)	2006-2007 CPA PN. 17	2010 Amend for IOC
Laws for Investment	1988 Mineral Investment Law (No.91) 1998 Industrial Investment Law (No. 20)		2006 Kurdistan Regional Investment Law ( No. 4) 2006 Investment Law (No.13) 2009 Amends & Regulations
Others	1997 Environment Law (No. 3)		2009 Environment Law (No.27)

Note: MOP stands for the Ministry of Planning; IOC for International Oil Company; and PN for Public Notice  
Source: JICA Survey Team.

**Figure 4.1-2 History of Laws and Regulations in Iraq**

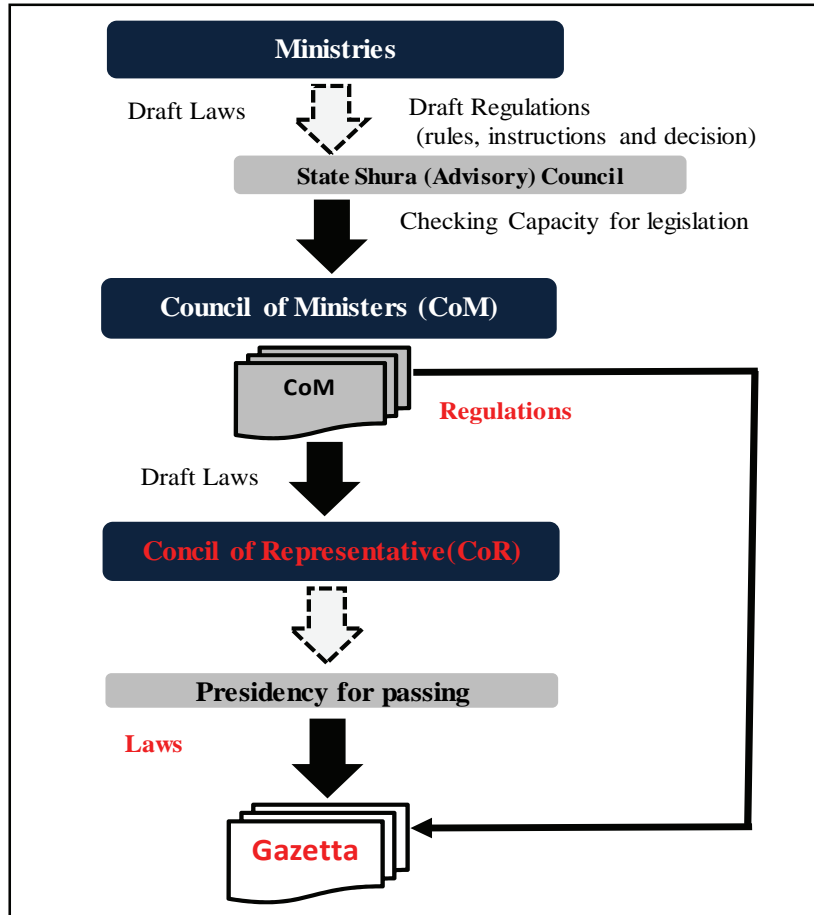
##### 4.1.1.1 The legislation system

The following extracts from articles in the Iraqi Constitution are the ultimate basis for the nation's legislation system, as illustrated in Figure 4.1-3.

**Article 48:** The federal legislative power shall consist of the Council of Representatives and the Federation Council.

**Article 60:** ... Bills (draft laws) shall be presented by the President of the Republic and the Council of Ministers.

**Article 80: The Council of Ministers shall exercise the following powers: .....** To issue rules, instructions, and decisions for the purpose of implementing the law.



Source: JICA Survey Team based on the various information in Iraq, including “Legislations and Regulations in Iraq” prepared by Task Force to reform the public and private sector in October 2010.

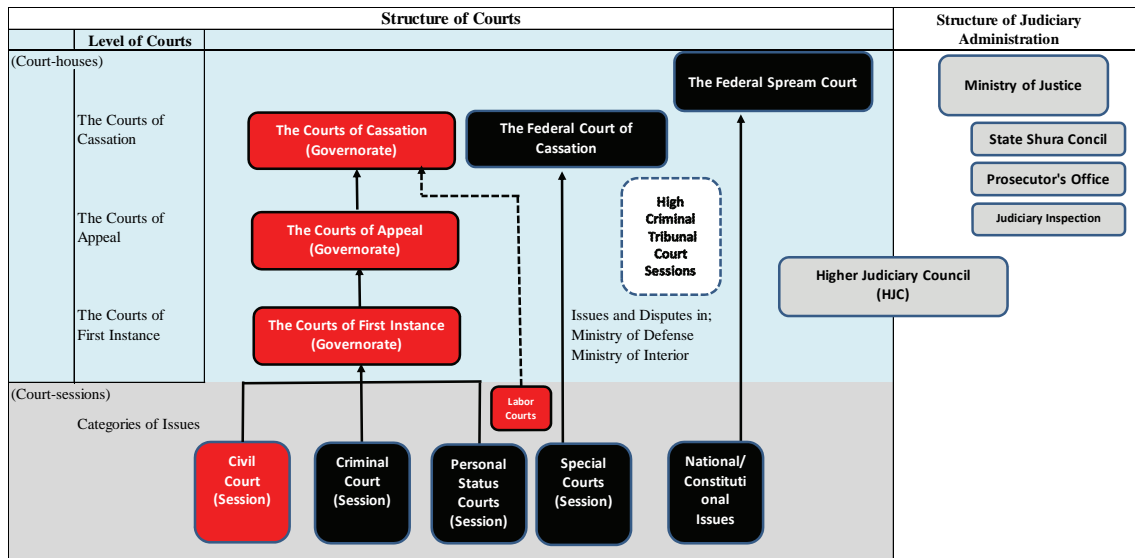
**Figure 4.1-3 The Iraqi Legislative System**

#### 4.1.1.2 The judiciary structure and court system in Iraq

The independence of the judiciary is defined in the Constitution. The independence is represented by courts in Iraq, and they issue their rulings according to law.

No authority can interfere in the judiciary or in the affairs of justice. The following is the structure of courts and judiciary administration in Iraq.





Source: JICA Survey Team

**Figure 4.1-4 Structure of Courts and Judiciary Administration in Iraq**

The federal judiciary includes the Higher Judiciary Council (HJC), the Supreme Federal Court, the Federal Cassation Court, the Prosecutor's Office, the Judiciary Inspection Department, and other federal courts.

The Iraqi court system (court sessions) is divided into the Civil Courts, Criminal Courts, Courts of Personal Status and other special court sessions. The court hierarchy (court house) basically consists of Courts of First Instance, Courts of Appeal, and Courts of Cassation. For the special court sessions related to the Ministry of Defense and Ministry of Interior shall be handled in the Federal Court of Cassation. The Federal Supreme Court, consisting of nine members appointed by the Presidency Council, is responsible for the national and constitutional issues. One Supreme Court judge presides over the HJC.

The Courts of Personal Status have jurisdiction in all matters of first instance related to the personal status of Muslims. Decisions made by the Courts of Appeal, in both civil and criminal matters, may be appealed to the Courts of Cassation, which is normally the court of last resort.

#### 4.1.1.3 The constitution

Iraq's permanent Constitution (the new Constitution) was approved by referendum on 15 October 2005 and was adopted in October 2006 after an agreement was reached to form a constitutional review committee. Prior to 2003, the country was subject to the 1970 Temporary Constitution, which established a highly centralized state that was led by an unaccountable, unelected, and unrepresentative executive branch of government (led by the Revolutionary Command Council). In 2004, the CPA drafted and enforced the TAL which served as a type of transitional constitution. That text was designed for the transition to sovereign state rule, firstly by establishing a timetable that all parties involved in the political process had to adhere to, and

secondly by seeking to ensure the continuity and proper functioning of the state during this interim period. The application of the TAL produced mixed results for a number of reasons.

The constitution consists of the preamble and 6 sections with 144 articles as shown in the following figure.

Section	Chapter	Article
Preamble		
Section 1 Fundamental Principles		Article 1-13
Section 2 Rights and Liberties	Chapter 1 [Rights] First: Civil and Political Rights Second: Economic, Social and Cultural Liberties	Article14-21 Article22-36
	Chapter 2 [Liberties]	Article37-46
Section 3 Federal Powers	Chapter1 [The Legislative Power] <b>First: The Council of Representatives</b> Second: The Federation Council	Article47 Article48 <b>Article49-64</b> Article65
	Chapter 2 [The Executive Power] First: The President of the Republic <b>Second: Council of Ministers</b>	Article66 Article67-75 <b>Article76-86</b>
	Chapter 3 [The Judicial Power] First: Higher Juridical Council Second: Federal Supreme Court <b>Third: General Provisions</b>	Article87-89 Article90-91 Article92-94 <b>Article95-91</b>
	Chapter 4 [Independent Commissions]	Article102-108
Section 4 Powers of the Federal Government		Article109-115
Section 5 Powers of the Regions	Chapter 1 [Regions]	Article116-121
	Chapter 2 [Governorates that are not incorporated in a region]	Article122-123
	Chapter 3 [The Capital]	Article124
	Chapter 4 [The Local Administrations][The Capital]	Article125
Section 6 Final and Transitional Provisions	Chapter 1 [Final Provisions]	Article126-131
	Chapter 2 [Transitional Provisions]	Article132-144

Source: JICA Survey Team.

**Figure 4.1-5 Structure of the Iraqi Constitution**

The Constitution does not resolve, and the Council of Representatives has not addressed, several fundamental constitutional issues, including issues related to the exploitation of natural resources (in particular, oil and gas). This is a particularly difficult issue that has contributed to the significant amount of tension between the central government and the Kurdistan Regional Government (KRG).

The following table shows the key articles and their provisions in the Constitution that are of special importance regarding doing business in Iraq. The English translation of the entire Iraqi constitution is attached as Appendix 4.1-1 at the end of the Report.

**Table 4.1-1 Key Provisions in the Constitution**

Article Number	Contents	Provisions
13	Constitution	<p><b>First:</b> This Constitution is the preeminent and supreme law in Iraq and shall be binding in all parts of Iraq without exception.</p> <p><b>Second:</b> No law that contradicts this Constitution shall be enacted. Any text in any regional constitutions or any other legal text that contradicts this Constitution shall be considered void.”</p>
19	Judiciary	<p><b>First:</b> The judiciary is independent and no power is above the judiciary except the law.</p>
23	Private Property	<p><b>First:</b> Private property is protected. The owner shall have the right to benefit, exploit and dispose of private property within the limits of the law.</p> <p><b>Second:</b> Expropriation is not permissible except for the purposes of public benefit in return for just compensation, and this shall be regulated by law.....</p> <p><b>Third:</b></p> <p>A. Every Iraqi shall have the right to own property anywhere in Iraq. No others may possess immovable assets, except as exempted by law.</p> <p>B. Ownership of property for the purposes of demographic change is prohibited.</p>
26	Investment	<p>The State shall guarantee the encouragement of investment in the various sectors, and this shall be regulated by law.</p>
47	Federal Powers	<p>The federal powers shall consist of the legislative, executive, and judicial powers, and they shall exercise their competencies and tasks on the basis of the principle of separation of powers.</p>
48	The Legislative Power	<p>The federal legislative power shall consist of the Council of Representatives and the Federation Council.</p>
89	Federal Judicial Power	<p>The federal judicial power is comprised of the Higher Juridical Council, the Federal Supreme Court, the Federal Court of Cassation, the Public Prosecution Department, the Judiciary Oversight Commission and other federal courts that are regulated in accordance with the law.</p>
52	Objection to the Decision of CoR	<p><b>First:</b> The Council of Representatives shall decide, by a two-thirds majority, the authenticity of membership of its member within thirty days from the date of filing an objection.</p> <p><b>Second:</b> The decision of the Council of Representatives may be appealed before the Federal Supreme Court within thirty days from the date of its issuance.</p>
58	Legislative session of CoR	<p><b>First:</b> The President of the Republic, the Prime Minister, the Speaker of the Council of Representatives, or fifty members of the Council of Representatives may call the Council to an extraordinary session. The session shall be restricted to the topics that necessitated the call for the session.</p> <p><b>Second:</b> The legislative session of the Council of Representatives may be extended for no more than 30 days to complete the tasks that require the extension, based on a request from the President of the Republic, the Prime Minister, the Speaker of the Council, or fifty members of the Council of Representatives.</p>
59	CoR Quorum	<p><b>First:</b> The Council of Representatives quorum shall be achieved by an absolute majority of its members.</p> <p><b>Second:</b> Decisions in the sessions of the Council of Representatives shall be made by a simple majority after quorum is achieved, unless otherwise stipulated.</p>
61	Enacting federal laws	<p>The Council of Representatives shall be competent in the following:</p> <p><b>First:</b> Enacting federal laws.</p> <p>.....</p> <p><b>Fourth:</b> Regulating the ratification process of international treaties and agreements by a law, to be enacted by a two-thirds majority of the members of the Council of Representatives.</p> <p>.....</p>
66	The Executive	<p>The federal executive power shall consist of the President of the Republic and the Council</p>

Article Number	Contents	Provisions
	Power	of Ministers and shall exercise its powers in accordance with the Constitution and the law.
80	Legislation by CoM	The Council of Ministers shall exercise the following powers: ..... <b>Third:</b> To issue rules, instructions, and decisions for the purpose of implementing the law.
87	Independent judicial power	The judicial power is independent. The courts, in their various types and levels, shall assume this power and issue decisions in accordance with the law.
93	Federal Supreme Court	The Federal Supreme Court shall have jurisdiction over the following: First: Overseeing the constitutionality of laws and regulations in effect. Second: Interpreting the provisions of the Constitution. Third: Settling matters that arise from the application of the federal laws, decisions, regulations, instructions, and procedures issued by the federal authority. The law shall guarantee the right of direct appeal to the Court to the Council of Ministers, those concerned individuals, and others. Fourth: Settling disputes that arise between the federal government and the governments of the regions and governorates, municipalities, and local administrations. Fifth: Settling disputes that arise between the governments of the regions and governments of the governorates. Sixth: Settling accusations directed against the President, the Prime Minister and the Ministers, and this shall be regulated by law. Seventh: Ratifying the final results of the general elections for membership in the Council of Representatives. Eight: A. Settling competency disputes between the federal judiciary and the judicial institutions of the regions and governorates that are not organized in a region. B. Settling competency disputes between judicial institutions of the regions or governorates that are not organized in a region.
94	Decisions of the Federal Supreme Court	Decisions of the Federal Supreme Court are final and binding for all authorities.
109	Powers of the Federal Government	The federal authorities shall preserve the unity, integrity, independence, and sovereignty of Iraq and its federal democratic system.
111	Oil and gas	Oil and gas are owned by all the people of Iraq in all the regions and governorates.
112	Revenue sharing of Oil and gas	<b>First:</b> The federal government, with the producing governorates and regional governments, shall undertake the management of oil and gas extracted from present fields, provided that it distributes its revenues in a fair manner in proportion to the population distribution in all parts of the country, specifying an allotment for a specified period for the damaged regions which were unjustly deprived of them by the former regime, and the regions that were damaged afterwards in a way that ensures balanced development in different areas of the country, and this shall be regulated by a law. <b>Second:</b> The federal government, with the producing regional and governorate governments, shall together formulate the necessary strategic policies to develop the oil and gas wealth in a way that achieves the highest benefit to the Iraqi people using the most advanced techniques of the market principles and encouraging investment.
117	Kurdistan	<b>First:</b> This Constitution, upon coming into force, shall recognize the region of Kurdistan, along with its existing authorities, as a federal region. <b>Second:</b> This Constitution shall affirm new regions established in accordance with its provisions.
119	Regional Government	One or more governorates shall have the right to organize into a region based on a request to be voted on in a referendum submitted in one of the following two methods:
120	Constitution of	Each region shall adopt a constitution of its own that defines the structure of powers of the

Article Number	Contents	Provisions
	Region	region, its authorities, and the mechanisms for exercising such authorities, provided that it does not contradict this Constitution.
121	Regional powers	<p><b>First:</b> The regional powers shall have the right to exercise executive, legislative, and judicial powers in accordance with this Constitution, except for those authorities stipulated in the exclusive authorities of the federal government.</p> <p><b>Second:</b> In case of a contradiction between regional and national legislation in respect to a matter outside the exclusive authorities of the federal government, the regional power shall have the right to amend the application of the national legislation within that region.</p> <p><b>Third:</b> Regions and governorates shall be allocated an equitable share of the national revenues sufficient to discharge their responsibilities and duties, but having regard to their resources, needs, and the percentage of their population.</p> <p><b>Fourth:</b> Offices for the regions and governorates shall be established in embassies and diplomatic missions, in order to follow cultural, social, and developmental affairs.</p> <p><b>Fifth:</b> The regional government shall be responsible for all the administrative requirements of the region, particularly the establishment and organization of the internal security forces for the region such as police, security forces, and guards of the region.</p>
141	Old Laws in Kurdistan	Legislation enacted in the region of Kurdistan since 1992 shall remain in force, and decisions issued by the government of the region of Kurdistan, including court decisions and contracts, shall be considered valid unless they are amended or annulled pursuant to the laws of the region of Kurdistan by the competent entity in the region, provided that they do not contradict with the Constitution.
143	Transitional Administrative Law	The Transitional Administrative Law and its Annex shall be annulled on the seating of the new government, except for the stipulations of Article 53(A) and Article 58 of the Transitional Administrative Law.

Source: The Constitution

## 4.1.2 Basic laws in Iraq

As is found in other Arab countries of the Middle East, the legal system is a mixture of Islamic law and a Western-style legal system. Most business activities in Iraq, including contracts and investments, are governed by the Iraqi Civil Code and the Iraqi Commercial Law. The Iraqi Civil Code, established in 1951 (1951 Law No. 40), is a law that was characterized by the ease of understanding, and is similar to Egyptian (French type) law. The Iraq Commercial Code law (Commercial Code Law No.30) was adopted in 1984.

These laws can be taken as a basis for foreign companies to invest in and implement projects in Middle East countries.

### 4.1.2.1 The civil code

During the 1930s, a committee was formed to draft a civil code for Iraq based on Islamic and European (primarily French) legal principles. By the time the committee neared the end of its work in 1940s, it had access to an additional source of law, the Egyptian Civil Code. The Iraqi Civil Code was completed in 1946, enacted as Law No. 40 in 1951, and became effective in 1953. From that time up to present, the Civil Code has basically remained unchanged.

The Iraqi Civil Code contains extensive provisions regarding “obligations”, including what in

common law systems is referred to as contract and tort law. For example, the Civil Code addresses a wide range of contract law issues: the elements and formation of contracts (including offer and acceptance); contractual defects such as duress, mistakes, and misrepresentation; interpretive rules for contracts; discharge, excuse (force majeure and changed circumstances) and breach; and contractual damages. The following are key issues for contracting.

**Limitation of liability:** The Civil Code contains no prohibition on exclusion or limitation of liability for death, personal injury, or damage to personal property. It is not possible to limit liability for gross negligence or wilful misconduct.

**Force majeure:** A party is not liable to pay compensation for damages for delay or non-performance if resulting from force majeure

**Decennial liability:** Joint strict liability for architects and building contractors for 10 years for collapse/partial collapse of building or fixed installations and any defects in the construction of the building or its installations which may threaten the strength and safety of the building

**Contractual remedies:** Iraqi courts can order specific performance but may award damages where performance would be too onerous.

Parties may seek cancellation of a contract and compensation. Generally, the courts will seek to put the parties in the position they would have been had a contract been performed. Other than in cases of fraud or gross negligence, damages are to be limited to the loss suffered or the loss of profits foreseeable at the time of contracting

The articles and stipulations in the Civil Code related to the business implementation, including the financing, are specified in the following section 4.1.3.

#### **4.1.2.2 The civil procedure and actions law**

The Civil Procedure and Actions Law No. 83 was adopted in 1969 and is the legal basis for the Civil Procedure Code. It regulates judicial procedures applicable in civil and commercial cases, including competence and jurisdiction of the courts, rules on service of process, pleadings, court hearings, and injunctions. Articles 251-276 of the Code regulate arbitration of disputes. However, the Code does not expressly address foreign arbitration or foreign arbitral awards. Foreign court judgments are subject to the Law on Enforcement of Foreign Judgments No. 30 (1928), but that law similarly does not expressly address foreign arbitral awards. Therefore, a foreign arbitral award cannot be enforced in Iraq under Law No. 30, unless approved by a court decision in the place of arbitration. During the 1980s, the Iraqi government usually insisted that its contracts with a foreign company provide for arbitration in Iraq. Based on past experience, some observers caution that arbitration proceedings in Iraq, between a government entity and a foreign party, may not always be fair and unbiased.

The articles and stipulations in the Procedure and Actions Law related to the business implementation, including the establishment of business entities in Iraq, are given below (see section 4.1.3).

#### **4.1.2.3 The commercial law**

The Iraqi Commercial Code was established by the Law of Commerce No. 30 of 1984. It regulates commercial matters pertinent to businesses including trade names; company registration; company books and accounts; negotiable instruments, commercial mortgages, letters of credit, and other financial transactions; as well as carriage and delivery terms for international sales transactions. The sections on international terms of sale appear to be similar to the Incoterms standards recommended by the International Chamber of Commerce at the time the Commercial Code was passed.

#### **4.1.3 Laws and regulations related to doing business with and in Iraq**

The Iraqi government has been making its efforts to reform and improve the various laws and regulations for doing business in Iraq on the legal basis of the Constitution and basic laws of the nation. The following analyzes the laws and regulations related to business activity in Iraq.

##### **4.1.3.1 Visas and immigration**

Personal, physical entry to Iraq is the first step to start doing the business in Iraq. Any foreign national who wishes to enter Iraq for leisure, employment, mass media, business, diplomatic function, investment, studies, permanent residency, or other reasons is required to obtain the necessary requirements and apply for a visa from the Iraqi embassy or consulate in their countries of current residence.

The recent improvements for the speedy issuance of entry visas for persons doing business in Iraq at the Iraq Embassy in Tokyo are highly appreciated. However, there are still some outstanding issues concerning the requirements and system for the obtaining visas. This Survey found that not a few businessmen expressed concern regarding the visa issue, as a serious aspect of the business environment in Iraq – especially, the matter of multiple entry visas and the maximum duration for staying in Iraq. Some of them stated that they had difficulty in obtaining a residence permit or work permit in Iraq.

##### **(1) Immigration laws and administration for immigration**

The Iraqi Immigration Department and Ministry of Foreign Affairs are responsible for immigration and visa issuance. The Amended Foreigners Residence Law (No.118), 1978 gives details for all foreign nationals visiting Iraq. The law regulates the entry, residence, and departure of all foreigners in the country. Administration of the law is by the Ministry of

Interior's Director General of Nationality. The Director of Residence is responsible for making sure that all visiting individuals do not overstay their visas. The Residence Officer is the authority to implement the provisions of the Residence Law.

Foreigners are described as any individual who does not possess Iraqi citizenship or have Iraqi nationality.

Certification may be granted by the Residence Directorate based on the submitted application. Any threats or untoward activity toward the local or national security can lead to withdrawal of certification. Any foreigner residing in Iraq can be subject to deportation or detention by the competent authority. This means the competent authority also has the right to expatriate or deport any foreigner who has illegally entered the country. According to the law, any foreigner should be prepared to present the residence document issued by a competent Iraqi authority, permitting residency in the country.

#### (2) Residence permit (Article 10-13 of Law No.118, 1978)

The competent authority may issue a Residence Permit to foreigners permitting them to stay in Iraq for a period of time no longer than eight years. Foreigners are then required to fill out and submit the arrival form within 15 days of arrival. An extension may be granted for one year provided that proper application to the Residence Directorate is made. One month before the residence period expires, the foreigner may request for residence extension for another year

#### (3) Work permits

Work permits are granted to foreign nationals who have a prior employment contract with Iraq-based companies, provided that sufficient proof of transfer, position or employment is presented. The foreigner's dependents may also be given residence permits and visas by filing applications together with the initial application or after approval. Work permits for foreigners are also subject to the provisions of the Labor Law and Investment Law.

#### **4.1.3.2 Establishment of a business entity in Iraq (Representative office and branch)**

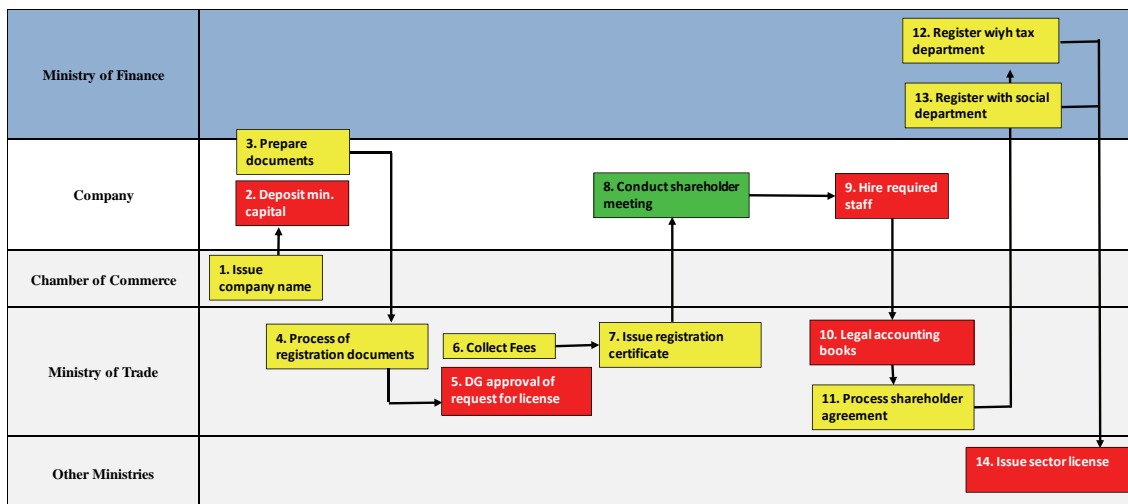
Foreign companies which are to start a business in Iraq need to obtain legal registration pursuant to the Iraqi laws. Some of them may want to expand into Iraq by opening a representative office, or by conducting business through a branch, and others may wish to incorporate a new Iraq entity or partner with locals.

A representative office is the simplest way to establish a presence in Iraq for exploring, marketing, negotiations and feasibility study activities. The representative office is not allowed to engage in commercial activities or transactions. The advantage of opening a representative office is that it entails establishing a legal presence; it is relatively easy to convert it into a branch once a government contract is obtained; and the same name as the parent company can be used. It usually takes about four to six weeks to be registered from the date of submission of



the application to the registrar of companies.

The following figure shows the steps for obtaining the registration.



Source: ISRAR/USAID.

**Figure 4.1-6 Steps of Establishment of Business Entity in Iraq**

Initially, all applications are registered as representative offices, and are not granted permission to engage in commercial trade until the foreign company has negotiated a contract with the Iraqi government or an Iraqi company. Once a foreign company has a government contract, it may apply to change its status from representative office to branch. The company will maintain branch status and be authorized to do business in Iraq for the duration of the contract.

By registering as a company, the foreign company may enjoy the use of their logo, brand, and name by their branch in Iraq. However, the parent company assumes all legal and financial liability for its branch or representative office.

Registration of foreign companies is subject to the Company Law (No. 21 of 1997) and “Regulation of Branches and Office of Foreign Companies and Economic Establishment (No. 5 of 1989”).

#### 4.1.3.3 Establishment of a company in Iraq

Another legal path to consider is to incorporate a new company in Iraq whether with 100% ownership or jointly with an Iraqi national.

Except for some specific activities, the current Iraqi Companies law allows 100% foreign ownership of companies without any restrictions as to nationality, individuals, or companies. The shareholder may be a natural person, a juristic one, Iraqi or other.

The new Iraqi company might be incorporated as one of the following types.

<b>Joint stock company:</b>	The minimum number of owners of a joint stock company is five. Owners are liable for company's debt to the extent of the nominal value of their shares.
<b>Limited liability company:</b>	A limited liability company can be formed by single natural or juridical person. Owners are liable for the company's debt to the extent of the nominal value of their shares. The general minimum capital requirement is 1,000,000 Iraq dinars (IQD) (approximately US\$850), with exceptions for certain companies, in fields such as construction, aviation and others. This company will not have a board of directors, but will be managed by Manager usually known as (Managing Director); who will be responsible for the management as per the authority granted to him by the general assembly.
<b>Joint liability company:</b>	A joint liability requires a minimum of two shareholders. Owners jointly assume personal and unlimited liability.
<b>Sole-owner enterprise:</b>	A sole-owner enterprise is formed by one person. The owner assumes personal and unlimited liability.

A notarized establishment contract has to be signed by all the partners. A copy of the establishment contract should be filed with the Registrar of Companies.

The most-frequently registered and used type is the limited liability company as it can be formed with one shareholder, with a limited liability, and generally for any purpose (though some exceptions apply). The limited liability company, as with other Iraqi companies, should have an Arabic name; therefore most of the foreign companies cannot keep their names as they are unlikely to have an Arabic meaning.

In general, all documents for company registrations issued outside Iraq should be authenticated by the competent authorities in the issuing country, and then stamped by the Iraqi embassy or consulate in that country; and translated into the Arabic language if issued in a different language.

All companies, whether representative office, branch or a new Iraqi company, are obliged to retain both a lawyer and an auditor after registration.

The company registration process generally takes around three months from the date of submission of the application to the Registrar of Companies.

Afterwards, the documents will need to be stamped again by the competent authorities in Iraq's Ministry of Foreign Affairs and sometimes it will require being stamped by the taxation authorities, the Central Bank of Iraq (CBI), or both depending on the document itself.

The following are the major steps and procedures for registering a company, according to the Investor Guide to Iraq, issued by the National Investment Commission (NIC).

1. The One Stop Shop of the NIC is the window for investors to obtain help in completing investment applications and company registrations
2. The trade name of the company is registered at regional chamber of commerce.
3. The chamber of commerce issues one company name out of the list of possible names that is submitted. After initial review on application by NIC, the application document is transferred to the Ministry of Trade for examination prior to approval.
4. The One Stop Shop also facilitates communication between investors and concerned ministries for obtaining investment approval.
5. The declared amount of capital is deposited in an authorized Iraqi bank and notification thereof is made to the Companies Registrar of the Ministry of Trade. Also, it is required to submit a contract signed by the founders of the company, with an explanation of the business domain.
6. The Director General of the NIC approves application document pursuant to the recommendation from One Stop Shop.
7. Final review is made by the Ministry of Trade for issuing an investment license.
8. Following deposit of money in the bank, the investor is required to pay all fees required to register the company with the Companies Registrar.
9. The articles of incorporation signed by the founder and also a feasibility study report are requested to be submitted to the Ministry of Trade's registrar as basic information.
10. Register at taxation office for future tax payment.
11. Final review is made for approval by the Minister of Interior for all foreign shareholders to start business in Iraq. This approval becomes the authorization to apply for multiple visas or work permit visas.

Company registration is clearly governed by the Companies Law No. 21 of 1997 and CPA Public Notice No.9 of 2003.

In addition to the company registration, investors who are to start commercial-based operation in Iraq are required to register as required by the Trade Law No.30 of 1984, the Companies Law No. 21 of 1997, and Public Companies Law No. 22 of 1997.

There are obligations under the Companies Law and State Company Law (also applicable to public-private joint-stock companies). In doing business in Iraq, type of the corporate legal entity of the business partner(s) is important. The Company Law No. 21 of 1997 and Registration Instructions, No. 196 of 2004 (collectively "the "Companies Act") apply to private companies (except for the state companies).

Most of the current major business partners for the foreign companies are the state companies under the Iraqi State Company Law (Registration Instructions State Companies Law, No. 22, 1997, and No. 196 of 2004, or collectively "Iraqi state company law"). State companies are managed by boards. The board members (Director General and the Board of Directors) are appointed by the competent minister of the Iraqi government. In management of the state company, approval from the minister is needed on important decisions such as borrowing funds,

as set forth in Articles 18 and 19 of the State Company Law (“the borrowing must be approved by the Council of Ministers”).

In accordance with the provisions of Article 15 of the State Company Law, the state companies can carry out joint projects with foreign companies to achieve business objectives having been granted without approval from the Council of Ministers (CoM).

#### **4.1.3.4 Agency agreements**

For providing goods or services to Iraq when the company has no permanent establishment there, distribution and sale arrangements with Iraqi agents can be used as a way to do international trade business with Iraq. The key to success is often to find the right commercial agent to open doors and actively promote the foreign company's products or services in Iraq, the same as in other Middle East countries. In some cases, foreign companies have found Iraqi commercial agents to be helpful, for example, to assist with local formalities, and to obtain and follow-up tender documents.

The Revolutionary Command Council amended the Commercial Agency Law in 1989, removing some of the restrictions on foreign companies using commercial agents in sales to the Iraqi government. In the past Iraqi law prohibited or restricted foreign companies from using commercial agents in connection with Iraqi government contracting. This amendment reflected the Iraqi government's efforts to encourage private sector commercial activity following the end of the Iran-Iraq war.

Although there is no requirement to use a commercial agent to bring goods into Iraq and the direct sales and own sales are possible under the Iraqi laws and regulations, not a few foreign companies have their Iraqi agents for practical and commercial reasons.

#### **4.1.3.5 Public procurement law and regulations**

Although the potentiality of the development of the Iraqi private sector seems to be high, the major clients for foreign companies in Iraq are currently the ministries and the state-owned companies. The Iraqi government defines the procurement procedure and standard terms of the contract in its laws and regulations as follows.

In 2006 CPA Order No. 17 was issued by which all foreign personnel were exempted from Iraqi jurisdiction and from Iraqi civil and penal laws. In 2007 the Iraqi government announced that the CPA Order No. 17 was no longer effective. Today commercial contracts in Iraq are basically governed under the Iraqi laws.

##### **(1) CPA Order No. 87 of 2004 on public contracts (“2004 Law on Public Contracts”)**

The 2004 Law on Public Contracts created the Office of Government Public Contract Policy (OGPCP), within the Ministry of Planning and Development Cooperation, to be in charge of the implementation of the 2004 Law on Public Contracts, and vested with the following responsibilities:

1. Co-ordination of government public contract policy for all ministries and public entities of the government
2. Establishment of an independent Administrative Tribunal to handle procurement complaints and disputes
3. Provision of expertise and recommendations for improving regulations and instructions as they relate to government procurement
4. Development and adoption of standard government public contract provisions
5. Training of government public contracting personnel

(2) Implementing regulations for governmental contracts (2007)

In order to support implementation of the 2004 Law on Public Contracts, the No. 1 of 2007 Implementing Regulations for Governmental Contracts (“2007 Procurement Regulations”) were issued under the authority of the OGPCP in 2007.

The 2007 Procurement Regulations were prepared with the contribution of the Procurement Assistance Center (PAC). PAC, through its consultancy engagement, also developed the 2007 Iraq Quick Starting Guide (“2007 Contracting Guide”) with the aim of better disseminating and explaining the procurement provisions set out in the 2007 Procurement Regulations. The 2007 Contracting Guide addresses Iraqi public procurement practitioners as its primary audience.

(3) 2008 Instructions for government contracts’ execution

In 2008, new procurement instructions, entitled “2008 Instructions for Government Contracts’ Execution (“2008 Instructions”)” were issued based on the CPA 2004 Law on Public Contracts. The 2008 Instructions contained no fundamental changes in their approach or their philosophy compared to the 2007 Procurement Regulations, but the style was more explanatory and detailed.

(4) 2008 Regulation of governmental contracts implementation

Shortly thereafter, the OGPCP issued Regulation No. 1 of 2008, on Governmental Contracts Implementation, which was published in May 2008 in the Iraqi Official Gazette. It cancelled and replaced the above-mentioned 2007 Procurement Regulations. By the end of 2008, the Ministry of Planning and Development Cooperation prepared a draft Public Procurement Law, which was sent to the Council of Ministers.

#### **4.1.3.6 Contracting (Governing law, jurisdiction and arbitration)**

The contract parties are generally protected by the contracts and governing laws. The clause of the jurisdiction defines the place of the courts for the solution of disputes. The arbitration clause is a commonly used clause in a contract that requires the parties to resolve their disputes

through an arbitration process. Since these conditions of the contracts are essential for the contracting, contract parties shall carefully examine the conformity and enforceability of the conditions to Iraq legal system and laws.

#### (1) Governing law

The Civil Code (Law No. 40 of 1951) is the basic law governing contracts in Iraq. The law stipulates that a contract is formed by offer and acceptance, and it does not need to be in writing, if evidence of its existence can be provided. The contracts may not relate to a subject matter that is illegal or “prejudicial to public order and morals”, and the rule includes the principles of Shari’ah Exclusion and limitation clauses.

The law does not prohibit the adoption of foreign laws as the governing law for contracts. However, it is seldom to find the adoption of foreign law as the governing law in the contracts with Iraqi government sector.

#### (2) Jurisdiction

The Civil Code also does not prohibit jurisdiction at places in foreign countries for the contracts. However, it is also seldom to find the adoption of jurisdiction at places in foreign countries in the contracts with Iraqi government sector.

#### (3) Arbitration

As described in 4.1.2.2 of this section, Articles 251-276 of the Civil Procedure Code regulate arbitration of disputes. However, the Civil Procedure Code does not expressly address foreign arbitration or foreign arbitral awards. Foreign court judgments are subject to the Law on Enforcement of Foreign Judgments No. 30 (1928), but that law similarly does not expressly address foreign arbitral awards. Therefore, a foreign arbitral award cannot be enforced in Iraq under Law No. 30 (1928), unless approved by a court decision in the place of arbitration.

The section of 4.1.3.10, “Dispute and resolution” explains the practical issues for the arbitration in Iraq more detail.

### **4.1.3.7 Laws and regulations for finance**

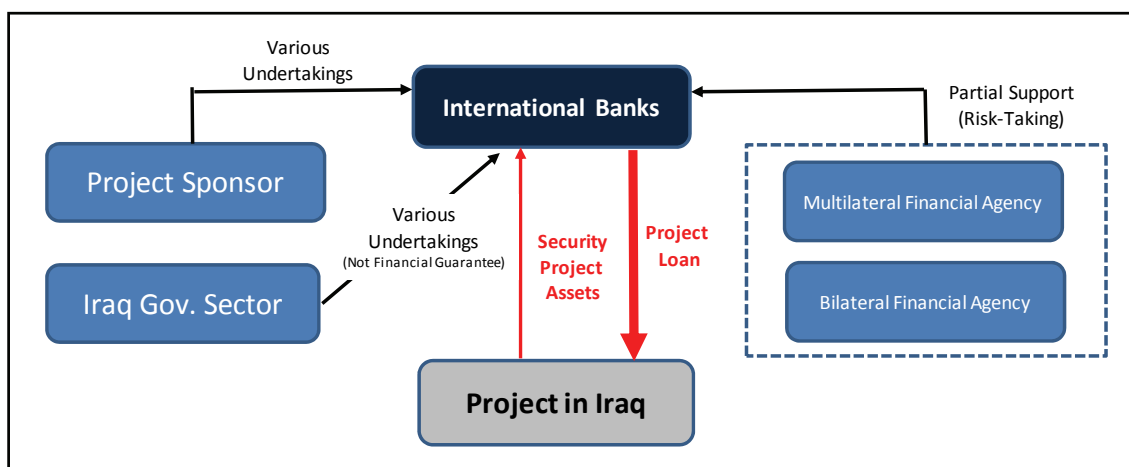
It is obvious that financing of Iraqi projects in the various sectors is a very serious issue for the development of Iraqi infrastructure and industries. There are no specific constraints from the viewpoint of the borrowers in the laws and regulations in Iraq for financing. However, there are several issues in the laws and regulations in Iraq for financing from the viewpoint of investors and lenders. The issues in the Iraqi banking system, including the laws and regulations for foreign exchange, are described in the section of 4.4 below, and the specific issues in the laws and regulations for financing are described in this section, including provision of collateral for financing.

The government of Iraq has been required to cap its cumulative non-concessional external debt after January 2010 at US\$2 billion in line with the associated IMF Stand-By Arrangement program. In fact, as stated in International Monetary Fund (IMF) Country Report No. 11/75 (March 2011), no medium- and long-term export credit has been provided to Iraq since 2010 and utilized for the development of large-scale projects. Thus, it is difficult for the government of Iraq to procure finance from export credit agencies. The updated IMF Program Note for Iraq dated 18 April 2013 reviewed the current program status and stated “The completing other reviews under the arrangement was not possible due to delays in structural reform, restrictions introduced by the CBI in the foreign exchange market, and lack of agreement on potential fiscal liability in 2013”.

Due to the above review of IMF, it is not expected that the above-mentioned restriction for the governmental debt will be removed in the nearest future.

Because the situation mentioned above is a major restraint on large oil and gas projects, infrastructure projects and industrial projects, potential investors must give consideration to the possibility of project finance without a payment guarantee by the Iraq government.

Such a project finance scheme would involve risk sharing among the project stakeholders and international financial cooperation agencies (multilateral and bilateral financial agencies) and the acceptable collateral arrangements of the project assets for the lenders. The following illustration shows such a conceptual project finance scheme.



Source: JICA Survey Team

**Figure 4.1-7 Possible Project Finance Scheme in Iraq**

The following explains the laws and regulations from the viewpoint of the collateral for project finance in Iraq.

Iraqi law provides for typical Civil Code arrangements for collateral, but complications arise from lack of precedent, lack of clarity on enforcement, and limitations on foreign ownership of real estate. Iraq's Civil Code recognizes the following types of security: an authentic mortgage over land and buildings, and possessory mortgage (over land and other assets), and the

mortgage/assignment of company shares.

The Companies Law permits a mortgage to be obtained using shares in a joint stock corporation or limited liability company. The priority of the mortgages can be registered by deed agreements.

Since the amount and date of intangible and future assets cannot be defined at the time of financing, it would be difficult to secure these assets for the lenders under the current Iraqi laws and regulations. The concept of a floating-rate mortgage does not exist in the Iraqi laws and regulations.

Regarding enforceability of collateral rights, a court order is required and there must be a public sale of collateral in the case of international financing.

#### 4.1.3.8 Taxation

Private companies in Iraq have tax obligations as defined in Tax Law No. of 113 of 1982 (old law), CPA Order Nos. 37, 49 and 84 (transition orders) , and Tax Regulations No. 2 of 2008, as follows.

As for the payment obligations of the state companies to the Iraqi government, the state-owned companies have to comply with Article 11 of the State Company Law (45% of the profits included treasury, etc.).

The following is the major terms of those tax laws and regulations.

##### (1) Income tax

The Income Tax Law No. 113 of 1982, and CPA Order Nos. 37, 49 and 84 provide for the following rates of taxation.

**Table 4.1-2 Income Tax Rates**

Category of Income	Rate
Individual income tax	Progressive (3-15%)
Corporate tax	15%
Capital gain	15%
Branch tax	15%
Dividends	0%
Interest	15% (for nonresidents)
Royalty	15% (for nonresidents)
Stamp duty	0.2%(0.1% in Kurdistan)
Income from real estate and buildings	9% (2%)

Source: Income Tax Law No. 113 of 1982 and CPA Order Nos. 37, 49, and 84

##### (2) Tax exemptions

The only tax exemption rules that continue to be enforceable are those that apply to members of foreign diplomatic missions (refer to section 4.1.4.1 for the tax exemptions under the



privilege provided by the Iraq Investment Law of 2006).

(3) Carry-forward of losses

CPA Order No. 49 provided expressly that no losses from the current year may be carried forward for the calculation of income in the following years. However, unused foreign tax credits may be carried forward. The maximum amount of the offset from such losses is 50% from the taxable income of subsequent years.

(4) Foreign tax credits

CPA Order No. 49 amended the relevant provision of Law 113 of 1982 to read “Income tax paid to a foreign country on income earned in that country may be credited against tax paid to Iraq. The amount of the credit may not exceed the amount of the tax assessed in Iraq on the income earned in the foreign country at the rate in effect in Iraq. If taxes paid to a foreign country exceed this limitation, then the excess taxes may be carried forward to credit in five consecutive years, subject to the limitation for those years. To be credited, the amount of foreign tax paid to the foreign country must be confirmed by either a copy of the receipt for tax paid or a confirmation of the amount of tax paid from the tax collection agency of the foreign country.”

(5) Depreciation of fixed assets

Fixed assets can be depreciated over 2-25 years.

(6) Withholding tax system

The Iraqi Taxation Authority has issued the Instructions for the Application of Deemed Tax for 2009 and 2010 on 16 January 2009. It is still valid for 2012 and 2013. The following deemed tax rate (percentage of the total contract value) has been applied.

**Table 4.1-3 Deemed Tax Rates**

Categories of Trade	Tax Rate for Contract Value
Contract for food items	1.8% (deemed profit at 12%)
Contract for non-food items	3.0% (deemed profit at 20%)
Contract for jobs for construction and erection	3.3% (deemed profit at 22%)
Contract for consultation and research	6.0% (deemed profit at 40%)

Source: Instruction for the Application of Deemed Tax for 2009 and 2010

According to Article 27 of the Iraqi Income Tax Law, the Tax Authority may require the Iraqi government sector to deduct the retention/withholding tax in its payments within 10 percent of the contract value. The amount to be deducted shall not be released to the party unless a

certificate of tax clearance is obtained.

(7) Regulation No. 2 of 2008

The Law of Income Taxation on Foreign Oil Companies Working in Iraq No. (19) of 2010 was enacted in 2010. The law consists of the following articles.

- Article 1. An Income tax at a percentage of (35%) shall be put on the income earned in Iraq from the contracts signed with the Foreign Oil Companies, their subsidiaries, branches or offices and their subcontractors working in Iraq in the field of oil and gas extraction and production and the relevant industries.
- Article 2. The provisions of the amended Law of Income Taxation No. (113) of 1982 shall be applied on anything that is not stipulated in this Law.
- Article 3. The Minister of Finance shall issue, in coordination with the Minister of Oil, regulations to determine the contracts to be covered by the provisions of this Law and to facilitate the application of its provisions.
- Article 4. This Law shall be applied from the date it is published in the official Gazette.

#### **4.1.3.9 Intellectual property rights**

The following are the major laws and regulations on protection of intellectual property rights in Iraq.

- 1. Law No. 34 of 1938 amending Law No. 39 of 1931 on Trademarks (1938)
- 2. Law No. 21 of 1957 on Trademarks and Trade Names (1957), amending Law No. 7 of 1962, amending Law No. 214 of 1968, Instructions No. 1 of 1990, CPA Order No. 80, Amendment to the Trademarks and Descriptions Law No. 21 of 1957 (2004) and Law No. 9 of 2010 amending Law No. 21 of 1957 on Trademarks and Trade Names (2010)
- 3. Patents and Industrial Law No. 65 of 1970, Law No. 28 of 1999 - First Amendment to Designs (1999) and Law No. 5 of 2002 amending Law (2002)
- 4. Law No. 3 of 1971 on Copyright (1971)
- 5. Law No. 54 of 1979 on the Central Organization for Standardization and Quality Control (1979)
- 6. Law No. 30 of 1984 on Trade (1984)
- 7. System No. 18 of 1984 on the National Commission for the Transfer of Technology (1984)
- 8. Instructions No. 10 of 1985 on the National Committee for the Protection of Copyright (1985)
- 9. Treaty Approvals Laws / Decrees (Date of current version) Law No. 41 of 1985 on the ratification of the Arab Convention for Copyright (1985)

10. Decision of the Revolutionary Command Council No. 194 of 1994 associating the Central Organization for Standardization and quality control with the Secretariat of the President of the Council of Minister (1994)
11. Decision of the Revolutionary Command Council No. 34 of 1996 organizing the National Commission for the Transfer of Technology (1996)
12. Regulation No. 3 of 2001 on the classification of Patents and Industrial Designs for Implementing Rules/Regulations Intellectual Property (2001)
13. CPA Order No. 83, Amendment to the Copyright Law (2004)

#### (1) Trademark protection

Foreign companies also can register trademarks with the Trade Marks Registrar (in the Ministry of Industry and Minerals). The government protects some internationally recognized trademarks, even if they are not registered in Iraq.

Foreign companies also can transfer ownership and grant a license for use of a registered trademark. Iraqi laws protect registered trademarks for 10 years, with the possibility to obtain an extension for 10 additional years (re-application is required during the 10<sup>th</sup> year). The trademark owners may apply for renewal during the final six months of the trademark validity.

#### (2) Patent protection

Approvals on registering industrial designs and models are obtained for new or novel individual designs or models. An industrial design or sample is not considered novel in the following cases.

1. If it was exhibited or described or its use was described to the public before submitting the application for registration for a patent in Iraq
2. If it was exhibited or described after applying for registration in a country dealing with Iraq on reciprocity basis.
3. If it was exhibited in national or international fairs, or the industrial design or model was exhibited to the public in a scientific conference or journal during a period of not more than 6 months before the date of applying for registration in Iraq.
4. If it includes non-elementary differences with respect to a previous industrial design or model or it was registered to a product of another type that is different from the one for which an industrial design or model was previously registered.

#### **4.1.3.10 Dispute resolution**

The legal framework (laws, regulations, and the legislative system) are similar to those found in other Middle East countries. However, it is in question whether dispute resolution could be realized in Iraq in the acceptable manner to the foreign companies. This is suggested by the United Nations Development Programme (UNDP)-Iraq, in “Deficits in Court Functioning,

including Consequences of Insecurity” contained in the UNDP-Iraq Report for September 2009.

(1) Court structure

The three tier system in Iraq is as explained in section 4.1.1.2.

(2) Court proceedings

Court sessions generally involve an inquisitorial system, rely heavily on written pleadings and evidence, have limited interim remedies available, but have a full range of substantive final remedies.

(3) Enforcement of foreign judgments

Enforcements of international judgments are difficult under Iraqi laws and regulations.

Generally, Iraqi courts will only enforce an international judgment if there is a bilateral treaty or international treaty in place with the relevant country. Iraq is a signatory (member) of the Riyadh Arab Agreement for Judicial Cooperation (Riyadh Convention). However, Iraq is not a member of New York Convention, to which most countries have acceded.

(4) Arbitration

The Civil Procedures Code allows the parties in dispute to choose the form and rules for arbitrations. Iraq is not a signatory to the New York Convention but the Riyadh Convention signed by most Islam states in the region allows for mutual enforcement of arbitral awards and court judgments between signatory States. The venue of arbitration should be a country that has acceded to both the New York Convention and the Riyadh Convention. In the Riyadh Convention, the judgments and arbitral awards given in one signatory country are directly enforceable in another signatory state, provide that the judgment or award conforms to the principles of Shari’ah, and that the judgment or award is not contrary to public order or good morals.

#### **4.1.4 Investment law**

Investment Law No. 13 of 2006, effective since January, 2007, covers investments:

- In all sectors except for investments in oil and gas exploration and production and investments in the banking and insurance sectors.
- In the private and mixed (public/private) sectors.
- With a minimum level of capital investment of US\$250,000.

The English translation of the entire law is attached as Appendix 4.1-2 at the end of the

Report.

#### **4.1.4.1 Privileges and guarantees under the Investment Law No. 13 of 2006**

Investment Law No. 13 of 2006 sets forth a number of privileges and guarantees for prospective investors:

- Foreign investors have the right to repatriate capital brought into Iraq, as well as any profits earned, pursuant to the instructions of the CBI, after paying all taxes and debts owed to the Iraqi government and all other authorities.
- Foreign investors have permission to trade stocks and bonds listed on the Iraq Stock Exchange (ISX).
- Foreign investors may form investment funds, consisting of shares or bonds, on the ISX.
- Foreign investors are allowed to lease land for the life of the investment project, or for a term of up to 50 years. Extensions can be requested and obtained from the NIC for additional years based on need and economic considerations.
- Foreign investors may insure their investment project with any Iraqi or foreign company which they deem suitable.
- Foreign investors may open accounts for licensed projects in Iraqi and/or foreign currencies with Iraqi or foreign banks.
- All foreign investors and non-Iraqi employees of licensed investment projects have the right to reside in Iraq, as well as the right to unimpeded entry and exit from Iraq.
- All licensed projects are protected from any type of confiscation or nationalization of any part of the project, unless there is a legally obtained judgment against the project.
- Non-Iraqis working for investment projects may transfer their salaries and other compensation outside Iraq, after paying all taxes and debts owed to the Iraqi government and all other authorities.
- Any future amendment to this law will not have retroactive effect on the guarantees and exemptions stated above.

In addition to the above privileges and guarantee, the law provides several additional benefits as follows:

- NIC-licensed projects enjoy exemption from taxes and fees for a period of 10 years from the date that commercial operations begin.
- In addition to the exemption of taxes and fees, the NIC will increase the number of years of exemption from taxes and fees in direct proportion to the percentage increase of Iraqi investor participation in the project, up to a maximum of 15 years when Iraqi ownership exceeds 50 percent.

- Assets imported for an investment project are exempt from customs duties as long as they enter Iraq within three years of the licensing date.
- Assets imported for development or expansion of an investment projects are exempt from Customs duties within three years of notification to the NIC of the planned development or expansion.
- Imported parts are exempt from customs duties, as long as the value of the parts is not more than 20 percent of the value of the assets.
- Investment projects involving hotels, tourist establishments, hospitals, health clinics, rehabilitation centers, educational and scientific organizations may import assets for the purpose of modernization and refurbishment without any import fees once every four years.

#### **4.1.4.2 Investor obligations under the Investment Law No. 13 of 2006**

In order to comply with the terms of Investment Law No. 13 of 2006 and receive the guarantees and privileges shown above, investors must comply with the following:

- Investors must provide, in writing, the date commercial operation began to the National, Provincial, or Regional Investment Commission, depending on the circumstances. Investors must maintain proper accounting records. The investor must also have these records approved by a licensed Iraqi accountant.
- Investors must submit an economic and technical feasibility study along with the license application.
- Investors must regularly provide current budget status and project progress status to the National, Provincial, or Regional Investment Commission and other relevant entities.
- Investors must keep a record of any import-fee-exempted items imported for the project. The records must specify the depreciation periods of said items.
- Investors must not harm the Iraqi environment and must also adhere to all valid quality control systems in place in Iraq, as well as to international quality standards (of the International Organization for Standardization and European Union).
- Investment projects must comply with all Iraqi security, health, and public order statutes, and must respect the general values of Iraqi society.
- Investors must, at a minimum, adhere to Iraqi labor laws as they pertain to salaries, time off, work hours, and other stipulated working conditions.

#### **4.1.4.3 National Investment Commission and Provincial Investment Commissions**

Investment Law No. 13 established the NIC and also created the Provincial Investment Commission (PIC) in each Iraqi governorate. NIC was established in 2007 under the CoM based on the Chapter II (Article 4-9) of Investment Law No. 13 of 2006. Active investment promotion

by Iraq was started from 2009 due to several Iraqi social issues. The PICs have the authority to grant investment licenses, promote investment, open local branches in their areas, and formulate local investment commission plans. These activities are undertaken in consultation with the NIC to ensure that provincial plans do not conflict with national level plans developed by the NIC. The NIC's responsibilities include attracting, managing, and regulating foreign investment projects in the private and mixed-public/private sectors.

The NIC is charged with formulating the national investment strategy and policies governing investment projects. It creates plans, regulations, and guidelines to implement the policies in place. Further, it monitors the application of the guidelines and regulations. The NIC was created to oversee projects at the federal and strategic levels. This responsibility was further defined in Investment Regulation No. 2 (2009).

Strategic projects are defined as investments that meet one or more of the requirements below:

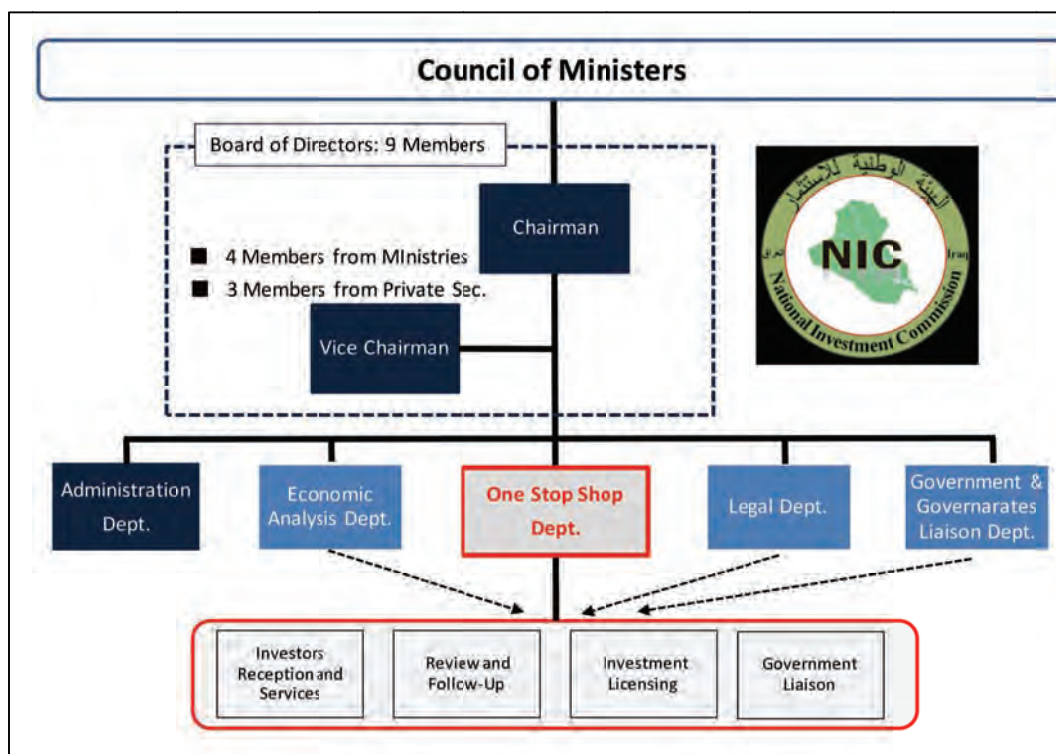
- Common projects between more than one region or province
- Projects related to the extraction of natural resources, other than limited by Article 29 of the Investment Law No. 13 of 2006.
- Projects relating to the development of archeological and historical sites.
- Projects related to telecommunications.
- Projects established under an agreement of which the Republic of Iraq is a party.
- Infrastructure projects with capital greater than US\$50 million or equivalent in IQD.
- Engineering, mineral, petrochemical and medical industries projects as well as manufacturing projects for various types of vehicles where the capital of each is greater than US\$50 million or equivalent in IQD.
- Transportation projects such as roads, seaports, airports and railways with capital greater than US\$30 million or the equivalent in IQD.
- Power projects with cost greater than US\$30 million or the equivalent in IQD.
- Power projects with capacity greater than 30 megawatts each.
- Projects relating to dams, reservoirs, and irrigation greater than 50 million m<sup>2</sup>.
- Any project with capital greater than US\$1 billion or equivalent in IQD.
- Any other projects deemed by the Cabinet to be of a strategic or federal nature.

All projects not on the strategic project list above fall under the authority of the PICs.

#### (1) Organization of NIC

NIC is a presidency under the CoM. NIC is managed by a Board of Directors comprised of nine members based on the Article 4 of the Investment Law No. 13 of 2006. NIC has about 120 employees, and 10-20 of them are generally engaged in the One Stop Shop section of the NIC office in Baghdad. NIC also has Economic Analysis, Legal, Government/Region/Governorates Liaison, and Administration departments. NIC is a flexible organization and set up the One Stop

Shop Team consisting of the appropriate experts in those departments and the hired consultants. NIC has no overseas representative office, and the commercial attaché in Iraqi Embassies are liaison officers for the foreign investors. The organization of NIC is illustrated as follows.



Source: JICA Survey Team.

**Figure 4.1-8 NIC Organization Structure**

## (2) The One Stop Shop

The One Stop Shop is the NIC's single point of contact for investors interested in entering Iraq. It aims to facilitate the investment process by providing investors with a streamlined and hassle-free licensing and investment services. In this capacity, the One Stop Shop is the gateway to investments throughout Iraq.

NIC announced the goals of the One Stop Shop as follows.

- Process investment applications in a single easily accessible spot.
- Create a single clearinghouse where investors can get answers to all their questions.
- Streamline the investing process by clarifying legislation, and improving service quality in registration, licensing, permitting, and land allocation.
- Provide investors with pre-approval support including approval facilitation, local partnering, and information on markets, sectors, and investment incentives.
- Provide post approval support, including application for permits.



The following are the primary activities of the One Stop Shop.

■ Issuing Investment Licenses

Investment Law No. 13 of 2006 requires investors to obtain investment licenses from the NIC or the Regional or Provincial Investment Commissions. Investors may submit investment license applications to the One Stop Shop. It will inform investors of the Commission's final decision on an application within 45 days from the date of submittal of a complete application.

■ Post-licensing support

The One Stop Shop helps to provide support services such as registering the project at the relevant government entity, as well as assistance with project approval, and sponsoring expatriate workers.

The One Stop Shop Team consists of the staff for the reception and investor services (these employees receive, register and input the applications, and respond to investor inquiries), the experts for the review and follow-up (these employees coordinate the approval process by reviewing the investment application internally before submission to the appropriate ministries), the officers for government liaison work (representatives that work hand in hand with the appropriate ministries to gain project approval) and the officers for the tasks of licensing (they coordinate final approval and issuance of licenses).

(3) Procedure for investment licenses

Investment procedures consist of the two parts: procedure to obtain legal status for commercial operation pursuant to Commercial Law No. 30 of 1984 and procedure to obtain an Investment License which is facilitated by NIC and PICs. NIC and PICs assists investors in documentation of investment applications with the help of staff dispatched from concerned ministries.

1) First step: Application

Investors are able to obtain necessary documents and applications for an investment license at the One Stop Shop. The form of the application is attached as Appendix 4.1-3 at the end of the Report. As mentioned above, the One Stop Shop is a department in NIC for investment promotion and licensing facilitation. It is the sole department focusing on facilitating investment licensing within the country whereas there are many local level investment commissions (PICs) across the country. Investment procedure will be explained on the basis of the steps adopted by the One Stop Shop for sake of simplicity.

The following is the principle information required for the application:

- a. A letter indicating a desire to invest, objective, domain and geographic location.
- b. A completed project list both inside and outside of Iraq.
- c. Detailed project explanation inclusive of economic and technical feasibility study
- d. A project time table
- e. A certificate of good standing from a certified bank

According to Law No.13, the investors shall also provide the following information in writing when applying for a license and after the license is issued.

- a. Information to be prepared during application
  - Expected date of the commercial operation startup
  - Economic and technical feasibility study report
- b. Investor's obligations after receipt of an investment license
  - Submission of financial statements which have been approved by a chartered accountant
  - Periodic up-to-date budget status and project progress status reports
  - Any import-fee-exempted records for imports for the project that must specify the depreciation periods.




## 2) Second step: Evaluation by the One Stop Shop

Evaluation and reviewing by the One Stop Shop of application documents for correctness as well as appropriateness from the point of the national interest is the main approach of the second step. The shop reviews completeness of the project submitted package and at the same time it conducts the first review of the feasibility study report. The One Stop Shop then forwards the application documents to the relevant ministries for detailed evaluation. Procedures at the shop take 10 days on average, according to the NIC Investor Guide.

## 3) Third step: Detailed evaluation at relevant ministries

Detailed review of feasibility study will be made by experts in the relevant ministries to conclude approval. This third step takes 15 days on average, according to the NIC Investor Guide.

Once these materials are received, the NIC is to decide on issuance of an investment license in a period of time not exceeding 45 days from the date of submittal. The following diagram illustrates procedures for obtaining an investment license.

	Responsible Party	Responsibility	Time (days)
	Investor	<ul style="list-style-type: none"> <li>•Complete investment application</li> <li>•Conduct feasibility study</li> <li>•Obtain bank certificate</li> </ul>	
	NIC One Stop Shop	<ul style="list-style-type: none"> <li>•Review completeness of package</li> <li>•Conduct first review of feasibility study</li> <li>•Send to relevant ministries</li> </ul>	10 days
	Relevant Ministries	<ul style="list-style-type: none"> <li>•Complete review of feasibility study</li> </ul>	15 days
<b>Investment License Granted</b>			

Source: NIC.

**Figure 4.1-9 Procedure for Investment License**

#### 4.1.5 Other laws and regulations

##### 4.1.5.1 Environmental regulations

In Iraq, there are various laws related to the environment that are concerned with the assessment, control, and monitoring of environmental pollution.

Existing Iraqi environment related laws include legislations mentioned in Table 4.1-4.

**Table 4.1-4 Existing Environment Related Laws**

REFERENCE	TITLE
2009 – Law No. 30 (formerly 1955 – LAW No. 75)	Forest Law
1965 –LAW No. 64	Cities land use
1965 – LAW No. 106	Rangelands and their Protection
1966 –LAW No. 21	Noise prevention
1967 –LAW No. 25	System of rivers and other water resources protection from pollution (includes 45 pollutants)
1976– LAW No. 48	Fishing, exploitation and protection of living aquatic species.
2010 – LAW No. 17 (formerly 1979 - LAW No. 21)	Law on the protection of wild animals and birds
1980 –LAW No. 99	Protection from Ionizing radiation
1981 –LAW No. 89	Public health (drinking water provision, sanitation and environmental monitoring)
1997 –LAW No. 3 (formerly 1986 LAW No. 79)	Protection and improvement of environment
1994 – LAW No.24	Planning Body
1995 – LAW No.12	Maintenance of networks of irrigation and drainage
2001 –LAW No. 2	Water systems protection

2009 – Law No. 29 (1986 – Regulation No. 67)	Updates Regulation No. 67, Regulate the regions for collecting debris (landfills).
1961 – Regulation No. 33	Lease of beaches, islands and Miri surf lands on which pastures or liquorice are naturally grown
1981 – Regulation No. 13	Agricultural Research and Water Resources Centre
2009 – Regulation No. 17 (formerly 1985–Resolution No. 995)	Establishment of aquaculture operations
1990 – Order No. Unknown	Environmental criteria for agricultural, industrial and public service projects
1991 – Decision No. 1 (EPB)	Cutting of trees
1992 – Instructions No. 11	Prohibition of plant importation into Iraq
2010 –Law No.1	Consumer protection law
2010 – Law No.11	Protection of the Iraqi production
2009 – Law No. 3	Joining in Basil convention for controlling the danger hazards.
2009 – Law No.7	Iraq joining the convention of Desertification
2009 – Law No. 27	Iraqi Environmental protection and improvement law
2009 – Law No.28	Agricultural Loans to support the Iraqi farmers
2009 – Law No. 30	Law of Forests and nurseries
2008 – Law No. 7	Iraq joining the Climate Change Convention and Kyoto protocol
2008 – Law No.12	Iraq joining the United Nations Educational, Scientific and Cultural Organization (UNESCO) Convention to protect the cultural intangible heritage
2008 – Law No. 37 (formerly 2003 – CPA ORDER 44)	Ministry of Environment Law - Establishment of the Ministry (instead of the former Council of Protection and Improvement of Environment)
2007 – Law No. 6	Iraq joining the Arabian memorandum of understanding in cooperation in marine transportation
2007– Law No. 7	Iraq joining Rasmar Convention for the wetlands
2007 – Law No. 22	Iraq joining the international agreement for Olive Oil
2007 –Law No. 42	Iraq joining Vienna convention and Montreal protocol to protect the Ozone layer.
2007 – Law No. 48	Iraq joining the regional commission for Fish traps
2007 – Law NO NUMBER	Investment law for Oil refineries
2008 – Law No. 31	Iraq joins the Convention for Biological Diversity
2010 – Order No. 74	Prohibition of plant importation into Iraq - Identifies the Ministry of Environment (MOEN) and Ministry of Agriculture (MOA) as having sole authority over plant importation and states that all plants are prohibited for importation. Supports Instructions No. 11

Source: Iraqi Fourth National Report to the Convention on Biological Diversity

Law No. 37 of 2008 and Law No. 27 of 2009 set out some provisions for organizational structure and Environmental Impact Assessment (EIA).

#### **4.1.5.2 Environmental regulations and standards**

##### (1) Instructions under Iraqi Law

The project has to comply with regulations and standards applicable under laws of Iraq. Some of the Instructions under Iraqi laws for environmental protection are described in Appendix 4.1-4 at the end of the Report.

**Table 4.1-5 Environmental Instructions under Iraqi Law**

Reference	Title	Requirements
Instruction 1 of 1961	Instructions of explosive material transportation	Transportation of explosive material requires license and permissions.
Instruction 2 of 1961	Instructions of explosive materials	Requirements on storing and stocking explosive materials
Instruction 2 of 1984	Instruction on chemical carcinogens	Instruction on chemical carcinogens
Instruction 4 of 1989	Instruction on chemicals	Instructions on certain chemicals
Instruction 4 of 1993	Instruction to protect works from vibrations	Instruction to protect workers from vibrations
Instruction 11 of 1965	Instruction to protect workers from electric shock	Instruction to protect workers from electric shock
Instruction 3 of 2011	Instruction for establishment of the safety projects	Instruction to ensure environmental safety for certain industries

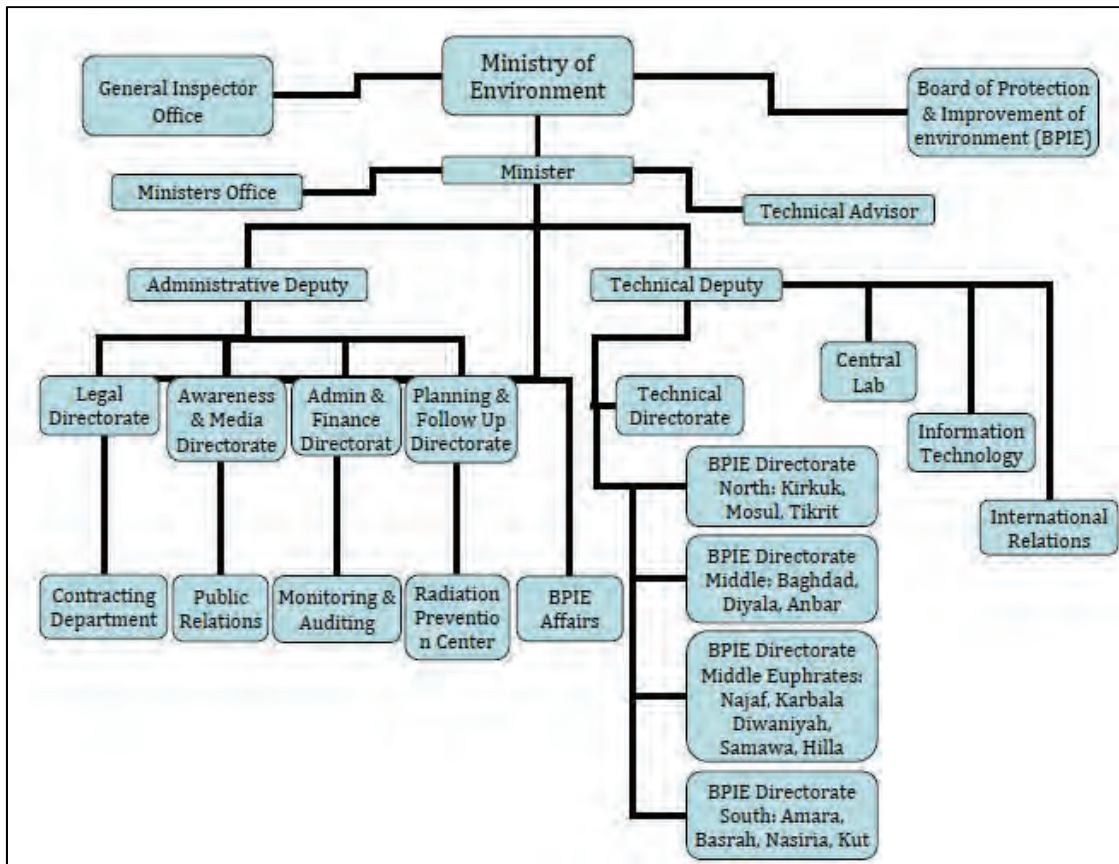
Source: Ministry of Industry and Mineral.

The Instruction No. 3 published in the Iraq Gazette No. 4225 of 9 January 2012 introduced some safety regulations for certain industries including animal factories, threaded production factories, chemical industries, and medical industries. The requirements provide environmental regulations applicable to each industry on those including location, wastewater treatment, air emissions and storage.

(2) Institutional bodies (Ministry of Environment)

Until 1997 from 1975, the Supreme Council for the Protection and Improvement of the Environment was charged with creating environmental policies. In September 2003, the Ministry of Environment (MOEN) was established and began to gradually replace the environment department structure in the Ministry of Health, with concerted cooperation between the two ministries. Law No. 37 of 2008 strengthened the structure of MOEN by giving it power to execute formal ministerial instructions and orders, to create environmental policy and to initiate compliance and deterrence mechanisms

The structure of MOEN approved in October 2008 under the Law No. 37 of 2008.



Source: Iraqi Forth National Report to the Convention of Biological Diversity.

**Figure 4.1-10 Structure of Ministry of Environment**

1) Board of Protection & Improvement of Environment (BPIE)

The Board of Protection & Improvement of Environment (BPIE) was established pursuant to the Law No. 27 of 2009, associated with MOEN. The structure includes BPIE, which is represented by the Chairman. The BPIE meets at least once in two months, to implement the activities mentioned below:

- a. To give advice on environmental issues
- b. To render opinions on environmental aspects of plans, projects, and national programs which were introduced by ministries and departments concerned before approval and following up their implementations
- c. To coordinate with relevant ministries and authorities to prepare local programs for environmental protection and follow up their implementations
- d. To render opinions on Arab and international relations related to environmental affairs

- e. To express opinions on the national agenda and plans of ministries for emergency and environmental disasters
- f. To coordinate activities of the ministries and the departments concerned with environmental protection and evaluation
- g. To render opinions on legislation related to the environment or projects
- h. To evaluate the activities of the Provincial Boards of Protecting and Improving the Environment
- i. To cooperate with the ministries and the relevant entities to prepare a list of the historical, natural and cultural places to nominate to the World Heritage List
- j. To render opinions on the annual reports on the environment in Iraq before submitting it to the CoM.

Members of the BPIE are the Minister of Environment (Chairman), the Technical Deputy of the MOEN as (Deputy Chairman), Director General of the MOEN (member and rapporteur), and representatives from each of the following ministries: Municipalities and Public Works; Planning and Developmental Cooperation; Higher Education and Scientific Research; Interior; Agriculture; Health; Industry and Minerals; Science and Technology; Electricity; Water Resources; Oil Transportation; Tourism and Archeology; Foreign Affairs; Education; Trade; Labor and Social Affairs; Culture; Construction and Housing; Defense; as well as the Municipality of Baghdad and the Iraqi Commission of Controlling the Radioactive Resources.

An expert in the environment protection field, appointed by Minister of Environment, and an employee of MOEN, appointed by the Minister, work as Secretary of the BPIE.

The BPIE may invite any specialist or representative from any sector (public, mixed, private or cooperative) to ask for their opinion and inquire about the environmental matters related to the authority that they represent. The specialist does not have a voting right in the BPIE.

## 2) Provincial government and local units of MOEN

In each province, there is a Provincial Board of Protecting and Improving the Environment. The Chairman of the Provincial Board is the governor of the province, and the members are appointed by the Chairman. Activities and operations are determined by the Provincial Board.

MOEN has regional directorates and offices in each province. Technical directorates at each provincial office generally consist of units for air monitoring, water monitoring, solid waste and chemical hazardous management, biodiversity, marshland, EIA, desertification and land use, and industrial activities monitoring.

Law No. 27 of 2009, the Environmental Protection and Improvement Law (passed on 13 December 2009), set out the provisions relating to environmental assessment.

The Law No. 27 of 2009 aims to protect and improve the environment by removing and

controlling dangers, which may cause harm to public health, natural resources, biodiversity, and cultural and natural heritage, in cooperation with the competent authorities to ensure sustainable development and to achieve international and regional cooperation.

Article 10 of the Law No. 27 of 2009 states that the owner of any project should submit a Environmental Impact Assessment Report (EIA Report) prior to starting the project, and that the EIA Report should include the following.

- a. Estimation of positive and negative impacts of the project on the environment and on the environment surrounding the project
- b. Proposed measures to avoid and treat the causes and the risks of pollution for compliance with environmental regulations and instructions
- c. Incidental and probable cases of pollution as well as precautions which should be taken to avoid them
- d. The possible alternatives to use technologies for a less harmful effect on the environment and to make smarter utilization of resources
- e. Reduction and recycle of wastes or re-use of them whenever possible
- f. Estimation of the environmental feasibility study of the project and estimation of ratio of the pollution cost to the production.

Article 10 states that the technical and economic feasibility study of any project shall contain an EIA Report. EIA is defined as study and analysis of the environmental feasibility of proposed projects that may affect residence or exercise of activities on human health and safety of the environment at present and in future.

Article 11 of the Law No. 27 states that any project causing environmental impact shall not be implemented unless there has been approval from MOEN.

#### **4.1.5.3 Laws and regulations for power projects**

As stipulated in Chapter 3, the demand for electricity is very high. The policy of the Iraqi government is to utilize the private sector investments for development of the new power projects. However, the current regulatory framework for private power projects in Iraq is not sufficient for the private companies.

While the Article 84 of the Constitution requires ministry functions, responsibilities and powers to be regulated by law, the Article 112 confirms that “organizing and distributing the main electrical power resources” is a shared power with governorates. It means that the federal authorities are not given exclusive powers over electricity.

The draft law of the “Electricity Regulatory Law” is currently under the discussion in the Council of Representatives (CoR).

The Iraqi government is very keen to promote power projects with private investments and tried the IPP (Independent Power Project) bid round in 2010/11 for the following projects.



- Samawa, Muthana governorate – 4 x 125 MW = 500MW
- Diwaniya, Qadisiyah governorate – 4x 125 MW = 500MW
- Shat al-Basrah, Basra governorate – 10 x 125MW = 1,250MW
- Amara, Maysan governorate – 4 x125MW = 500MW

The bid round did not succeed in attracting international sponsors and lenders. One of the reasons is the regulatory framework for IPP. The Iraq's Ministry of Electricity is likely to continue working on its independent power project (IPP) program even after the fails of the above tenders.

#### **4.1.6 Laws and regulations in Kurdistan Region**

Most Iraqi laws and regulations established by the Central Government are enforced in the Kurdistan Region. However, the Kurdistan Regional Government (KRG) also established some of its own laws and regulations. The following is difference from other area in Iraq.

##### **4.1.6.1 Company registration in Kurdistan Region**

The requirements of the regional Companies Registry in Kurdistan differ from those of the Companies Registry in Baghdad or other regions of Iraq. There are two Company Registries in the Kurdistan Region: one in Erbil and the other in Suleimaniah, and it may be necessary to register in both depending on the scope of activities of the company.

##### **4.1.6.2 Kurdistan Region – Investment Law 2006**

The KRG adopted its Investment Law in 2006. It is basically the same as the Iraqi Investment Law No. 13 of 2006 established by the Central Government. Based on the Kurdistan Investment Law 2006, the KRG established the Kurdistan Board of Investment (KBI). The English translation of the entire law is attached as Appendix 4.1-5 at the end of the Report.

###### **(1) Kurdistan Board of Investment (KBI)**

The following is the summary of responsibilities of KBI.

- Limited to investment value at 1.5 billion IQD (US\$1.2 million)
- Delineates areas of investment – oil and gas excluded

Key benefits and protections to investors are as follows.

- Guarantee repatriation of capital brought into the region and profits earned, and transfer by foreign investors
- Assure a right to leased land; ownership by foreigners only authorized for residential building projects

- Authorize employment of non-Iraqi nationals
- Exempt taxes and duties for 10 years

Obligations of the investors and sanctions on contravention

- Must keep KBI fully informed, maintain and provide certain records
- Safeguard the environment, maintain public health and safety
- Give priority to recruitment of local staff and provide training for local workforce, and comply with local employment laws

KBI issued “Investment Factsheet Kurdistan Region – Iraq” for the promotion of the investments in the region (see Appendix 4.1-6).

#### **4.1.6.3 Environmental Impact Assessments in the Kurdistan Region**

The requirements of the Kurdistan Ministry of Natural Resources differ from those of the Central Government.

#### **4.1.7 Legal issues for doing business in Iraq**

The government of Iraq has made efforts to establish the rule of law during the past 10 years. However, it seems to be still on the way for the construction of new legal framework for Iraq. While significant support from the international community has been provided for justice reform, and significant progress has been made, a great deal of work remains to be done. The following are the specific and major legal issues to be improved for the sake of foreign companies’ business with and in Iraq. In addition, needs for legal-related equipment including computer system, as well as for training for both judges and court personnel should be addressed.

##### **4.1.7.1 Enactments (passages) of law bills**

The government of Iraq is well aware of the necessity of new legislation for the reconstruction and development of the country, and each ministry prepares many bills which they hope will be made into laws. Most of the bills are on stand-by for discussion in the CoR. It is not clear how long it would take for the passage of the many bills that have been sent to then CoR.

##### **4.1.7.2 Licenses and approvals**

Not a few foreign companies noted in the discussion with the JICA Survey Team that it took long time for the various approvals under Iraqi laws and regulations. International agencies also point to the same issue as an aspect of the business environment that is inferior to that in other countries. The ranking of the business environment for the Starting Business in Iraq assessed in

the Doing Business 2013, co-published by the World Bank and International Finance Corporation (IFC), is 176 out of 185 economies.

In spite of the efforts by NIC for the promotion of investments, it always requires long time for the specific licenses and approvals for the implementation of the investments to be obtained from the relevant governmental authorities. The function of the One Stop Shop in NIC does not mean that it is a one stop shop for the approvals, although the NIC can help investors to obtain the approvals from each ministry. The licensing rights belong to the each ministry.

#### **4.1.7.3 Enforcement foreign arbitration awards**

The foreign companies are currently concerned with the clause of the arbitration in their contracts for the business in Iraq, since the contract parties in Iraq are not so flexible for the governing law and the jurisdiction for the contracts. In some contracts for these years, the foreign parties could agree with Iraqi parties for the foreign arbitration place with the application of the UNCITRAL Arbitration Rules.

The Civil Procedure Code, Law No. 83 (1969) allows for choosing the foreign arbitration place as stipulated in the section 4.1.2.2 of this chapter. However, the enforceability of the foreign arbitration awards could not be accepted in the Iraqi courts, while the foreign judicial judgments may be accepted in Iraqi courts subject to Iraqi Law No. 40 of 1980 on Enforcement, as well as the Law No. 30 of 1928.

Iraq is not a signatory to the New York Convention for Enforcement and Recognition of Foreign Arbitral Awards. The number of the signatory countries for the New York Convention was 148 as of January 1<sup>st</sup> 2013. Many of the Middle East and developed countries are the signatories of the New York Convention as shown in the following figure.

The Iraqi legal authorities like HJC are also keen to be a signatory of New York Convention.

Although Iraq is a member of Arab League (Riyadh Convention), members of the Riyadh Convention are limited in number.



Source: New York Convention homepage.

**Figure 4.1-11 Status Map of Signatories of New York Convention**

## **4.2 Labor and Human Resources**

This section starts with an overview of the current state of labor in Iraq, focusing on the governing law, labor disputes, and labor force in the country. The section then summarizes the current situation regarding human resource development in the country, thereby identifying the key issues in the human resources and its development from the standpoints of foreign companies doing business in Iraq.

### **4.2.1 Labor**

An overview of the current state of labor in Iraq is presented from 4.2.1.1 to 4.2.1.3 below. All the explanation made in 4.2.1.1 and 4.2.1.2 is also applicable to the Kurdistan Region. Some situation regarding labor force in Iraq, which is reviewed in 4.2.1.3, may not reflect the situation in the Kurdistan Region. Hence, 4.2.1.4 summarizes, where appropriate data are available, the current situation regarding labor force in the region.

#### **4.2.1.1 Labor law**

The major laws and regulations which govern employment in Iraq are:

- a. Labor Law No. 71 of 1987 (Labor Code);
- b. CPA Order 89 of 2004 (Amendment to the Labor Law No. 71 of 1987);
- c. Social Security Law No. 38 of 1971, as amended; and
- d. Iraqi Civil Code No. 41 of 1950.

Of these, the essential provisions are stipulated in the Labor Law No. 71 of 1987 (Labor Code) (hereinafter referred to as the “Labor Law”). The Labor Law is summarized<sup>1</sup> below especially from the standpoint of foreign companies doing or planning to do business in Iraq. It should be noted here that a new labor law has been proposed by the Ministry of Labour and Social Affairs (MLSA). The proposed law has not come into effect yet; however, work on modernization of the Labor Law is under way to make the law accord more with the current economic and social advances in Iraq, as described in the National Development Plan for the Years 2010-2014 (NDP)<sup>2</sup>.

#### (1) Premise and applicability

The Labor Law defines the “worker” and the “employer” as follows<sup>3</sup>.

“‘Worker’ means any person who performs work in return for wages, in the service of an employer and under the employer's authority and supervision. ‘Employer’ means any individual or legal entity who employs one or more workers in return for wages.”

Thus, the Labor Law sees wages as a fundamental constituent of the worker-employer relationship, guaranteeing “every worker the right to earn a wage which is adequate to meet his essential needs and those of the worker's family and to enable the worker to benefit from the results of economic progress<sup>4</sup>.”

The Labor Law applies to all local and foreign personnel working or wishing to work in Iraq as well as the following enterprises and other workplaces which are:

- located in the whole Iraq, including the Kurdistan Region;
- in the private, mixed<sup>5</sup> and cooperative sectors, not in the state-owned sector; and
- where one or more workers are employed.

The Labor Law treats all the citizens without any discrimination on the basis of sex, language, or religion. In addition, non-Iraqi Arabs are treated “on an equal footing with Iraqi workers in regard to the rights and duties set forth<sup>6</sup>” in the Labor Law.

#### (2) Summary of provisions

Table 4.2-1 summarizes the main provisions of the Labor Law, except for those regarding

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1 All the explanation about the Labor Law in this section is made by referring to the English translation of the same law.

2 Ministry of Planning (2010), “NDP”, p. 39.

3 Quoted from Article 8 (2) of the Labor Law.

4 Quoted from Article 4 of the Labor Law.

5 A sector that both the government and private entities hold shares.

6 Quoted from Article 7 of the Labor Law.

labor disputes which are discussed in 4.2.1.2.

**Table 4.2-1 Summary of Labor Law Provisions**

Article Number	Contents	Detail
10	Language	<b>Arabic</b> must be used in all the employment relationship documents; <b>Kurdish</b> in the Kurdistan Region.
15, 17, 20, 22	Placement	The employment office of MLSA undertakes <b>placement services</b> (with free of charge) with which <b>Iraqis and Arabs may register</b> ; an employer may request the office to present the job candidates from the registered.
17, 18	Notification	An employer needs to notify the employment office of employment of Iraqis or Arabs <b>within 10 days</b> of the recruitment date.
23	Foreign worker	<b>No foreign worker can be employed before s/he receives a work permit.</b>
30	Contract	An employment <b>contract</b> must be made <b>in writing</b> with stipulation of the <b>type of work</b> and <b>the amount of wages</b> for the worker.
31	Trial period	A worker may be subject to <b>a trial period of a maximum of 3 months</b> if so stipulated in the contract.
32	Contract term	<b>No time-limit may be fixed</b> in the contract for the activities which are permanent in nature. <b>A fixed-term contract</b> may be made for work which is temporary or seasonal in nature; temporary work is any work performed in a fixed period, while seasonal work is performed during particular seasons of the year
36	Contract termination	The contract <b>can be terminated</b> : <ul style="list-style-type: none"> <li>- with a <b>mutual agreement</b> of the both parties in writing;</li> <li>- on the <b>expiry of the contract period</b>;</li> <li>- when a <b>worker decides to terminate a fixed-term contract</b> with 30-day advance notice;</li> <li>- when an official medical report proves that a worker is unable to work due to <b>illness</b> which is not cured within 6 months;</li> <li>- when an official medical report proves that a worker is <b>incapacitated to the extent of 75%</b> and unable to work;</li> <li>- when MLSA was duly notified that the <b>working condition requires a reduction in work volume</b>;</li> <li>- when <b>an employer does not fulfill the duties</b> set forth in the Law, regulations and the contract (a worker may quit without any advance notice); or</li> <li>- when <b>an employer commits a misdemeanor or a crime</b> against a worker or his/her family (a worker may quit without any advance notice)</li> </ul>
42, 46	Wages	Wages need to be paid in <b>Iraqi currency once in a month</b> on a working day <b>at the workplace or in a nearby pay office</b> . Wages <b>must be higher than the minimum wage</b> for an unskilled worker
55, 59, 60	Working hours	Working hours must be a maximum of <b>8 hours/day</b> for <b>6 days/week</b> <b>with exceptions</b> . Working hours must not exceed <b>7 hours for night work</b> (between 9pm and 6am) or <b>7.5 hours for mixed scheduled work</b> (a period which spans hours of night work and those of day work (from 6am to 9pm)). A worker has a right to <b>at least 1 paid day of rest in a week</b> .
57	Rest periods	<b>With exceptions, one or more rest periods must be set</b> for 0.5 to 1 hour; no period of work should last more than 5 hours at a time.
63, 64, 65	Overtime	Work performed <b>during the rest period, on the weekly day of rest, or outside normal working hours</b> is deemed to be overtime work. Wages must be <b>doubled</b> for overtime work <b>at night</b> or for arduous and harmful work, while they must be increased by <b>50%</b> for overtime work <b>during the day</b> . Overtime work must not exceed <b>1 hour/day for industrial work</b> performed in shifts and <b>4 hours/day for non-industrial work</b> .

Article Number	Contents	Detail
		A worker can receive <b>a compensatory day</b> when s/he works on a day of weekly rest.
67, 68	Paid leave	A worker has a right to a <b>20-day paid leave</b> (30-day for arduous or harmful work)/year <b>with increase by 2 days in every 5 years</b> of continuous services.
77	Sick leave	A worker has a right to a <b>30-day sick leave/year paid</b> by the employer with <b>accumulation of up to 180 days</b> permitted. <b>Social Security Office should reimburse</b> the employer for the wages paid by the employer for sick leave exceeding 30 days/year.
80	Woman protection	An employer employing one or more women needs to post at the workplace a copy of the provision regarding the protection of female workers.
84, 86	Maternity leave	A female worker has a right to a <b>62-day maternity leave at full pay</b> ; she can take the leave <b>30 days before the projected date of confinement</b> and may take the <b>remaining days after the confinement</b> . A working mother may take an <b>unpaid maternity leave for up to 1 year</b> when the child is at the age below 1.
99, 100, 102, 103	Protection of quarry workers	No quarry worker can be employed before s/he takes <b>a medical examination</b> to ascertain her/his physical suitability; the examination must be taken annually. An employer must <b>post</b> at the workplace: - rules for <b>working hours and rest period</b> (with a copy sent to the trade union committee and the labor office); and - <b>health and safety instructions</b> . No worker can be present at the workplace for more than <b>12 hours/day</b> . An employer must draw up <b>instructions on occupational safety</b> after consultation with the <b>National Center for Occupational Safety</b> .
107	Occupational safety	An employer must <b>post at the workplace instructions on occupational hazards and protection measures</b> against them.
111	Doctor and nurse	An employer employing <b>more than 50 workers</b> must employ <b>a nurse</b> to provide first aid and conclude a contract with <b>a doctor</b> to provide care at the workplace <b>on a part-time basis</b> . An employer employing <b>more than 100 workers</b> must have <b>a doctor</b> available at the workplace for at least <b>2 hours/day</b> . An employer employing <b>more than 500 workers</b> must employ <b>a doctor on a full-time basis</b> .
112	Social security for occupational injuries	<b>Provisions on occupational injuries contained in the Social Security Law</b> No. 38 of 1971 are <b>also applied to non-insured workers</b> . An employer must pay a <b>contribution to the Employees' Social Security Service</b> in return for <b>benefits provided to a non-insured worker</b> .
125	Discipline	An employer employing <b>10 or more workers</b> must post <b>disciplinary rules for the workers and punishable infringements approved by the labor office</b> in the governorate (Rules take effect 15 days after posting).
127	Dismissal of a worker	A worker <b>can be dismissed</b> only when the worker does: - <b>Misconduct leading to material damage</b> (subject to 24-hour prior notice to MLSA); - <b>Disclosure of confidential information</b> , prejudicing the employer - <b>Failure</b> , on more than one occasions, <b>to follow instructions on occupational safety</b> (Article 107 must be satisfied in writing as well as orally for illiterate workers). - Presence at workplace, on more than one occasions, in a state of obvious <b>drunkenness or under the influence of drugs</b> - <b>Incompatible conduct with respect for work</b> on more than one occasions; - <b>Physical harm to the employer</b> (subject to within-24-hour advice to the labor office in the governorate) - A misdemeanor or a crime at work resulting in <b>guilty</b> in a final judgment of a court - A misdemeanor or a crime with the final judgment sentencing the worker to <b>imprisonment for more than 1 year</b> .

Article Number	Contents	Detail
		- <b><u>Absence from work for 10 consecutive days or 20 non-consecutive days</u></b> in any year without any cause, provided the worker has been given warnings for absenteeism prior to the termination.
149	Records	An employer must <b><u>maintain the following records</u></b> according to the model drawn up by MLSA: - a register of <b><u>workers' names</u></b> - a register of workers' <b><u>wages</u></b> - a register of workers' <b><u>hours of work</u></b> - a register of <b><u>leaves</u></b> taken - a register of <b><u>young persons employed</u></b> - a register of <b><u>inspection visits</u></b>

Source: Labor Law and CPA Order 89 of 2004.

### (3) Explanation of main provisions

The Labor Law became effective in 1987 and was partially amended in 2004; therefore some of the provisions are not consistent with today's circumstances in Iraq. For example, the provision to pay higher than the minimum wage for an unskilled worker and that to pay wages in Iraqi dinars at the workplace may not be in line with the current economic situation in the country.

Notwithstanding, the Labor Law is the only enforceable law that governs employment contracts in Iraq. Foreign companies doing business in the country need to ensure that the employment contract and relations with workers comply strictly with the Labor Law. This may require training to acquaint both the employer and the employees in charge of personnel affairs with statutory requirements of the Labor Law.

#### 1) Pro-employee stance

Provisions of the Labor Law imply its pro-employee stance, protecting, in a large way, the workers' rights to continue to work in good health and earn a living wage. Especially, the provision for termination of the employment contract is worker-supportive to a great extent. An employer does not have a right to terminate the employment contract with advance notice, while the worker does. Article 36 of the Labor Law, as shown in Table 4.2-1, sets strict conditions for termination of the employment contract. An employer may dismiss a worker; however, as shown in Table 4.2-1, there are exacting requirements (Article 127) that must be met for the dismissal.

#### 2) Language

All the employment relation documents must be written in Arabic, or Kurdish in the Kurdistan Region. Any document written in other language does not prevail in a claim against a worker, even if the document is signed by the worker.



### 3) Treatment of nationality

As mentioned above, Iraqis and Arabs are treated on an equal footing. Non-Arab foreigners are also treated equally, only if they have obtained a work permit. The work permit<sup>7</sup> is granted based upon an agreed employment contract with an employer based in Iraq. The permit, which is applied for in the country where the applicant resides or has citizenship, is valid for one year with requirements for the foreign worker to annually renew at least one month before the expiry date.

The Labor Law does not set forth any provision regarding the proportion of Iraqi workers that an employer needs to employ. In the meantime, investment projects licensed according to the Investment Law No. 13 of 2006 need to give priority to employing Iraqis with the provision that the investors are guaranteed the “right to employ and use non-Iraqi workers in case it is not possible to employ an Iraqi with the required qualifications and capable of performing the same task in accordance with guidelines issued by the Commission<sup>8</sup>.” In addition, the Investment Statute No. 2 of 2009 stipulates that when the NIC awards an investment license, it observes the proportion of the Iraqi workers employed in the project; the proportion should not be less than half of the total employees.

### 4) Contract term

As seen in Table 4.2-1, the Labor Law divides contract terms into two types; fixed and indefinite. The Law does not provide statutory conditions for termination of the indefinite-term contract. In combination with the strict conditions on dismissal of the worker, the indefinite-term contract cannot usually be terminated unless the worker requests the termination.

The period of the fixed-term contract is fixed in the contract documents; almost all the employment contracts with foreign workers and the contracts for project-type work are deemed to be fixed-term. The contract is supposed to be easier to be terminated when the contract term ends; however, in practice, it is usual for the worker to be employed on a rolling fixed-term basis<sup>9</sup>.

### 5) Working hours

As shown in Table 4.2-1, working hours per day are set at the maximum of eight hours for six days in a week. A worker has a right to a paid day of rest per week, usually on Friday, indicating that the worker usually works for five days in a week. An employer may have a worker work on the day of rest, only if the worker agrees to it and receives either a supplement

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7 The explanation about the work permit is based on: Herbert Smith LLP and Iraq Law Alliance (2010), “Iraq Investment Guide – second edition”, p. 26.

8 Quoted from Article 12 of the Investment Law No. 13 of 2006. Commission denotes the National Investment Commission.

9 Herbert Smith LLP and Iraq Law Alliance (2010), “Iraq Investment Guide – second edition”, p. 25.

amounting to 100 percent of wages or compensatory days off.

The Labor Law divides work into two periods; day work from 6 am to 9 pm, and night work from 9 pm to 6 am. The Law also defines mixed scheduled work which is performed in a period spanning the hours of both day work and night work. Working hours cannot exceed seven hours of night work and seven and half hours of mixed schedule work.

Daily working hours must include one or more rest periods, 30 minutes to one hour in total; no period of work can last more than five hours at a time.

Work performed during the rest period, on the day of rest, or outside normal working hours is deemed to be overtime work. Overtime cannot be more than one hour per day in industry activities performed in shifts and four hours per day for non-industrial activities. Wages must be doubled when overtime is at night, while they must increase by 50 percent when overtime work is performed during the day.

A worker has a right to a 20-day paid leave (30 days for arduous and harmful work) per year with increase by two days after every additional five years of continuous service with the same employer. In addition, 30 days of sick leave paid by an employer must be provided to a worker in a year, and may be accumulated for a total of up to 180 days. The Social Security Office reimburses the employer for the wage sum paid during sick leave exceeding 30 days per year.

A female worker is entitled to a 62-day maternity leave at full pay which may be taken, based upon a medical certificate, 30 days before the projected date of confinement and remaining days after the confinement. In addition, she can take an unpaid maternity leave for a period up to one year to look after her child at the age that has not reached one.

#### 6) Workers' protection and occupational safety

The Labor Law requires an employer to post, or make visual, various instructions including:

- Protection of female workers;
- Protection of young persons at work;
- Occupational safety (occupational hazards and protection measures against them); and
- Disciplinary rule for workers and punishable infringements.

An employer also needs to have a doctor and nurse available for the workers in a way stipulated by Article 111 of the Law, which is summarized in Table 4.2-1.

In addition, an employer is obliged to contribute to the Employee's Social Security Service under the Social Security Law No. 38 of 1971 not only for the insured workers, but also for the uninsured workers for the cases where they undergo the occupational injury.

#### **4.2.1.2 Labor disputes**

##### (1) Labor court

The Labor Law, in its Article 137, provides for establishment of one or more labor courts in

each governorate. Each labor court is constituted by a sole judge assigned by the Minister of Justice. Judgment of the labor court may be challenged at the Court of Cassation within 30 days of the notification of the judgment. Article 138 of the Labor Law also provides for establishment of a “labor disputes panel” constituted by a Court of Cassation body having three members.

## (2) Procedure of solving labor disputes

The Labor Law defines a labor dispute as “collective conflicts affecting the common interests of workers which arise between them and employers in one or more enterprises, on in one or more, occupations or industries, and which lead to a divergence of views regarding the application of the Labor Code<sup>10</sup>, implementing instructions issued under it or individual contracts of employment. Such conflicts constitute labor disputes when the parties are unable to reach a friendly settlement.<sup>11</sup>” Procedure of dealing with a labor dispute which is stipulated in the Labor Law is as follows.

### 1) Notification to Minister of Labour and Social Affairs and General Federation of Iraqi Workers

When a labor dispute occurs, an employer or the competent trade union body<sup>12</sup> must notify the Minister of Labour and Social Affairs and the presiding officer of General Federation of Iraqi Workers (GFIW) of existence of the dispute and reason and course of its development with suggestion of resolution measures.

### 2) Contacts between Minister of Labour and Social Affairs and employer

Upon receipt of the notification, the Minister of Labour and Social Affairs makes necessary contacts with the employers or employers’ body concerned, asking them to urgently take any measures to resolve the dispute.

### 3) Contracts between GFIW and workers’ body

Upon receipt of the notification, the presiding officer of GFIW contacts all the trade union bodies and categories of workers involved in the dispute, asking them to urgently take measures to prevent the situation from deteriorating as well as to make an effort to eliminate the causes and to reach a friendly settlement.

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10 Labor Law.

11 Quoted from Article 130 of the Labor Law.

12 The Labor Law stipulates roles of the trade union only slightly (in Article 6), while the Iraq’s constitution provides for the right to organize the union Article 6 of the Labor Law recognizes trade unions as playing an effective role in the organization of labor relations; other provisions for union activities such as collective bargaining and negotiation with the employer are not set forth. There is a law regarding the trade union, “Law on the Unionization of Workers No. 52 of 1987; however, provisions of this law are generally limited to procedure of unionization and organizational structure of the union.

4) Discussion to find a resolution

The Minister of Labour and Social Affairs and the presiding officer of GFIW, or any person designated by them, exchange information on results of their respective efforts and consult regularly on the measures to take. At the same time, they discuss with representatives of the parties to the dispute in an effort to bring their views closer and achieve a resolution which is satisfactory to all the parties.

5) Agreement by Minutes of Meeting

If the efforts mentioned above have been successful within three days from the date on which the dispute was learned, a meeting chaired by the presiding officer of GFIW is held; Director General of Labor acts as secretary and the parties to the dispute have an equal number of representatives in the said meeting. Four original copies of the Minutes of Meeting containing terms of the agreement are signed by all the present persons; each for Minister of Labour and Social Affairs, the presiding officer of GFIW, the employer and the workers. The agreement enters into force immediately.

6) Referring the case to labor disputes panel of Court of Cassation

If the efforts from 1) to 4) above have not been successful within three days from the date on which the dispute was learned, the dispute is referred to the Minister of Justice, who in turn calls the labor disputes panel of the Court of Cassation into session within 48 hours. The panel may call all the concerned parties to present testimony.

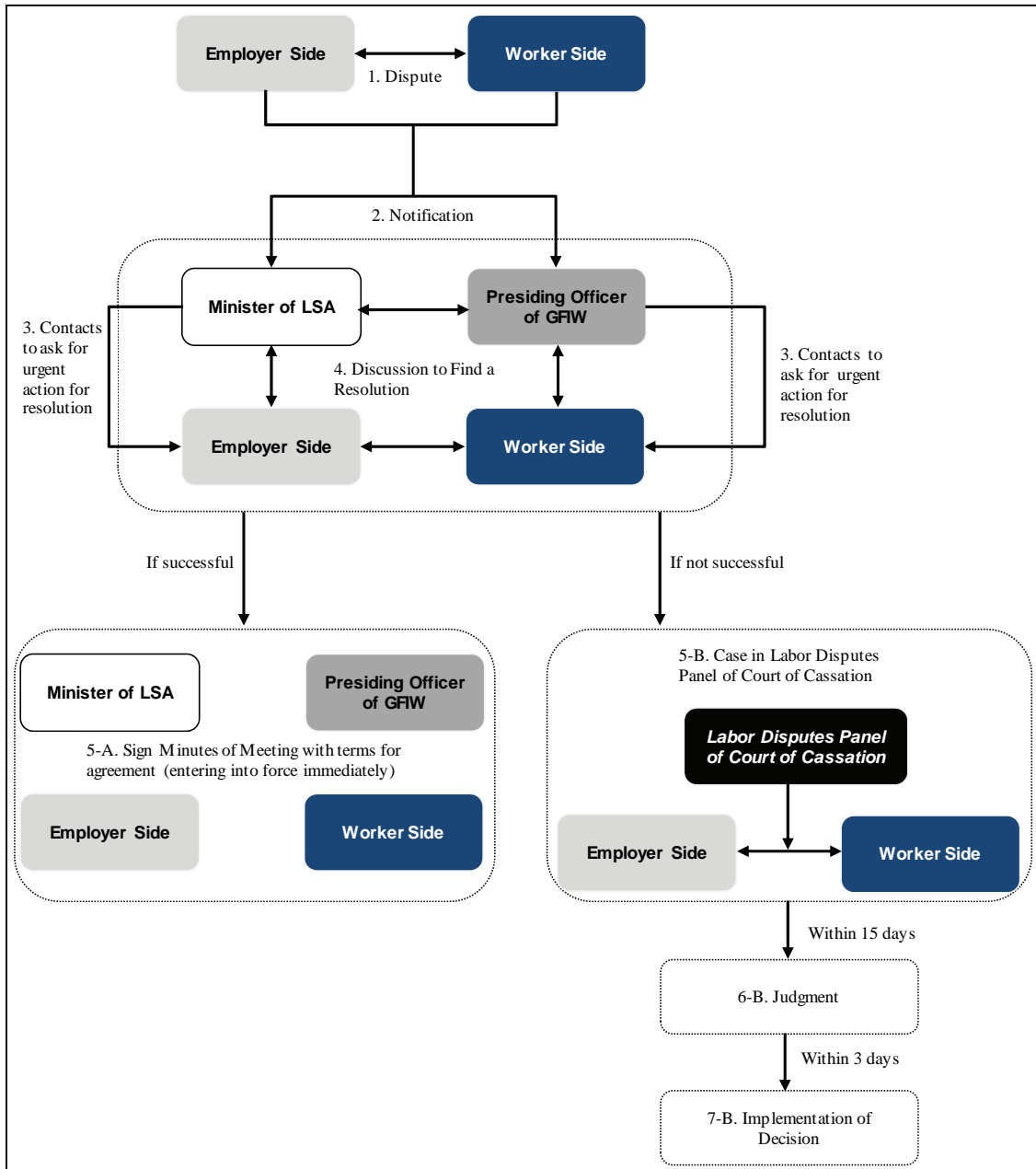
7) Judgment of labor disputes panel of Court of Cassation

The labor disputes panel of the Court of Cassation renders its judgment within 15 days from the date on which it took jurisdiction on the dispute. The panel issues the decision in public and in the presence of the two parties to the dispute. Its judgment is final.

8) Implementation of decision

The employer and the workers implement the decision of the labor disputes panel of the Court of Cassation within three days from the date when the judgment was issued. If the employer refuses to implement the decision within three days, the workers have the right to stop work with the period of the stoppage considered to be a period of service. In addition, any employer who has refused to implement the decision is subject to a penalty.

Figure 4.2-1 illustrates the procedure mentioned above.



Note: LSA stands for Labour and Social Affairs

Source: Labor Law

**Figure 4.2-1 Procedure for Dealing with Labor Dispute**

### 4.2.1.3 Labor force

Table 4.2-2 presents basic data related to the labor force in Iraq.

**Table 4.2-2 Labor Force Data**

Labor Force Factors	Value	Year
Total population <sup>1</sup>	33,330,512	2011 (estimate)
Working-age population <sup>1</sup>	19,074,639	2011 (estimate)
(Of which, males)	(9,437,121)	2011 (estimate)
(Of which, females)	(9,637,518)	2011 (estimate)
Working-age population <sup>1</sup>	11,373,436	1997
Population at age from 0 to 14 <sup>1</sup>	13,156,800	2011 (estimate)
Labor force <sup>1 and 2</sup>	7,937,363	2011 (estimate)
(Of which, males)	(6,539,923)	2011 (estimate)
(Of which, females)	(1,397,440)	2011 (estimate)
Unemployment rate <sup>3</sup>	16%	2012 (estimate)

Sources:

1. Central Organization of Statistics and Information Technology, Ministry of Planning, "Annual Abstract of Statistics 2010-2011"
2. UNDP (2013), "Human Development Report 2013"
3. Central Intelligence Agency of the United States, "World Fact Book", <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html> (accessed 26 April 2013)

#### (1) Proportion of the labor force and the employed

According to an estimation by the Central Organization of Statistics and Information Technology (COSIT), Iraq had a working-age population (age between 15 and 64) of about 19 million in 2011, accounting for 57 percent of the total estimated population in the same year. The 19-million working-age population was almost equally divided into males and females; 49.5 percent males and the rest females. The working-age population is estimated to have increased by 68 percent since 1997 when the population census was conducted. Further, the working-age population is likely to continue widening over the long term. This is because the population at the age below 14 in Iraq is estimated to have constituted about 40 percent of the total population in 2011 and the estimated total fertility rate was 4.6 in 2012, which was much higher than the world average (2.5) and average of Arab countries (3.0)<sup>13</sup>.

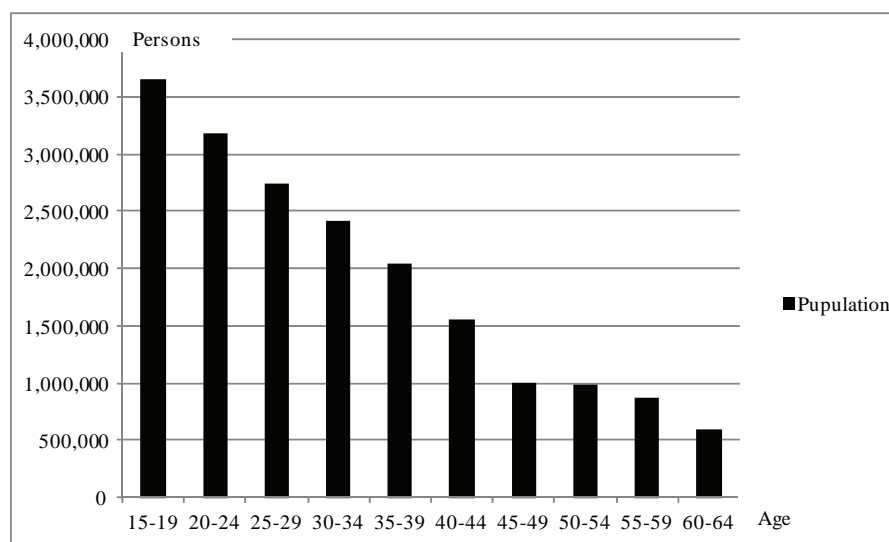
The UNDP estimates that 69.3 percent of males and 14.5 percent of females in the working-age population in Iraq participated in the labor market in 2011 either by working or actively looking for work<sup>14</sup>. These figures, although the data sources vary, suggest that the labor force of Iraq was about 7.94 million in 2011: 6.54 million males and 1.4 million females. According to the Central Intelligence Agency of the United States, the unemployment rate in Iraq is estimated to have stood at 16% in 2012 and 15% in 2010.

13 UNDP (2013), "Human Development Report 2013".

14 UNDP (2013), "Human Development Report 2013".

## (2) Age structure of the working-age population

Figure 4.2-2 shows the estimated working-age population by age in 2011.



Source: COSIT, "Annual Abstract of Statistics 2010-2011"

**Figure 4.2-2 Estimated Working-age Population by Age (2011)**

The figure clearly shows that the working-age population declines as the age goes up. Especially, the population at the age of 45 to 59 is low, accounting only for 15 percent of the total working-age population, in comparison with other age groups except for that between 60 and 64. The population of the age between 45 and 59 experienced a series of wars from 1980 to 2003 during which their age was somewhere between 12 and 49, suggesting that the wars have exerted some influence on reduction in the population at those ages. The low population of the age between 45 and 59 implies difficulty to secure workers with experienced skills and managerial capabilities.

## (3) Distribution of employment among sectors and industries

According to the NDP, 85.3 percent of the total employed population was working in the private sector in 2007.<sup>15</sup> The proportion of employment in the private sector was highest at 98 percent in agriculture and fishing, and wholesale and retail trade, followed by building and construction at 90 percent, and transportation and communication at 82 percent. On the other hand, the private sector's share in the total employment in mining, quarries and extraction, water and electricity, and services is comparatively low at 14.5 percent, 18.5 percent, and 35 percent, respectively. It should be noted that the public and mixed sectors had the lion's share of the employment (89.4 percent)<sup>16</sup> in large establishments<sup>17</sup>, indicating that the industries with

<sup>15</sup> Ministry of Planning (2010), "NDP", p. 39.

<sup>16</sup> COSIT, "Annual Abstract of Statistics 2010-2011"

high proportion of employment in the private sector are constituted mostly by small and medium establishments.

Table 4.2-3 presents distribution of employments among industrial subsectors in Iraq in 2009. It is clear that food-related and textile-related subsectors are the two largest providers of employment opportunities.

**Table 4.2-3 Distribution of Employment among Industrial Subsectors (2009)**

Subsector	Share
Food, beverage drinks and alcohol	40.7%
Textile and clothing	37.1%
Metallic products excluding machines	5.7%
Non-metallic mineral products	5.2%
Mining and extraction (excluding oil extraction)	3.8%
Furniture and wood products	3.5%
Chemical products	1.2%
Leather and leather products	0.8%
Basic metallic products	0.7%
Printing and paper products	0.6%
Machines and repairs	0.1%
Vehicle and repairs	0.1%

Source: COSIT, "Annual Abstract of Statistics 2010-2011"

#### (4) Labor cost

According to COSIT<sup>18</sup>, the average wage paid to an employee in large establishments (including private, mixed, cooperative and private sectors) in 2009 amounted to 9.14 million Iraqi dinars, which was equivalent<sup>19</sup> to 7,838 US dollars. This comes down to about 653 US dollars per month. The private sector paid less; 3,574 US dollars per year and 298 US dollars per month. For reference, the average annual consumer price inflation rate in Iraq from 2010 to 2012 is estimated at 4.71 percent<sup>20</sup>.

The Iraq's national minimum wage per day was about 12,000 Iraqi dinars (10 US dollars) for a skilled worker and about 5,250 Iraqi dinars (4.5 US dollars) for an unskilled worker in 2012<sup>21</sup>.

An employer, pursuant to the Social Security Law No. 38 of 1971, as amended, must

17 COSIT defines a large establishment as an establishment employing 30 persons or more, or investing more than 100 thousand Iraqi dinars in machinery and equipment. All the establishments with investment less than 100 thousand Iraqi dinars belong to the medium establishment employing 10-29 persons or small establishments employing less than 10 persons.

18 COSIT, "Annual Abstract of Statistics 2010-2011"

19 CBI's indicative rate on May 2, 2013: 1 US dollar = 1,166 Iraq dinars.

20 IMF, "World Economic Outlook April 2013", <http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/index.aspx> (accessed 27 April 2013).

21 United States Department of State, "Country Repots on Human Rights Practices for 2012", <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm#wrapper> (accessed 27 April 2013)



contribute 12 percent of an employee's salary amount to the Employees' Social Security Service, while 5 percent of the salary amount must be deducted as the employee's contribution.

#### **4.2.1.4 Labor Force in Kurdistan Region**

Data on the labor force which focuses specifically on the Kurdistan Region is scarce. The situation of the labor force in the region is only partially reviewed here subject to the limited data availability.

According to a COSIT's estimation<sup>22</sup>, the population in the Kurdistan Region was 4.4 million in 2009. The proportion of the working-age population in the region in 2010 was about the same as that in all of Iraq and the working-age population declines in successively older age brackets<sup>23</sup>. It is estimated that the economically active population accounted for 67.3 percent of the total males and 14 percent of the total females in 2010, while the unemployment rate among the population at the age 15 and above was 6 percent in the same year<sup>24</sup>.

Data regarding distribution of employment among industries in the Kurdistan Region has not been obtained in this Survey. The social security contribution rate in the region is the same as that in the rest of the country, as the Labor Law and the Social Security Law No. 38 of 1971 apply to the region as well.

### **4.2.2 Human resource development**

#### **4.2.2.1 Education system**

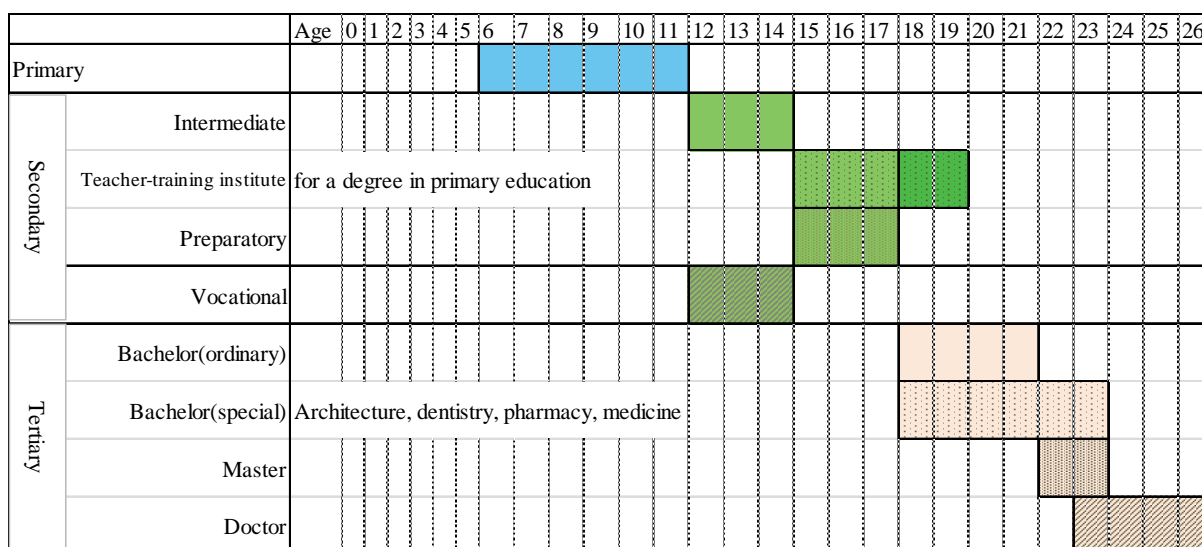
Iraq has an education system as shown below.

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22 COSIT, "Annual Abstract of Statistics 2010-2011".

23 Estimated from the figure in Kurdistan Regional Statistics Office (2010), "Iraq Knowledge Network Factsheet1\_Demography", [http://www.krso.net/documents/189/FactSheet1\\_Demography\\_21072012.pdf](http://www.krso.net/documents/189/FactSheet1_Demography_21072012.pdf) (accessed 27 April 2013).

24 Kurdistan Regional Statistics Office (2010), "Iraq Knowledge Network Factsheet3\_Labor Force", [http://www.krso.net/documents/191/FactSheet3\\_Labor%20force\\_21072012.pdf](http://www.krso.net/documents/191/FactSheet3_Labor%20force_21072012.pdf) (accessed 27 April 2013).



Source: JICA Survey Team.

**Figure 4.2-3 Education System in Iraq**

The duration of primary education is six years; grades one to six are generally for the age group of 6 to 11. This is compulsory for all children except in the Kurdistan Region where compulsory education is for nine years, including secondary school.

Duration of secondary education is 6 years for the age group of 12 to 17, or grades 7 to 12 as shown in the above figure. Secondary education is separated into two stages, as intermediate studies covering grades 12 to 14 and preparatory studies of grade 13 to 15. Students who complete intermediate study can choose one out of three courses: general secondary study, secondary vocational study, or teacher training study. As for teacher training study after the first three year training, students are able to pursue additional two years for specialization.

Higher education is permitted only for secondary education graduates and ranges from 4 to 6 years.

Before the Iran-Iraq war, education was one of the national priority policies and consequently the literacy rate approached 100 percent. Now, however, Iraq is struggling to recover and forge a well-educated nation in order to achieve sustainable development of the country. The government of Iraq puts special emphasis on rebuilding the education system, and especially tertiary education. In this regard, the government budgeted US\$54 in 2010 for scholarships for Iraqis to obtain master's or PhD degrees outside the country.

(1) The relevant ministries

Responsibility for the education system of the country is allocated to the Ministry of Education (MOE) and the Ministry of Higher Education and Scientific Research (MHESR). The MOE is in charge of primary education and secondary education. The MHESR is in charge of tertiary education and research centers.

## (2) Primary education

Under the MOE, there were 12,507 schools (excluding the Kurdistan Region) and 4,333,154 pupils were enrolled in 2007/2008, according to statistics compiled by the United Nations Educational, Scientific and Cultural Organization (UNESCO). In the Kurdistan Region there were 1,193,968 pupils enrolled in the same year.

The Gross Enrollment Ratio (GER<sup>25</sup>) was 87 percent in 2007/2008, and improved to 98 percent in 2010.

## (3) Secondary education

As for the secondary students, there were 1,603,623 enrolled in 4,364 schools according to the COSIT (excluding the Kurdistan Region), while UNESCO statistics give 1.8 million students in 5,409 schools.

## (4) Vocational education and vocational training

Vocational education covers 21 areas of specialization such as industry, commerce, agriculture, and home science. There were 322 vocational schools across the country and they enrolled about 68,000 students, according to the UNESCO's World Data on Education survey in 2010/2011<sup>26</sup>.

In addition to the vocational education that is a concern of the MOE, vocational centers are governed by the MLSA.

## (5) Higher education

MHESR has announced that there are 24 universities and 42 technical institutes across the country and total of 200 colleges and 800 departments on that basis. A total of 350,000 undergraduate students and 15,000 postgraduate students are studying nation-wide. Among 24 universities, some are state run, some are religiously affiliated, and others are foreign universities.

There are 25 private colleges. American University in Sulaymania in the Kurdistan Region, is the one of the biggest in terms of fields of study and size of enrollment.

According to the "Investment Overview of Iraq" prepared by the NIC, technical education is provided through 37 technical institutes and nine technical colleges. This necessarily means that there is at least one technical institute in each governorate (there are total of 18 governorates across the country).

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25 GER is the number of pupils enrolled in a given level of education regardless of age expressed as a percentage of the population in the theoretical age group for that level of education. (definition from the UNESCO Institute for Statistics).

26 World Data on Education VII Ed.2010/11 (IBE/2011/CP/WDE/IQ).

## (6) Technical education

The Foundation of Technical Education (FTE) which is under the MHESR and the General Directorate of Vocational Education (GDVE) under the MOE are the key suppliers of the technical and vocational education and training (TVET).

FTE is responsible for the post-secondary TVET up to the Master of Science degree while GDVE concerns technical (secondary) schools. FTE was established in 1969 and manages 38 technical institutions and 11 technical colleges country-wide including those in the Kurdistan Region. FTE had an enrollment of 91,000 students in 359 disciplines as of 2006, while, GDVE had 63,000 students in 250 technical schools also in 2006.

FTE promotes engineering education of the republic so as to satisfy labor market needs as well as to comply with the modern techniques used in various fields of engineering. According to a presentation by the MHESR in a 2012 seminar, Developments and Future Vocational Training Plans in Iraq (The Possibilities for Cooperation with German Institutions and Education Providers), there were 27 technical institutes and 16 technical colleges with a combined 118 disciplines in the fields of engineering. The number of schools run by the FTE has been increasing since the data was compiled in 2006. The schools under FTE provide education and training in health and medicine, administration, agriculture, informatics, and applied arts. The number of students in those colleges and institutes were about 100,000 at the levels of technical diploma, technical bachelor, technical higher diploma, technical master's and technical PhD.

## (7) Distribution of schools

The following table shows the distribution of schools nationwide. There are over 3,000 vocational training schools within the country though their capabilities are not clear. Interviews with investors indicates that the training and educational condition of vocational schools are not unfavorable in terms of training facilities and instructors.

As shown below, tertiary education is available throughout the country even though its scale is not clearly defined. Also, secondary schools and vocational schools have been established at every governorate in response to the NDP as well and statistic data indicates that expansion and improvement of educational facilities is moving forward steadily. However, two-shift operation of schools is notable at every level of education even now.

**Table 4.2-4 Distribution of Schools**

Name of governorate	No. of tertiary schools	No. of secondary schools	No. of vocational schools
Baghdad	4 (Univ. of Baghdad, Al-Mustansiriya Univ., Univ. of Technology, Al Nahrain Univ.)	Commercial, Islamic, technical, teacher's schools, total number is not known	Several hundred
Babil	1 (Babilon University)	13	178
Diyala	1 (Siyala University)	17 + 10 teacher training	287
Salah al-Din	1 (Tikrit University)	12 + 11 teacher training	269
Wassit	1 (Wassit University)	12 + 12	129
Dahuk	1 (University of Dahuk)	4 + 4	67
Erbil	1 (Salahaddin University)	12 + 12	129
Kirkuk	1 (Kirkuk University)	19 + 2	145
Ninewah	1 (Mosul University)	20 + 6	263
Sulaymaniyah	2 (University of Sulaymaniyah, American University of Iraq)	Not available	Not available
Anbar	1 (Anbar University)	20 + 4	245
Karbala	2 (Karbala University, Ahlubait University)	9 + 5	110
Najaf	1 (Kufa University)	7 + 4	135
Basra	1 (Basrah University)	15 + 14	320
Missan	Not available	11 + 4	82
Muthanna	Not available	5 + 3	61
Qadissiya	1 (Qadissiya University)	8 + 4	110
Thi Qar	1 (Thi Qar University)	11 + 7	264

Note: Hatched cells show academic information in the Kurdistan Region.

Source: JICA Survey Team, using Investment Overview of Iraq by National Investment Commission, 2008.

#### (8) Higher educational institutions in the Kurdistan Region

As shown in the following table, higher educational institutions in the Kurdistan Region seem more substantial in terms of academic field and quantity than in other areas in the country.

The reason why the number of higher educational institutes in the Kurdistan Region looks substantial compare to other governorates which is shown in Table 4.2-4 may be explained by the following:

- a. Both foreign and local private universities selected the Kurdistan Region to establish schools because social infrastructure as well as security conditions are better there than elsewhere.
- b. Obtaining university information via internet is easy because IT infrastructure is well developed compared to other governorates (Information on higher educational institutions may more easily be collected in other governorates if IT infrastructure is better developed.).

**Table 4.2-5 Higher Educational Institutes in the Kurdistan Governorate**

	The Salahaddin University	The Hawler Medical University	the University of Duhok	The Sulimania University	The University of Kurdistan Hawler	The Koya University	The American University of Iraq	The College of Soran
Medical	✓	✓	✓	✓		n.a.		
Nursing				✓		n.a.		
Dentistry				✓		n.a.		
Pharmacy				✓		n.a.		
Science	✓	✓	✓	✓	✓	n.a.		✓
Engineering	✓	✓	✓	✓		n.a.	✓	
IT						n.a.	✓	
Agriculture and forestry	✓	✓	✓	✓		n.a.		
Veterinary		✓	✓	✓		n.a.		
Law	✓	✓	✓	✓		n.a.		
Economics	✓					n.a.		
Business & management					✓	n.a.	✓	
Language				✓		n.a.		
Art	✓			✓		n.a.		
Communication/media		✓			✓	n.a.	✓	
Education	✓	✓	✓	✓		n.a.		
Humanities		✓	✓			n.a.		
Islamic Science	✓					n.a.		
master study	✓		✓			n.a.	✓	
PhD	✓		✓			n.a.		

	Chihan University	Lebanese French University	British Royal University	Sabis University	University of Human Development	Nawroz University	Komar University	University of Raparin
Medical			✓					
Nursing								✓
Dentistry			✓					
Pharmacy			✓					
Science	✓				✓			
Engineering	✓		✓	✓	✓		✓	
IT	✓		✓			✓		
Agriculture and forestry								
Veterinary								
Law	✓	✓	✓		✓	✓		
Economics					✓	✓		
Business & management	✓	✓	✓	✓	✓		✓	
Language	✓				✓	✓		
Art	✓							
Communication/media	✓						✓	
Education		✓	✓	✓				
Humanities								
Islamic Science								
master study			✓	✓				
PhD								

Source: JICA Survey Team

### 【Education system in the Kurdistan Region】

Education system adopted in the Kurdistan Region is the same as the other governorates of the country. The education system is controlled by both the Ministry of Education and the Committee for Higher Education. The Ministry of Education stipulates principle policy concerning national educational stages below university level. Education system is entirely

funded from the Central Administration funds.

#### **4.2.2.2 Issues in Human Resource Development (HRD)**

According to the NDP, governmental funding and performance levels have not reached the required level in terms of scale of funding, functionality, and organization whereby it can improve obsolete facilities and systems so that they meet social needs. The percentage of educational facilities used for two-shift education accounted for 23.5% in 2007/2008 at the vocational level, according to the NDP. Similarly, it accounted for 42.1% at the secondary level. The overall budget for education sector increased from 605 billion Iraq dinars in 2004 to approximately 2.5 trillion in 2008. Accordingly, the share of educational budget in total national budget increased from 3.2% to 5.6%.

As for the higher education, the share of the budget was only for 2.6% of total investment in 2007 whereas the total budget spent for all education in Japan accounted for 4.2% in 2012. The higher education budget in Iraq is too small to be effective in recovery of the deteriorated education system. Also, the education sector as a whole does not have enough budget to satisfy comprehensive reform needs.

##### **BOX 4.2-1 HRD compensated by foreign investors**

An article of the Investment Statute No. 2 of 2009 clearly requests project owner to employ Iraqi nationals not less than 50% of the project workforce though Iraqi labor law does not require such obligation to employers.

According to the respondents to questions asked by the JICA Survey Team, the investment law dominates over the labor law in terms of employment of local workforce. In addition, the foreign investment license obligates foreign investors to give Iraqi workers a higher priority than foreign workers if investor cannot demonstrate excellence of foreign workers. More noteworthy are an obligation to train Iraqi employees and enhance their skills.

The investment law contributes to the human resource development in Iraq in spite of or compensating obsolete national training system and facility though it causes the project cost increase for the investor.

#### (1) Quality of education and training

The majority of interviewees in the Survey pointed out incompetence of local employees especially of their impracticality that is seen as a result of a period of 20 years of a dysfunctional education system. NDP indicates that national education is experiencing severe deterioration due to the decrease in spending, the lack of supplies, the collapse of infrastructure, and overcrowded schools. All of these inexpediciencies are causing the insufficient quality of education and failure to properly develop the ability of students.

The result of interviews conducted in the Survey and UNESCO research on education do not

reveal a definite figure on quality of education and human resource training in Iraq. However, the aforementioned UNESCO research reports that 23.5% of vocational training schools were operated in two shifts during 2007 to 2008. This suggests that training facilities are not sufficiently equipped to achieve targets for training achievement. Moreover, it reports that 1,878 (10.5%) schools out of 17,913 educational establishments in 2007/08 were about to collapse and 3,076 (17%) were in need of comprehensive refurbishment. This information strongly indicates that the education and training system is still in the process of recovery. In this regard, quality of education and training is considered not so high now and the capability of graduates may not satisfy investors' need.

#### (2) Educational capability

Also, the result of interviews conducted in the Survey suggests that the capability of both academic and administrative staff is not enough to catch up with the expected level, due to a shortage of funds. NDP clearly points out that teachers are continuing to use classical teaching methods which discourage student engagement.

#### (3) Job matching at school

Schools in Iraq do not have the function of rendering service for assisting graduates to obtain jobs and businesses to get the employees they need. Generally, companies recruit workers by means of recommendations of local, influential people. Lack of coordination between schools and businesses has resulted in preventing schools from obtaining practical information on the needs of the labor market.

#### (4) Low enrolment and high dropout rate

Despite government and industrial sector's expectations, enrolment of vocational training schools stays stagnant. On the contrary, the number of dropout from TVET institutions is increasing, according to the UNESCO office for Iraq. The UNESCO office considers that the increase has been caused by outdated teaching and training programs which is away from the modern technological training system required by the labor market.

### **4.2.2.3 Issues in Kurdistan Region**

#### (1) High illiterate ratio

According to the United Nations (UN) Inter-Agency Information and Analysis on September 2010, the illiteracy rates are high in the Kurdistan Region compared to other parts of Iraq. This UN agency's report indicates that illiteracy is high in rural area of Iraq, especially in the Kurdistan Region.



## (2) Obsolete teaching facilities

According to the Kurdistan Democratic Party<sup>27</sup>, teaching and educational facility of almost all the primary and secondary schools are obsoleted or almost nothing. This condition is mainly caused by the long-standing difficulties and international embargo on Iraq, which have hindered development in the fields of technology and provision of necessary scientific materials. The party suggests that teaching and learning material as well as qualified staff is scarce, in general. And, the remaining researchers in different fields have also been influenced by the environment and deprived from their needed scientific contacts.

### 4.3 Customs Clearance

This section reviews the current state of Customs clearance in Iraq and issues that should be addressed in it. The section first summarizes the governing laws of and tariffs incurred in Customs clearance procedures in Iraq, followed by details of the procedures. The section then identifies the issues in the Customs clearance system and procedures in Iraq.

#### 4.3.1 Customs law and Customs tariffs

The Customs law of Iraq seems to be quite complicated because of frequent changes of regulations and a hasty announcement of a new law even though it has not been sent to the National Assembly for enactment. Customs officers are not able to deal with the clearance work swiftly enough due to many reasons such as frequent change of regulations and insufficient information sharing within the Customs authority. In addition, the main basis for Custom clearance operations, Law No. 23, was enforced in 1984. This means that the basic operational regulation is more than 30 years old. However, the Iraqi government has been moving forward to improve the Customs law as well as the clearance system after actual transfer of jurisdiction from the CPA in June 2004. Confusion nowadays is considered to be one of the issues arising from being in a transitional stage of development.

##### 【Kurdistan's Customs law】

The Customs law and regulation applied in the Kurdistan Region is completely the same as that of Iraq as a whole. In this regard, the clearance procedures and necessary documents for importation are basically the same.

##### 4.3.1.1 Pre-CPA Customs laws

As discussed above, the Customs law of Iraq is Law No. 23 of 1984. It stipulates and regulates all the necessary terms and expressions as well as obligations and privileges of

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27 Information source: <http://www.kdp.se/?do=edu> (accessed 18 April 2013)

officials relating to import and export transactions within the territory of Iraq and outside of the territory if it is relating to export to the country.

This law consists of 18 parts, and is subdivided into 271 articles.

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*Contents of the 18 Parts of the Customs law:*

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- Part 1: Definitions and general principle
- Part 2: Scope of work for customs
- Part3: Principles for the application of customs tariff
- Part4: Restriction and prohibition
- Part5: The distinguishing ingredients for goods
- Part6: Importation and exportation
- Part7: Stages of customs clearance
- Part8: Suspended conditions of duties
- Part9: Shore navigation and internal transportation
- Part10: Exemption
- Part11: Services dues and charges
- Part12: Customs clearance
- Part13: Power of customs officials and their obligation
- Part14: Customs and the search for smuggling
- Part15: Customs offences
- Part16: Customs actions
- Part17: Selling of granting remunerations
- Part18: Final provisions

#### **4.3.1.2 Import tax fluctuation**

Import tax in Iraq has been waived since 1 January, 2004 pursuant to the CPA decision No. 38 in 2003, out of consideration of needs related to reconstruction of the country. The CPA adopted a reconstruction duty for all shipments into Iraq in place of import duty.

This temporary arrangement was replaced by the new law; Law No.22 of January 2010 and its Gazette of No.4170, and scheduled to become effective on 1<sup>st</sup> of June, 2011. However, the schedule postponed for one year due to a political judgment. On 1 July, 2012, the Iraqi Ministry of Transport, pursuant to the earlier schedule made by the Ministry of Finance, announced that a new port tariff will be in place.

According to the commentary about the first announcement, on 1 June, 2011, the new tariff system is to be adopted – the Harmonized Tariff System with 0 to 80% tariff range depending on the objectives and necessity. Accordance with the enforcement of the new Customs law, the Ministry of Finance cancelled all previously granted levy exemption permits (exemption of 5%

reconstruction duty) for all the governmental contracts.

The levy system again was changed in the late 2012. The Ministry of Finance announced a re-implementation of levy exemption approvals meaning that a valid levy exemption is again required to all shipment into Iraq territory. All shipments require payment of 5% (reconstruction levy) + 3.35% (withholding tax: payable at the Iraqi entry point) if the importer obtains tax exemption approval based on the new regulation.

#### **4.3.1.3 CPA decision and reconstruction levy**

As stated in the first paragraph of section 4.3.1.2 above, Custom duty was replaced by the reconstruction levy, as required by the CPA decision No. 38 of 1 January, 2004. This levy system adopts ad tariff method and all imports except tax-exempt goods are subject to a 5% reconstruction tax. The following are tax-exempt goods according to the CPA.

- Goods imported by CPA and coalition forces
- Imports by subcontracting agents under coalition forces and subcontracting agents appointed under CPA decision No. 17
- Non-Profit Organizations (NPOs) and international organizations which support the reconstruction of Iraq
- Personnel belonging to the above agents and organizations
- All the goods imported under a contract of UN food/oil exchange program

#### **4.3.1.4 New tariff policy**

According to the advanced notice by the Ministry of Finance Directorate of Customs, a new Customs law with a new Customs tariff was become effective on 1 June, 2011. This tariff system is based on the Harmonized Tariff System and requires a levy of 0 to 80% on the CIF value. The majority of the tax rates vary from 0 to 30% and goods not normally considered as essential for daily life, such as art and drawings, are subject to a charge of 50%. Generally, industrial goods which are not produced indigenously and daily foods are subject to 10 to 20% due to political considerations.

Adoption of the new tariff was postponed for one month without any particular reasons or explanations on the ground. On 1 July, 2012, the Ministry of Transport has announced that a new port tariff will be in place. However, it was not come true again. All the legal procedures for enforcement of the new Customs law has completed in 2010. The current situation now is just waiting for a political decision by the Ministry of Finance.

##### **(1) New Custom regulations in correspondence with the new tariff policy**

Starting from 1 October, 2012, corresponding with the adoption of the new tariff policy, both entities in the governmental sector and in the private sector are requested to obtain import licenses.

## (2) Requirement of certificate of origin

From 1 January, 2013, all cargo needs to obtain verification from the Iraqi Embassy in the country of origin in the form of a certificate of origin and submission of commercial invoices.

### 4.3.2 Customs clearance procedures

Customs clearance procedure can be separated into two stages: before and after disembarkation.

#### 4.3.2.1 Pre-shipment inspection

According to the CBI notice<sup>28</sup>, exporters who are to export goods to Iraq are requested to receive verification for the following documents:

1. The commercial lists and the certificate of origin of the goods imported directly from the country of origin or the country of supply shall be submitted to and approved by the embassy of Iraq in that country.
2. The importer shall provide an official document from an international appointed cargo inspection company for the imported goods, approved by the embassy of Iraq in the country of origin or the country of supply.
3. The importer shall provide the original bill of lading (B/L) approved by the embassy of Iraq in the country of origin or the country of supply; it shall include the mode of shipping and such after one month of the amount purchase date from the auction (which is opened only for Iraqi government authorized financial agency) of foreign currency.
4. The importer shall provide a Customs declaration properly signed and sealed by officials at all border crossing points after one month of the amount purchase date from the currency auction.
5. The importer shall also provide the payment order which supports the transfer of the required amount to the exporter named in the commercial invoice, except in the case of letters of credit.

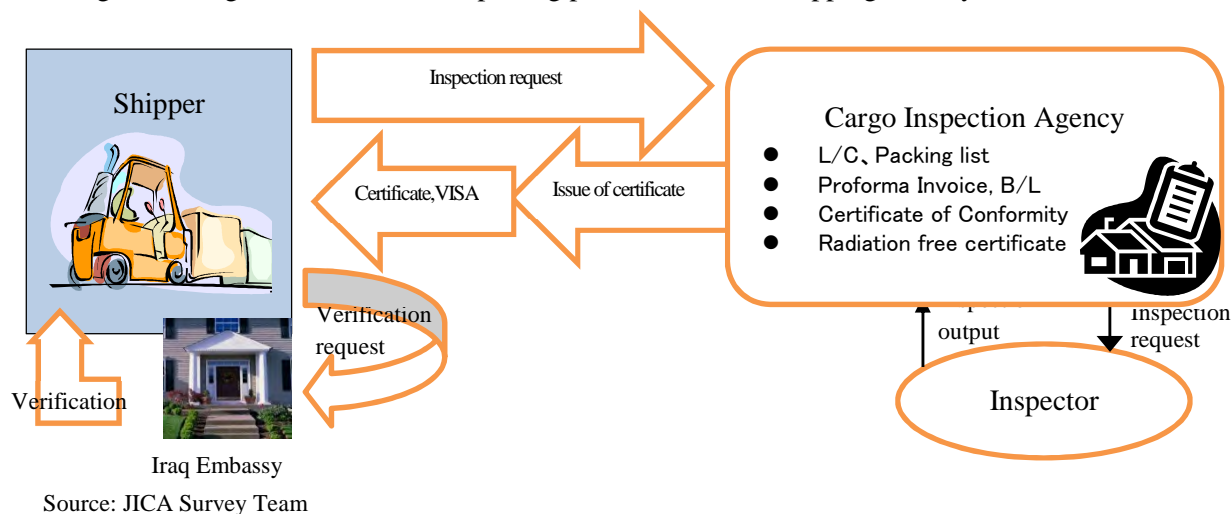
Item No. 2 above, the requirement for inspection of goods, shall be done pursuant to the requirement enumerated in the Central Organization for Standardization and Quality Control (COSQC)<sup>29</sup>. In addition to the standard requirement, all export goods originated in Japan are required to be furnished with a Radioactive Contamination Detection Certificate.

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28 The Central Bank of Iraq Issued the circular No.59 on 2 April, 2012 and the decision No. 13 on 19 April, 2012.

29 COSQC under the Ministry of Industry and Minerals of Iraq, was established by Law No. 54 of 1979, acts as a consultant on quality control and standardization issues for the ministries and state owned enterprises, and maintains relationships with international standards organizations. It is the central body in Iraq. The organization is presided over by a president with minister of deputy grade.

Figure 4.3-1 gives an outline of exporting procedures at the shipping country.



**Figure 4.3-1 Custom Clearance Procedure before Disembarkation**

As of February, 2013, three international cargo inspection agencies; TÜV SÜD (German), Co-Techna (Swiss) and Bureau Veritas (French) are allowed to handle inspection and certification of goods being shipped to Iraq.

#### 4.3.2.2 Details of Customs clearance procedures

Procedures for exporting to Iraq involve such formalities as explained below. They may be time consuming processes compared to standard procedures.

##### (1) Certification of conformity (COC)

There are mandatory products and voluntary products as specified by the COSQC, based upon Harmonized System (HS) code. Voluntary products cover food products and cleaning agents though the category differs by country. For example, exports from Japan are mandated to obtain a radiation-free certificate because of the Fukushima nuclear power plant incident in 2011.

The COC procedures involve what is called “Inspection and Issuing Certificates for Goods Imported into Iraq (ICIGI)” testing; Pre-Importation Inspection, Testing and Certification Program of Goods. COSQC has requested ISO-based inspection to all the exporters.

*In addition to VOC, exporters are requested to obtain a non-applicable certificate when the goods are excluded from the requirement. Goods subject to CoC are enumerated by the central organization of standardization and quality control under Ministry of Planning based upon HS code. However, HS code changes quite often and thus; it sometimes becomes confusing to exporters.*

There are 12 categories of products subject to ICIGI verification. These are: \* toys, \*electric

and electronic products, \*vehicle parts and tires, \*construction products, \*food products, \*cosmetics, \*hygiene products and cleaning agents, \*household hardware, \*kitchenware, \*chemicals, \*textiles, \*household fuel-burning appliances, \*others (see Appendix 4.3-1 “List of Regulated Products” at the end of the Report).

(2) Other certificates to be obtained before endorsement from Iraq embassy

In addition to the COC, exporters are requested to obtain certification of a pro forma invoice and other documents. In case of exports from Japan, a “radiation free certificate” and “vehicle inspection certificate” are required.

Certificates issued by an international cargo inspection company which is authorized by the Iraqi government, are sent to the Iraqi embassy for endorsement after notarized.

(3) Obtaining endorsement from the embassy of Iraq for export approval

Following the receipt of certification from an international cargo inspection company, all the pro forma invoices including a packing list and approved verification documents need to be transferred to the Iraqi embassy of the shipping country for export approval.

This is a sort of controversial procedure which may be only seen in a buyers’ market and causes complexity of export procedures.

(4) Constraints of exporters during Custom clearance procedure

It is important to note the following.

- Frequent regulation change  
A consular visa for certificate of origin issued in the country where the products are produced has been mandated since March 2013<sup>30</sup>. Before the new order, the embassy of Iraq in a shipping country can endorse the certificate of country of origin. In this way, sudden notification has been announced by CBI.
- Difference of verification requirement by country  
Based upon the official requirement of the CBI, all products shipped from Japan to Iraq need a radiation-free certification that must be verified by the embassy of Iraq in Japan. Likewise, CBI requests Japan-origin exports to obtain certification and verification thereof. A total of five to six items are subject to the verification. Requirement of verification item differs by country according to the interview survey respondents.
- Delays caused by sudden changes of regulations in post-embarkation Customs procedures

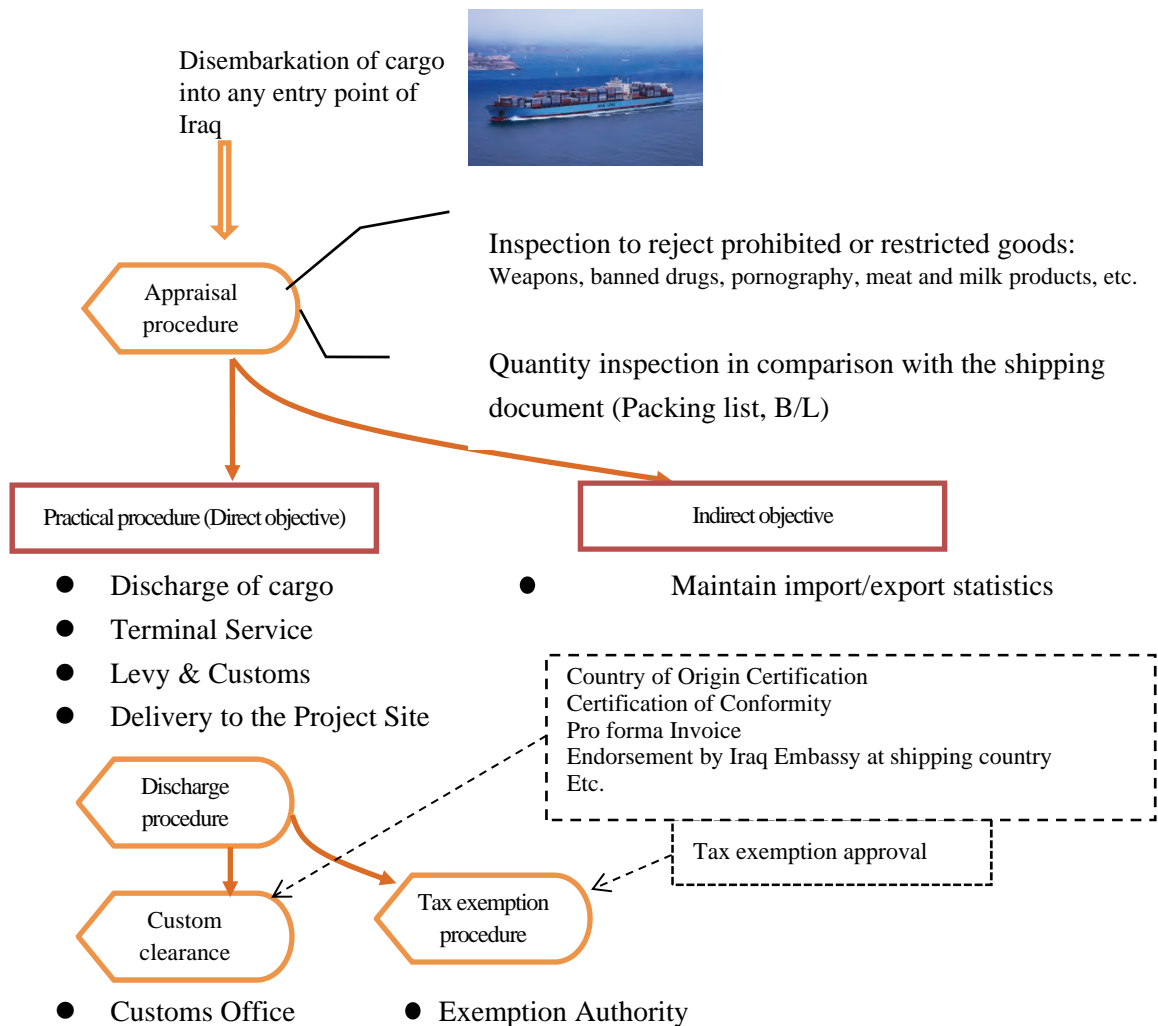
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<sup>30</sup> The information was provided by an exporter in Jordan with whom the JICA Survey Team interviewed in Amman on April 1, 2013.

Almost all the respondents in the interview survey have experienced inconvenience due to sudden changes of import regulations. Especially, the most serious problems for both exporters and importers are the timing of the date of announcement and the date of enforcement. Generally, the date of announcement and the date of enforcement are the same. For example, an exporter suddenly becomes responsible for completing some Customs clearance documentation and procedure at the original shipping country when a certification of origin required at the product's origin country.

### 4.3.2.3 Post-embarkation Customs clearance procedures

The following diagram outlines the post-embarkation Custom clearance procedure.



Source: JICA Survey Team

**Figure 4.3-2 Custom Clearance Procedure after Embarkation**

As indicated in the above flow diagram, Customs clearance procedures in Iraq are handled in

an international standard manner. An import duty levy in Iraq varies pursuant to the taxes as below:

- Import duty: xxx percent of the CIF value of the vehicle.
- Excise duty: xxx percent of the CIF value and import duty
- Value-Added Tax (VAT): xxx percent of the CIF value and import duty and excise duty.
- Import declaration fees: xxx percent of the CIF value or a specific minimum amount whichever is higher, is payable.

#### 4.3.2.4 Ports of entry to Iraq

The following table and figure introduces the entry port to Iraq.

**Table 4.3-1 Information on Iraqi Entry Ports**

No.	Name of Port	Borders of neighboring state with Iraq
<b>Land Entry Port</b>		
1	Al-Shalamjah	Iran
2	Al-Mundhiriyah	
3	Haj-Omran	
4	Al-Shaib	
5	Zorbatiyah	
6	Beruez Khan	
7	Safwan	Kuwait
8	Trebil	Jordan
9	Al-waleed	Syria
10	Rabia	
11	Ibrahim al -Khalil	Turkey
<b>Seaports</b>		
1	Um-Qser Port	Arab gulf
2	Khor al-Zubair Port	
3	Abu-Floos Port	
<b>Airports</b>		
1	Al-Basra Airport	
2	Baghdad Airport	
3	Al-Najaf Airport	

Source: Iraq Trade Information Center, Ministry of Trade.





Source: Bureau Veritas.

**Figure 4.3-3 Ports of Entry**

### **4.3.3 Customs clearance Issues**

Issues related to Customs clearance in Iraq are mainly caused by unclear regulation, ineffective working efficiency, and insufficient management capacity of Customs officers.

#### **4.3.3.1 Unclear regulation**

A new Customs law providing a new Customs tariff table was announced in 2012 but it was not clear whether “Reconstruction levy” will be cancelled when the new tariffs become effective. From a slightly different angle; however, regulations are so far clear although implementation of the regulations is obscure. This means that the government did not indicate clearly whether it will scrap the old regulation when the new regulation becomes enforced.

At present delays are being caused during Customs clearance procedures because of ambiguity of regulations and their manner of implementation by officials.

#### **4.3.3.2 Uncertain announcement regarding enforcement of a new customs law**

Most importers and exporters were confused by the uncertain announcement made by the

Customs authority about implementation of a new Customs law though the draft has not been submitted for the final approval of the national assembly. Moreover, the Customs authority has not consulted with the concerned ministries such as Ministry of Trade, Ministry of Interior, Ministry of Health, Ministry of Planning, and Ministry of Defense to harmonize perceptions and consider requirements to acquire the final approval by the assembly.

#### **4.3.3.3 Ineffective working efficiency**

Final judgment for Customs clearance often relies on one Customs inspector. Privileges and responsibilities regarding the clearance are concentrated with the inspector whereas other officials handle only simple jobs. In this regard, it is usual to routinely observe a long queue waiting for the final decision of the inspector. Also, various foreign traders, during the Survey, suggested that it was not remarkable for Customs officers to make different judgments on the same Customs document from one day to the next. In Customs clearance operations, there is a lack of guidelines or manuals that indicate effective practices.

#### **4.3.3.4 Capability of officials**

As indicated above, most of the officials do simple jobs which require little expertise. Further, various foreign traders, during the Survey, asserted that congestion at Customs clearance points was caused largely by ineffective work performance of Custom officials.

### **4.4 Financial System**

This section focuses on the current state of banking and payments systems which are among the most important factors that determine the ease of doing business in Iraq. The stock market, although it will eventually be an important source of long-term finance, is covered briefly since it is still under-developed and very small.

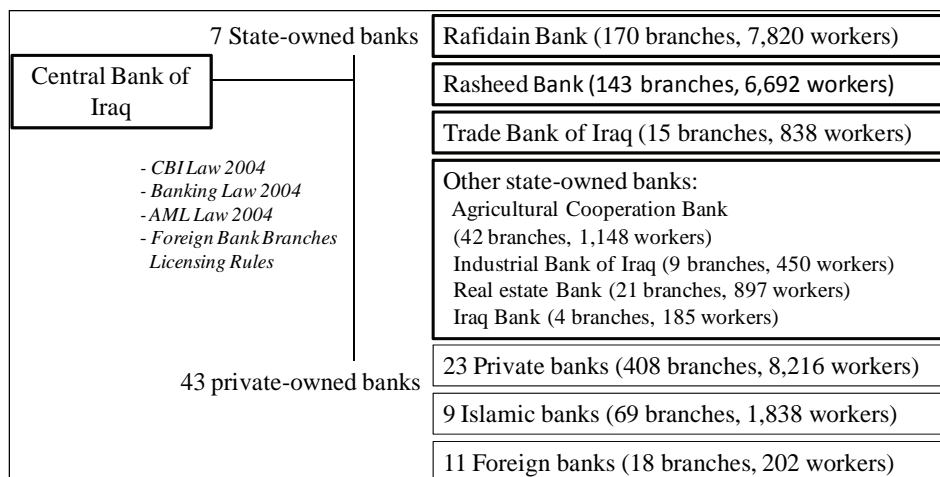
#### **4.4.1 Banking system**

The Central Bank of Iraq (CBI) controls and supervises the 50 state-owned and private banks in the banking sector according to the CBI Law (2004), the Banking Law (2004), Anti-money Laundering (AML) Law 2004 and the Licensing rules for foreign banks (see Figure 4.4-1 and BOX 4.4-1 for the overview of the respective laws). Total assets of the banking sector amounted to 144 trillion IQD (about 122 billion USD, 1 IQD = 0.00085 USD) as of the end of 2011. Banks are still under-represented in the economy with only 5.1 commercial bank branches per 100,000 adults<sup>31</sup> as of 2011, which is relatively small compared with 8.7 branches for Saudi Arabia. With the initiative of CBI and strong support of international donors, the Iraqi banking

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31 World Bank Data Bank (<http://data.worldbank.org/indicator/FB.CBK.BRCH.P5>)

sector is on the right track toward modernization: (i) state-owned banks are in the process of restructuring, (ii) capital base of private banks are being strengthened, and (iii) electronic inter-bank payments systems have been installed and are being expanded.



Note: Figures are based on data as of the end of 2011 (As of April 2013, there are 15 foreign banks).  
 Source: Compiled by JICA Survey Team based on the information at CBI website.

**Figure 4.4-1 Banking Sector in Iraq (as of the end of 2011)**

**BOX 4.4-1 Banking Sector Laws and Regulations**

1) The Central Bank of Iraq (CBI) Law

The CBI Law was issued on 6 March 2004 with the objective of achieving domestic price stability, and promoting a competitive stable financial system (Article 3). CBI is autonomous and accountable for the attainment of the objective and thus assured its independence from external intervention including the government of Iraq (Article 2). In order to accomplish the objective pursuant to Article 3, CBI has the authority to take all actions as may be necessary to regulate and supervise banks, including the authority to take remedial action, as provided in this law and in the Banking Law (Article 40).

2) The Banking Law (Coalition Provisional Authority Order No. 94 Banking Law of 2004)

The Law was issued on 19 September 2003 with objectives to maintain confidence in the banking system, to promote public understanding of the banking system by providing appropriate information, maintaining an appropriate degree of protection for depositors, and helping to reduce financial crime, including fraud, money-laundering and terrorist financing (Article 2). The Law brings Iraq’s legal framework for banking in line with international standards so as to promote confidence in the banking system by establishing a safe, sound, competitive and accessible banking system.

Articles 6 (about opening of a branch) and 7 (about opening of a representative office)

concern foreign banks. Foreign banks need to designate a main branch in Iraq and, following prior notification to and approval by the CBI, the main branch may open additional branch offices in Iraq (Article 6, Section 2). With regard to foreign currency, Article 32 states that “CBI may issue regulations to set the maximum foreign currency exposure which banks may incur in foreign currency generally or in any specified currency or currencies.”

The Law is currently under the process of amendment. The Parliament Financial Commissions is studying the amendments in order to strengthen banking systems. For instance, Article 28 which prohibits banks from participating in business other than those defined under Article 27 is under discussion. It is considered that Article 28 needs to be amended in order to attract foreign investments in the Iraqi banking sector.

### 3) Anti-Money Laundering (AML) Law

The current AML Law was issued on 2 June 2004 as the Coalition Provisional Authority (CPA) Order No.93 Anti-Money Laundering Act 2004. The CBI plays the primary role in the Law enforcement (Article 9) and establishes the Money Laundering Reporting Office (MLRO) which is independent but administratively subordinate to the CBI (Article 12). Below are the major rules which financial institutions are obliged to follow according to the Law:

- a) Identify non-account holders for transactions (or series of potentially related transactions) with the amount equal to or greater than 5 million IQD; and collect and verify the name and address of the customer for transactions with the amount less than 5 million IQD (Article 15)
- b) Require the customer to provide a written declaration of ownership of funds for cash transactions exceeding 10 million IQD, as well as if the customer is not the owner or the ownership of funds is doubtful (Article 16)
- c) Record and report any suspicious transactions to MLRO (Article 17)
- d) Report to MLRO within 14 days when suspicious single or multiple linked cash transactions occurred with the value greater than 4 million IQD (Article 19)
- e) Report to MLRO all single or multiple linked cash transactions with the value exceeding 15 million IQD (Article 20)
- f) Keep records for at least five years from completion of the last transaction (Article 22)

### 4) Licensing rules for foreign bank branches

In order to open a branch to practice their operations in Iraq, foreign banks need to submit documents according to the provisions defined herein. Items to be included are as below:

- a) General Description: such as name, ownership structure, total assets, total capital/capitalization, number of employees, location of headquarters, foreign supervisory

authority, and credit ratings, among others.

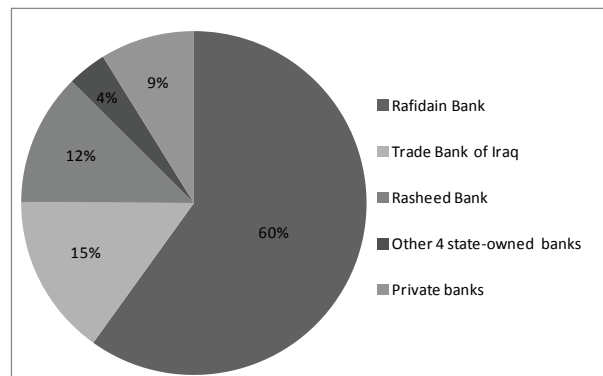
- b) International presence: number of branches/offices existing around the world and in the Middle East, etc.
- c) Proposed Iraqi Investment (a branch or a subsidiary)
- d) Business Plan (expectations for three fiscal years)
- e) Risk and Credit Management Strategies (credit policies, loan strategies for Iraq)
- f) Information Technology (training plan of the employees)

Source: CBI website, <http://www.cbi.iq/>, "Laws & Regulations" (last accessed 20 May 2013)

#### 4.4.1.1 Current state

##### (1) Overview of banks

The Iraqi banking sector consists of 7 state-owned banks and 47 private-owned banks (including 9 Islamic banks, 23 non-Islamic private-owned banks and 15 foreign-owned banks) as of April 2013.<sup>32</sup> The state-owned banks, of which Rafidain Bank, Trade Bank of Iraq (TBI) and Rasheed Bank consist the majority, dominate the sector with a joint share of about 90 percent, 80 percent and 90 percent of assets, loans and deposits, respectively (see Figures 4.4-2 and 4.4-3).

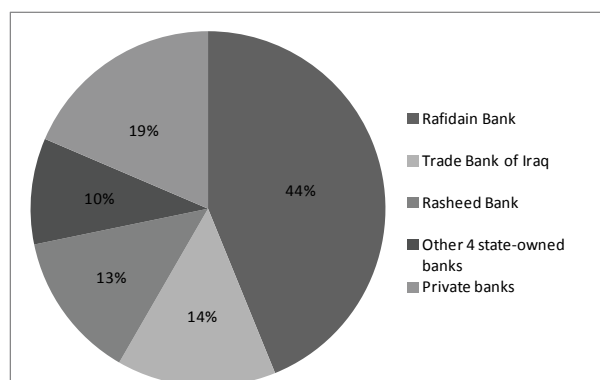


Note: Data used here (as of the end of December 2011) includes the 7 state-owned banks and 43 private banks.

Source: CBI, Research and Statistics Department, "Annual Statistical Bulletin 2011".

**Figure 4.4-2 Banking Sector in Iraq: Assets (as of the end of 2011)**

<sup>32</sup> Central Bank of Iraq website, <http://www.cbi.iq/> (accessed 1 April 2013).



Note: Data used here (as of end-December 2011) includes the 7 state-owned banks and 43 private banks.

Source: CBI, Research and Statistics Department, "Annual Statistical Bulletin 2011".

**Figure 4.4-3 Banking Sector in Iraq: Loans (as of the end of 2011)**

#### 1) State-owned banks

Rafidain Bank and Rasheed Bank are the two state-owned commercial banks which possess a nation-wide extensive branch network (170 and 143 branches, respectively) and provide commercial loans to both private- and state-owned enterprises.

TBI was established in 2003 to carry out the international banking business, from which Rafidain Bank and Rasheed Bank were prohibited.<sup>33</sup> It was mandated to facilitate Iraq's international trade and the reconstruction of the country. Between 2003 and 2009, TBI was the sole bank in Iraq which could issue letters of credits (L/Cs) on behalf of government ministries and agencies for their import purposes. Gaining momentum through Iraq's high rate of economic expansion, TBI became the second largest bank in the country by assets in 2011.

The other four state-owned banks, namely, Agricultural Cooperation Bank (established in 1936), Industrial Bank of Iraq (spun off from the Agricultural Bank in 1940), Real Estate Bank (established in 1949) and Iraq Bank (the former Socialist Bank, established in 1991), are all very small in size of assets and loans, and specialize in regime-related lending activities in specific sectors.

Agricultural Bank, with 42 branches, provides loans to farmers for financing agricultural and related activities, while Industrial Bank through 9 branches provides loans for industrial development. Real Estate Bank, which has 21 branches, offers loans for housing and tourism

<sup>33</sup> The comprehensive trade sanctions imposed on Iraq started in 1990 with adoption of United Nations Security Council Resolution 661 (6 August 1990) in opposition to the invasion of Kuwait by Iraq. International trade was limited only to imports of food and medicines which were permitted under Oil for Food Program (Resolution 986 on 14 April 1995) to meet humanitarian needs. Following the fall of Saddam Hussein's regime, the United Nations Security Council Resolution 1483 (2003) was adopted to lift this trade embargo, but at the same time imposed the freezing of funds related to the former regime. This included the freezing of the financial assets abroad of Rafidain Bank and Rasheed Bank. Accordingly, the two banks became unable to continue their international banking businesses thereafter. TBI was established under the CPA Order No. 20 as a financial institution capable of facilitating imports and exports of goods and services to and from Iraq. TBI was exempted from financial sanctions stated in UN Resolution 1483.

industries, while the activities of Iraq Bank through 4 branches are not well disclosed. (See BOX 4.4-2 for History of Banking Sector in Iraq.)

<b>BOX 4.4-2 History of Banking Sector in Iraq</b>	
1941	Rafidain Bank was established
1964	All banks were nationalized under the socialist regime (Merged into 4 groups)
1970	All banks were merged into either Rafidain Bank or Commercial Bank
1974	All commercial banks were put under the brand of Rafidain Bank
1980-1988	Rafidain Bank came to near-default situation due to the Government's external debts accumulated during the Iran-Iraq war
January 1989	Rasheed Bank was established, by carving out non-performing assets from Rafidain Bank (in order to carry out international banking business in place of Rafidain Bank)
6 August 1990	Iraqi banks were shut out of international banking business as a result of the adoption of United Nations Security Council Resolution 661, which imposed economic sanctions on Iraq following its invasion of Kuwait.
1990s	Private banks were not allowed to register until 1992. During 1990s, 17 private banks were established (nevertheless, they are restricted to domestic business due to their small capital base)
22 May 2003	United Nations Security Council Resolution 1483 was adopted. All Iraqi financial assets abroad were frozen and transferred to the Development Fund for Iraq (DFI) account established at Federal Reserve Bank of New York. Both Iraq's financial assets and oil export revenues were transferred to DFI and immunized against attachment by international creditors.
22 May 2003	U.S. President issued Executive Order 13303 ("Declaration of the National Emergency with Respect to the Stabilization of Iraq, protecting the Development Fund for Iraq and Certain Other Property in Which Iraq Has an Interest") according to the International Emergency Economic Powers Act (50 U.S.C., §1701-1706).
July 2003	Trade Bank of Iraq (TBI) was established under the Coalition Provisional Authority (CPA) Order No. 20 to implement international business in place of Rafidain Bank, Rasheed Bank and CBI whose financial assets abroad were frozen. TBI was thus immunized against attachment by international creditors.
August 2003	TBI signed an agreement with a consortium of international banks led by JP Morgan Chase which made it possible for the consortium to issue letters of credit on behalf of TBI.
September 2003	The Banking Law was issued on 19 September 2003 to bring Iraq's legal framework for banking in line with international standards. (Amended in 2004)
March 2004	Central Bank of Iraq was established as Iraq's independent central bank by the Central Bank of Iraq Law of 6 March 2004.
15 December 2010	UN Security Council Resolution 1956 was issued: Provisions of UN Security Council Resolution 1483 was decided to be terminated by end-June 2011, but Iraqi financial assets abroad which are transferred to DFI continued to be immunized (and thus protected) against attachment by international creditors, due to the effect of the U.S. President Executive Order 13303 as well as by those states voluntarily taking the steps according to the List maintained and regularly updated by the Security Council Committee established pursuant to resolution 1518 (2003).
18 May 2012	The effect of US Executive Order 13303 was extended for one year until 22 May 2013 by The President Notice of May 18, 2012 Regarding the Continuation of the National Emergency With Respect to the Stabilization of Iraq.

Source: United Nations United States Agency for International Development, and United States government websites

## 2) Private-owned banks

Nine Islamic banks provide relatively long-term financial services such as investment trusts and equity finance, since they cannot provide loans which require payment and collection of interest that is prohibited by Shari'ah principles derived from the Holy Quran.

As for 23 non-Islamic private-owned commercial banks in Iraq, despite their large numbers, most are not yet able to actively offer debt financing due to their weak capital base and small amount of assets. In order to solve the situation and to facilitate small and medium sized enterprises (SMEs) to obtain loans from banks, 16 private banks have together invested to establish the Iraqi Company for Bank Guarantees, which cumulatively provided 5,604 loans to SMEs between 2006 and 2012, with the outstanding guarantees of 5.9 billion IQD as of end-June 2012. It is still small in loan amount but remarkably increasing in loan numbers: from 1 in 2006 to 37 and 155 in 2007 and 2008, and further expanding to 1198, 1257 and 1959 in 2009, 2010 and 2011, respectively.<sup>34</sup>

Some of these private banks including Islamic ones have been successful in expanding their businesses with the assistance of foreign investors, most of which are financial institutions of neighboring countries (see Table 4.4-1). As a matter of fact, private banks with foreign capital backing have an advantage in collecting deposits based on the creditworthiness of their foreign shareholders. Accordingly, Bank of Baghdad (52% owned by Burgan Bank), Dar Es Salaam Investment Bank (70% owned by HSBC) and Credit Bank of Iraq (81% owned by National Bank of Kuwait), among all private banks, ranked the second, the fifth and the sixth by the size of deposits as of the end of 2012 despite the fact that their interest rates for savings deposits (namely, 4%, 1% and 3.3%, respectively)<sup>35</sup> are among the lowest.

These banks whose majority shares are owned by foreign banks, according to their homepage information, currently provide a wide range of services, including deposit accounts services (saving accounts, term deposits, overdraft facilities), retail lending (car, house, small-business loans), trade finance (L/Cs, letters of guarantees (L/Gs), bill discounting), corporate lending (working capital, project lending), foreign exchange transactions, as well as domestic and international payment and settlement. Loans are mostly short-term asset-based lending, but some banks also provide project finance based on lending against the cash flow of a project.

With regard to the Dar Es Salaam Investment Bank, there is a rumor that its majority shareholder HSBC might withdraw its capital. It is reported that HSBC is currently

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<sup>34</sup> 16 participating banks are Bank of Baghdad, Iraqi Middle East Investment Bank, Investment Bank of Iraq, Ashur International Bank, Gulf Commercial Bank, Trans Iraq Bank, Basra International Bank for Investment, Sumer Commercial bank, North Bank, National Bank of Iraq, Emerald Bank, United Bank of Iraq, Mosul Bank for Development and Investment and Huda Bank. Loan guarantee is available for up to 75% of the total loan amount of up to 150,000 USD (or equivalent in IQD), with terms up to five years. Guarantee fees are charged 2% per annum of the outstanding loan amount. (Source) Iraqi Company for Bank Guarantees (ICBG): The Results of the Company's Business as of 2012/6/30 (Arabic) and ICBG website (<http://www.icbg-iq.com/ar/node/3>) accessed 3 June 2013.

<sup>35</sup> Sansar Capital Management LLC (2013). *A Closer Look at the Iraqi Banking Sector*.



considering the sale of its 70% stake in the Dar Es Salaam Investment Bank<sup>36</sup>.

**Table 4.4-1 Iraqi Private Banks with Foreign Equity Participation**

	Foreign Stakeholders (Country of Origin)	Ownership	Acquired year
Bank of Baghdad (Note 1)	Burgan Bank (Kuwait)	51.79%	2009
Commeical Bank of Iraq	Ahli United Bank (Bahrain)	49.00%	2005
Credit Bank of Iraq	National Bank of Kuwait	81.00%	2011
Dar Es Salaam Investment Bank	HSBC (U.K.)	70.10%	2005
Dijla & Furat Bank for Development & Investment (Islamic Bank) (Note 2)	A'ayan Leasing & Investment Co. (Kuwait)	17.50%	2010
Mansour Bank (Note 3)	Qatar National Bank Group (Qatar)	51.00%	2012
National Bank of Iraq (Note 4)	Capital Bank of Jordan (Jordan)	72.30%	2009

Note 1: Bank of Baghdad (BOB) is a member of the Burgan Bank group, a subsidiary of Kuwait Projects Company Holding (KIPCO).

Note 2: At the time of establishment, A'ayan Leasing held 35% of the stake, which was reduced to 17.5% in 2010.

Note 3: Mansour Bank increased its stake in Mansour Bank in April 2012 from 23% to 51%.

Note 4: Capital Bank first acquired 59% stake in 2004 and increased to 72.30% in 2009.

Sources: Bank of Baghdad website (<http://www.bankofbaghdad.com/>),

Ahli United Bank News Archive ([http://www.ahliunited.com/uk/uk\\_news\\_archive.html](http://www.ahliunited.com/uk/uk_news_archive.html))

National Bank of Kuwait, Annual Report and Financial Statements 2011

([http://www.nbk.com/\\$Common/Document/Report/NBKAnnualR2portEn.pdf](http://www.nbk.com/$Common/Document/Report/NBKAnnualR2portEn.pdf)),

HSBC homepage, News & Insights,

(<http://www.hsbc.com/news-and-insight/2005/dar-es-salaam-investment-bank>), and A'ayan Leasing Annual Reports 2006 & 2010.

### 3) Foreign banks

With regard to foreign banks which have branches in Iraq, the number of banks has doubled in two years from 2010 to 2012, from 7 to 15. Out of the total 15, 6 are Lebanese<sup>37</sup>, 5 are Turkish<sup>38</sup>, 2 are Iranian<sup>39</sup>, and one each is from the United Arab Emirates (UAE)<sup>40</sup> and Bahrain<sup>41</sup> (see Table 4.4-2). They do not provide loans to Iraqi private companies, but concentrate on serving the companies of their own countries (for instance, Turkish banks provide financial services to Turkish companies operating in Iraq).

As for the case of IS Bank, the largest private commercial bank in Turkey, it provides

36 MEED (26 April-2 May 2013), "HSBC mulls sale of Iraq business" [www.meed.com/finance](http://www.meed.com/finance)

37 Intercontinental Bank (established in 2008), Bank of Beirut and the Arab Countries (established in 2009) Credit Libanais (established in 2011), and Byblos Bank, Bank Med and Banque Libano Francaise (all established in 2011).

38 Ziraat Bank (established 2006), Turkiye IS Bankasi, Vakif Bank and Al-Baraka Turkatilim Bankasi A.S. (all established in 2011) and Bank Asya (established in 2012).

39 Bank Melliri Iran (established in 2005) and Parsian Bank (established in 2012).

40 Abu Dhabi Islamic Bank (established in 2010).

41 Arab Banking Corporation (established in 2004).

financial services mainly to Turkish customers. IS Bank does not handle many L/Cs issued by TBI for government projects, but it issues and confirms L/Cs between its own branches, namely, between the Istanbul Branch and the Erbil Branch, for private-sector projects. According to the JICA Survey Team interview, the Erbil Branch of IS Bank has advanced financial infrastructure brought in from Turkey and provides all financial services available in the Istanbul Branch to its clients, including corporate and commercial banking (L/Cs, L/Gs, trade finance and commercial loans) and retail banking (demand deposits, term deposits, personal loans, remittances, ATM). IS Bank plans to open another branch in Baghdad in May 2013 and two more branches in Duhok.

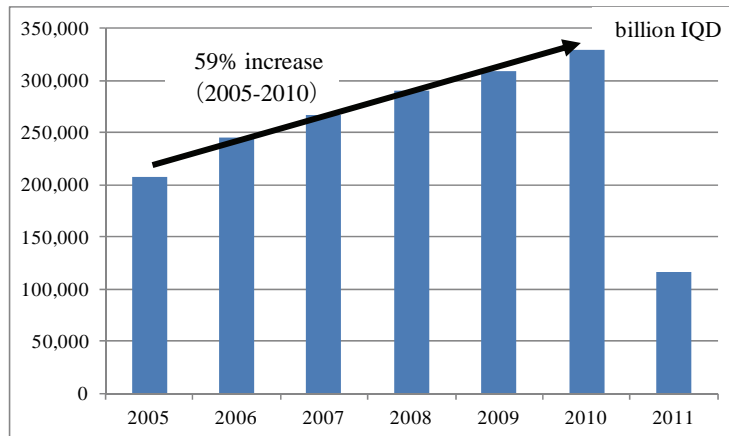
**Table 4.4-2 Foreign Banks (as of end 2012)**

	Country	Established year
Ziraat Bank	Turkey	2006
Turkiye IS Bankasi	Turkey	2011
Vakif Bank	Turkey	2011
Al-Baraka Turkatilim Bankasi A.S.	Turkey	2011
Bank Asya	Turkey	2012
Intercontinental Bank of Lebanon	Lebanon	2008
Bank of Beirut and the Arab Countries	Lebanon	2009
Credit Libanais	Lebanon	2011
Bank Med	Lebanon	2012
Banque Libano Francaise	Lebanon	2012
Byblos Bank	Lebanon	2012
Bank Melli Iran	Iran	2005
Parsian Bank	Iran	2012
Abu Dhabi Islamic Bank	UAE	2010
Arab Banking Corporation	Bahrain	2004

Source: Websites of the CBI and the relevant banks (accessed 6 April 2013).

## (2) Banking sector expansion

The Iraqi banking sector has been growing remarkably in recent years. The rate of growth of total assets of the banking sector from 2005 to 2010 was 59% (see Figure 4.4-4). Equity capital and loans have grown by about seven times from 2005 to 2011, while the amount of deposits expanded by about five times during the same period (see Figure 4.4-5).

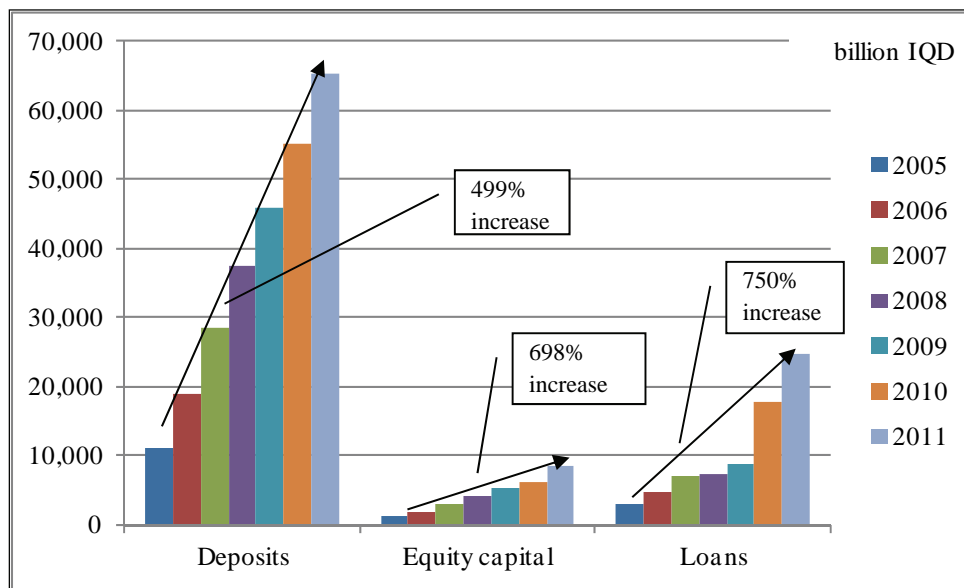


Note 1: The reason for the large decline in total assets in 2011 is attributable to the asset reduction of 226.7 trillion IQD for Rafidain Bank and Rasheed Bank together due to the write-off of bad debts.

Note 2: Data utilizes “Consolidated Statements of Commercial Banks”.

Source: CBI, Research and Statistics Department, “Annual Statistical Bulletin” 2005-2011.

**Figure 4.4-4 Trends in Banking Sector Assets**



Note: Based on consolidated statements of commercial banks.

Source: CBI, Research and Statistics Department, “Annual Statistical Bulletin” 2005-2011.

**Figure 4.4-5 Trends in Banking Sector Deposits, Equity Capital, and Loans**

Of the total bank credits of 59.4 trillion IQD at end-2011, direct loans amounted to 20.3 trillion IQD (34% of the total), while loan guarantees totaled 39 trillion IQD (66% of the total), as shown in Table 4.4-3. For both private and state-owned banks, the major line of business was loan guarantees in 2009, with their shares at 72% and 92%, respectively, but in 2011, the shares

decreased to 64% and 66%, respectively. Meanwhile, the banking sector's domestic direct lending has expanded remarkably from 5.7 trillion IQD, 11% of the total bank credit or 51.8 trillion IQD, in 2009 to 20.3 trillion IQD, 34% of total 59.4 trillion IQD, in 2011. Loans and guarantees by state-banks increased by 4.4 times and 0.8 times, respectively, while those of private banks increase by 2.0 times and 1.4 times, respectively, compared with 2009. In order to strengthen private banks, TBI has started sub-allocating government sector L/Cs (below 4 million USD) to private banks since 2009. For instance in 2010, TBI has transferred 760 government sector L/Cs out of the total 1,312 L/Cs (i.e., 58% of the total) to private banks, according to TBI's annual report of the fiscal year (FY) 2010.

The shares of private and public sector clients in deposits and loan guarantees, respectively, are such that public sector clients account for the majority, with 68% in deposits and 76% in loan guarantees. The fact that both Rafidain Bank and Rasheed Bank are government deposit-taking banks explains the reason why public sector clients (i.e., the government, public sector institutions, and state-owned enterprises) make up the majority of depositors. The two banks are the only ones which have nation-wide branch networks, and they also benefit from an implicit government guarantee of deposits.

**Table 4.4-3 Total Bank Credits (2009-2011): Loans and Guarantees**

Unit: trillion IQD

		2009	2010	2011
Direct Loans	State-owned banks	3.8	8.8	16.6
	Private-owned banks	1.9	2.9	3.8
	Subtotal	5.7	11.7	20.3
Loan Guarantees	State-owned banks	41.2	34.3	32.1
	Private-owned banks	4.9	5.5	6.9
	Subtotal	46.1	39.8	39.0
Total	State-owned banks	44.9	43.1	48.7
	Private-owned banks	6.8	8.4	10.7
	Total bank credits	51.8	51.5	59.4

Note: Loan guarantees include L/C and L/G.

Source: Compiled by the JICA Survey Team based on CBI data.

(<http://www.cbi.iq/index.php?pid=Statistics>) CBI Research and Statistics Department, Annual Statistical Bulletins 2009-2011.

The reason public sector clients retain a majority share in loan guarantees can be attributed to the fact that the Iraqi economy is still dominantly state owned and its domestic industries are still fragile, rendering it necessary for them to rely largely on imports. This is the very reason why many interested parties have reiterated the need for privatization of state-owned enterprises for further development of the banking sector, and therewith the diversification of the Iraqi

economy as a whole.<sup>42</sup>

### (3) Restructuring of banking sector

#### 1) Strengthening of private-owned banks

Before 2009, only the state-owned banks were allowed to lend to or take deposits from public sector entities (i.e., the government, government institutions, and state-owned enterprises). At present, private banks are in principle able to finance government projects whether through loans or through purchase of government bonds as well as to issue L/Cs for imports by the government and state-owned enterprises. However, in practice, the Ministry of Finance (MOF) gave instructions in 2009 to the public entities not to deal with private banks. As for the issuance of L/Cs for public sector entities, there is a ceiling on the size of L/C that TBI can delegate to private banks. In principle, the ceiling is 5 million USD, but in practice it is 4 million USD (raised from 2 million USD in 2011)<sup>43</sup>. Also, for such L/Cs issued by the private banks, the exporter's bank usually requires an endorsement by an international bank.

In order to enable private banks to do more business with the public sector entities, their capital bases have to be strengthened. To this end, the CBI in March 2010 ordered all private banks to raise their minimum capital to 100 billion IQD by the end of 2010, 150 billion IQD by the end of 2011 and 250 billion IQD by the end of 2012. Later in October 2010, each of these deadlines was extended by six months, with the ultimate deadline set at the end of June 2013.

#### 2) Restructuring of state-owned banks

Since 2003, banking sector restructuring has been implemented by the CBI with the assistance of international donors; especially the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) (see BOX 4.4-3). Among others, cleaning up the balance sheets of Rafidain Bank and Rasheed Bank was considered to be a major issue. In 2006, a Memorandum of Understanding was signed by the CBI and the MOF to restructure the two banks, the deadline of which is currently set at the end of June 2013. Financial statements of Rafidain Bank and Rasheed Bank have not been disclosed since 2009 but, according to the CBI Annual Bulletin 2011, the assets of the two banks were reduced by 71.5 percent and 37.2 percent, respectively, at the end of 2011 compared with the previous year. This shows that there has been progress in the clearing the balance sheets of non-performing assets (NPAs). According to the World Bank estimation, the two banks carry major losses on account of two gulf wars and the following international economic sanctions as well as the losses of foreign exchange valuation changes (from 1 USD=0.33 IQD to 1

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42 The necessity of privatization of state-owned enterprises has been pointed out by various parties within and out of Iraq, including Iraqi Ministry of Planning (in NDP), IMF, and International Bank for Reconstruction and Development (IBRD).

43 The World Bank (24 September 2011), Republic of Iraq Financial Sector Review

USD=1,179 IQD): As of the end of 2010, Rafidain Bank alone could write off 257 trillion IQD of its total assets of 302 trillion IQD and the state-owned banking sector as a whole could reduce a total of 259 trillion IQD from the total assets of 319 trillion IQD.<sup>44</sup>

In addition to the problem of NPAs, there is the issue of significant undercapitalization of state-owned banks; especially Rafidain Bank, Rasheed Bank, Agricultural Cooperation Bank and Real Estate Bank (see Table 4.4-4.)

**Table 4.4-4 State-owned Banks: Undercapitalization & Underutilization of Deposits (as of end-2011)**

Unit: million IQD

	Capital	Deposits	Loans to Capital	Loans to Deposits	Total credits to Deposit
Rafidain Bank	25,000	26,228,997	35671%	34%	72%
Rasheed Bank	2,000	15,170,944	136539%	18%	18%
Agricultural Cooperation Bank	600	1,790,211	164103%	55%	55%
Industrial Bank of Iraq	75,000	154,462	97%	47%	47%
Real Estate Bank	50,000	180,467	1812%	502%	502%
Iraq Bank	1,000	17,618	581%	33%	33%
Trade Bank of Iraq	500,000	6,276,857	590%	47%	399%
Total	653,600	49,819,556	2535%	33%	98%

Note: Loans refers to cash credits; total credits refers to cash credits and pledged credits (letter of credits and letter of guarantees) according to the statistics of the Central Bank of Iraq.

Source: CBI Research and Statistics Department, Annual Statistical Bulletin 2011.

Compared to the sizes of loans provided by each of these banks, their respective capital sizes are too small. Loans to capital ratios of Rafidain Bank, Rasheed Bank and Agricultural Cooperation Bank are especially high with 35671%, 136539% and 164103%, respectively. Following the Parliament Economic Commission Decision No. 341 (2008), it is planned that Rafidain Bank, Rasheed Bank and other specialized state-owned banks would eventually raise their capitals to 400 billion IQD, 300 billion IQD and 200 billion IQD, respectively, but there has not been any concrete action from the MOF yet<sup>45</sup>. At present, thanks to the benefit of an implicit deposit guarantees by the government, state-owned banks enjoy a huge deposits base which more than complement their lack of capitals. Moreover, their loans-to-deposits ratios ranging from 18% to 55% (except for the case of Real Estate Bank) and total-credits (i.e., loans and guarantees)-to-deposits ratios varying from 18% to 72% (except for Real Estate

44 World Bank (2011). Republic of Iraq Financial Sector Review.

45 Central Bank of Iraq. *Annual Report for Financial Stability in Iraq 2010*.

Bank and TBI) remain very low, which entails yet another problem faced by the state-owned banks: high liquidity and underutilization of deposits. One reason for underutilization of deposits can be attributed to the fact that the interest rates on deposits with CBI (7% savings, 8-10% for fixed deposits between 6 months and 2 years for IQD as of end-2011) and MOF Treasury bills (8.2% as of end-2011) are effectively higher than those with state-owned banks, (average savings rate of 4.82% for all state-owned banks, 4% for Rafidain Bank and 3.5% for Rasheed Bank for IQD as of end-2011)<sup>46</sup>, which rendered them less enthusiastic to undertake lending activities by giving them chances to gain revenues by simply depositing with the CBI or through purchasing MOF treasury bills.

### 3) Facilitating factors in banking sector restructuring

According to various sources in Iraq,<sup>47</sup> there is a possibility that the speed of this banking sector restructuring will accelerate towards the end of June 2013. The two main causes for this acceleration are as follows.

Firstly, it was expected that the reform efforts of the two largest state-owned banks,<sup>48</sup> namely, Rafidain Bank and Rasheed Bank, will accelerate towards June this year due to the fact that they would be able to resume their international operations as a result of the termination of the economic sanctions on them according to the paragraph 23 of UN Security Council Resolution 1483 (issued on 22 May 2003). Under Resolution 1483, all financial assets abroad of the two banks was frozen and transferred to the Development Fund for Iraq (DFI) account of the United States Federal Reserve Bank of New York in 2003. These sanctions were officially lifted since the end of June 2011 according to the UN Security Council Resolution 1956 (issued on 15 December 2010), but the UN member states to date have continued to voluntarily comply with this resolution.<sup>49</sup> Among all states, the expiration date

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46 Central Bank of Iraq Economic & Research Department Financial Research Division, "Table of Interest Rates Posted by the Commercial Banks for January-December 2012" and "Annual Statistical Bulletin 2011".

47 Comments by the government representative at Iraq Finance 2012 Conference in London (18-19 September 2012), Iraqi domestic news and reports (e.g., a report by Aswat Aliraq, 30 January 2013), and comments by a lawyer working in Baghdad.

48 In 2006, a memorandum of understanding regarding the restructuring of Rafidain Bank and Rasheed Bank was signed by the CBI and the MOF, based on which the reform activities have been continuously implemented including clearing of accumulated debts and human resource development. (Source: IBRD, "Republic of Iraq Financial Sector Review," 24 September 2011.

([http://siteresources.worldbank.org/MENAEXT/Resources/Financial\\_Sector\\_Review\\_English\\_Annexes.pdf](http://siteresources.worldbank.org/MENAEXT/Resources/Financial_Sector_Review_English_Annexes.pdf))

49 States implement the assets freeze and transfer measures according to the lists of individuals and entities identified and regularly updated pursuant to resolution 1483 (2003) by the Security Council Committee established pursuant to resolution 1518 (2003). For the period ending 31 December 2013, the Chair of the Committee is His Excellency Mr. Kodjo Menan of Togo. (Source: United Nations Security Council Sanctions Committees: Resolution 1518 (2003) <http://www.un.org/sc/committees/> (accessed 3 June 2013))

(22 May 2013) of the US President Executive Order (EO) 13303 (22 May 2003)<sup>50</sup> has been a focus of the recent discussions since it has constantly provided the protection to the DFI and other Iraqi assets abroad over the last decade. Upon the expiration of the EO 13303, UN Security Council Resolution 1483 practically loses effectiveness over Iraqi financial assets abroad, which will have positive and negative implications: it will free Rafidain Bank and Rasheed Bank from current restraints on international operations, but, at the same time, it will nullify the protection of Iraqi money (namely, oil export revenues and other assets saved at the DFI account at the Federal Reserve Bank of New York) which has been provided by the government of United States against any claims of international creditors. Opinions among interested parties on what will take place are divided and the consequences are not predictable.

At the same time, it is also expected that the role of TBI, which was established temporarily (as an exception to UN Security Council Resolution 1483) to implement international banking business in place of the two banks, would be eliminated. The possibility of converting TBI, now a special purpose bank, into a universal bank is currently being discussed, considering the not-so-little economic effect it has being the second largest bank in the country.<sup>51</sup>

Secondly, the end of June 2013 is the deadline for all private banks to meet the minimum capital requirement (250 billion IQD), which was imposed by CBI on all private banks to make them strengthen their capital bases.

As of the end of 2011, only 4 of the 43 private banks have reached the 150 billion IQD threshold: United Bank for Investment, North Bank for Finance & Investment, Kurdistan International Bank for Investment & Development and Al-Bilad Islamic Bank for Investment & Finance. If all private banks raise their minimum capital to 250 billion IQD by the end of June 2013, an additional total capital injection of 7.3 trillion IQD (which is equivalent of 3.5 percent of Iraqi GDP (current price) of 211 trillion IQD in 2011<sup>52</sup>, or 6.2 billion USD based on 1 IQD = 0.00085 USD) would be needed. Nevertheless, for those banks listed on the Iraq Stock Exchanges (ISX), meeting the minimum capital requirement seems not hard. As of the end of 2012<sup>53</sup>, out of 21 listed banks, 18 have surpassed the threshold of 150 billion IQD and 4 have already accomplished the ultimate goal of 250 billion IQD: They are AL-Mansour Bank for Investment, Kurdistan International Bank for Investment & Development, North Bank for Finance & Investment and United Bank for Investment.

As the deadline is nearing, the Iraqi government and international donors are expecting that this will trigger mergers among private banks and attract foreign investments, which would

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50 Executive Order 13303 on 22 May 2003, declaring a national emergency protecting the Development Fund for Iraq and certain other property in which Iraq has an interest, pursuant to the International Emergency Economic Powers Act (50 USC. 1701-1706). The executive order has been modified and extended in the following years until on 8 May 2012. President Barack Obama announced the extension for one year until 22 May 2013 (Source: The White House (<http://www.whitehouse.gov/the-press-office/2012/05/18/notice-continuation-national-emergency-respect-stabilization-iraq>)).

51 Source: IBRD, "Republic of Iraq Financial Sector Review", 24 September 2011, p 19.

52 CBI website (<http://www.cbi.iq/index.php?pid=Statistics>), Annual Bulletin 2011. Preliminary estimates.

53 Rabee Securitees website (accessed on 9 May 2013) for capital (2012) of listed banks



accelerate the restructuring of the banking sector. As of April 2013, there has not been any major movement witnessed in the market other than a failed effort by the Standard Chartered Bank to merger with the Warka Bank. This is one of the largest local private banks in Iraq and the merger would have helped the bank to meet the minimum capital requirement.<sup>54</sup> Instead, Standard Chartered Bank is now planning to apply for the establishment of three branches, in Baghdad, Basra and Erbil.<sup>55</sup> According to the recent interviews with international banks (of the United States, Turkey, Jordan and Lebanon) doing business with and in Iraq, it was found that most of them are also planning to newly open representative offices/ branches in Baghdad or extending their branch networks in Iraq in 2013 and beyond.

#### **BOX 4.4-3 Restructuring of Rafidain Bank and Rasheed Bank**

In July 2003, IMF established a “TA Subaccount for Iraq”; and its Monetary and Capital Markets (MCM) Department took charge in providing TAs in macroeconomic management, monetary policy, banking, financial management and statistics to Iraqi counterparts, namely, the CBI, the MOF, and the Central Office for Statistics and Information Technology.

In February 2004, the UN and IBRD together established the International Reconstruction Fund Facility for Iraq (IRFFI). As part of IRFFI, the World Bank Iraq Trust Fund was established.

In 2006, the MCM held a workshop on bank restructuring, through which the IBRD provided advice to Rafidain Bank and Rasheed Bank based on the MOU signed by the CBI and the MOF.

On 30 April 2007, as part of IMF conditionalities under the 2005 Stand-By Arrangement, an international audit firm was appointed to conduct an operational and financial audit of Rafidain Bank and Rasheed Bank (based on their 2006 financial statements)

In December 2007, the MCM held a workshop on bank restructuring, through which it gave advices related to the MOU signed by the CBI and the MOF regarding the restructuring of Rafidain Bank and Rasheed Bank.

On 31 May 2008, as part of IMF conditionalities under the 2007 Stand-By Arrangement under the Emergency Post Conflict Assistance Program for Iraq, an international audit firm implemented the operational and financial audits of Rafidain Bank and Rasheed Bank.

On 30 September 2008, for each of Rafidain and Rasheed banks, an operational restructuring program was adopted.

In 2008, as part of the projects funded by IBRD Iraq Trust Fund, the IBRD implemented the Banking Sector Reform Project (10 million USD), which included implementation support for GOI’s Banking Reform Strategy 2008-2012 and the Action Plan for the restructuring of the two state-owned commercial banks as well as capacity development of CBI’s bank supervision functions.

Source: IMF (2008 March), Technical Assistance Subaccount for Iraq, World Bank (2011) Republic of Iraq Financial Sector Review

54 Source: *Iraq Business News*, 27 March 2013 (<http://www.iraq-businessnews.com/tag/standard-chartered>).

55 The Telegraph, 10 February 2013

(<http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/9858692/Standard-Chartered-planning-to-push-into-Iraq.html>).

#### (4) Payments system

##### 1) Current state of development

Cash is still the most common form of payment in Iraq (with roughly one in three transactions involving a financial institution). Nevertheless, since 2006, progress has also been made by the CBI with the technical assistance of the IMF and IBRD to develop the payments system. At present, Iraq Payment System (IPS) consists of the Real Time Gross Settlement (RTGS) System, the Automated Clearing House (ACH) System and the Government Securities Registration System (GSRS).

Under the RTGS system, which began functioning in August 2006, there is a linkage of CBI, MOF and participating banks for high-value, intra-government payments. Most of the banks (44 out of 54) were participating in the RTGS as of the end of 2012. ACH was introduced in September 2006 for small-value payments including electronic cheque printing and reading. There are currently 17 banks (in addition to CBI branches) participating in ACH as of the end of 2012. GSRS, a system for management of the government securities issued by the CBI and MOF, was launched in November 2008 and 25 banks were participating as of the end of 2012. For both ACH and GSRS, final settlements are made on participant accounts in RTGS system.

Of the 44 banks currently participating in IPS, 7 are state-owned banks, 31 are Iraqi private banks including Islamic banks, and 6 are foreign banks. Among Iraqi private banks, 11 non-Islamic banks participate in all RTGS, ACH and GSRS: They are Ashur International Bank for Investment, Bank of Baghdad, Commercial Bank of Iraq, Credit Bank of Iraq, Dar Es Salaam Investment Bank, Gulf Commercial Bank, Investment Bank of Iraq, Iraqi Middle East Bank for Investment, Mosul Bank for Investment and Development, National Bank of Iraq and United Bank for Investment. All six foreign banks participating in IPS, namely, Abu Dhabi Islamic Bank, Melli Bank, Byblos Bank, Bank of Beirut and the Arab Countries, Intercontinental Bank of Lebanon and Ziraat Bank, have their main Iraqi branches in Baghdad (see Table 4.4-5).

The RTGS system is currently utilized daily by all 44 participating banks, but use of the other systems is not yet as active. Continued efforts at improving IPS are needed in terms of increasing the number of participating banks as well as eliminating the shortcomings of the existing systems, which have been managed by the CBI with the assistance of IMF and IBRD.

A retail payment system is currently being developed by the CBI with the assistance of the United States Agency for International Development (USAID). The CBI expects to introduce a “national switch” for processing credit card and ATM transactions and to establish the Iraq Interoperable Mobile Payments System so as to enable individuals and businesses to make and receive interbank and international payments electronically via a single gateway.<sup>56</sup>

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<sup>56</sup> USAID website, (Press releases (“Iraqi Banking’s Great Leap Forward thanks to USAID’s Financial Development Project (2 December 2011)” and “Iraq to boost retail banking via mobiles, Internet (9 May 2011)” <http://iraq.usaid.gov/taxonomy/term/23?page=2>).

**Table 4.4-5 Foreign Banks and IPS Participation**

	Country	Branches	IPS participation		
			RTGS	ACH	GSRS
Ziraat Bank	Turkey	Baghdad, Erbil	⊙		
Turkiye IS Bankasi	Turkey	Erbil			
Vakif Bank	Turkey	Erbil			
Al-Baraka Turkatilim Bankasi A.S.	Turkey	Erbil			
Bank Asya	Turkey	Erbil			
Intercontinental Bank of Lebanon	Lebanon	Baghdad, Eribil	⊙		⊙
Bank of Beirut and the Arab Countries	Lebanon	Baghdad, Eribil	⊙		
Credit Libanais	Lebanon	Baghdad, Eribil			
Bank Med	Lebanon	Baghdad, Eribil			
Banque Libano Francaise	Lebanon	Baghdad			
Byblos Bank	Lebanon	Baghdad, Erbil	⊙		⊙
Bank Melli Iran	Iran	Baghdad	⊙		
Parsian Bank	Iran	Baghdad			
Abu Dhabi Islamic Bank	UAE	Baghdad	⊙		
Arab Banking Corporation	Bahrain	Baghdad			

Note 1: The IPS (Iraq Payment System) consists of the Real Time Gross Settlement System (RTGS), the Automated Clearing House (ACH), and the Government Securities Registration System (GSRS).

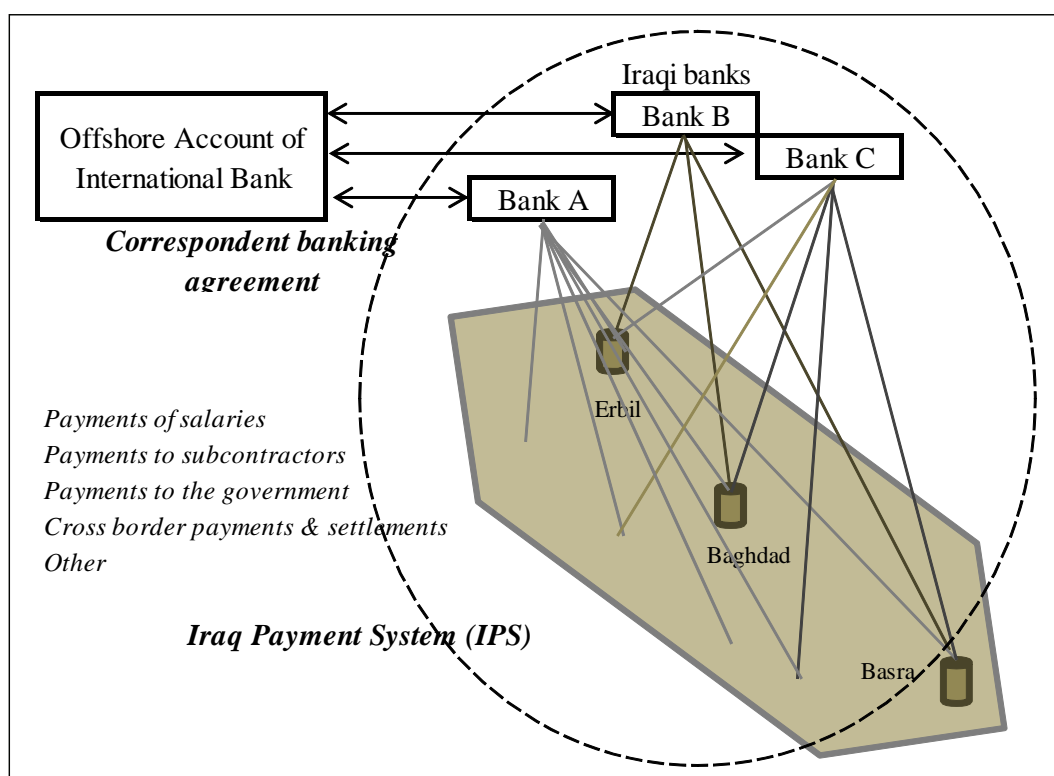
Note 2: IS Bank plans to open its Baghdad branch in May 2013 and two more branches in Duhok in near future.

Source: Websites of the Central Bank of Iraq (<http://www.cbi.iq/index.php?pid=IraqFinancialInst>) and other banks (accessed 6 March 2013).

## 2) Offshore banking

European and American multinational companies (including international oil companies) are currently utilizing offshore banking, namely, a comprehensive management of all payments in Iraq at an offshore bank account (in major international currencies). It is considered as the best solution to do business with an emerging country like Iraq where political situation is unstable.

For instance, a company wishing to do business in Iraq needs to arrange various types of payments, including those for workers' salaries (via electronic transfers, cash and cheques), payment to vendors and subcontractors (in IQD and USD) and payments to Iraqi government agencies (taxes, etc.) as well as cross-border remittances. These payments can be managed through offshore accounts of international banks through their Iraqi correspondent banks. (See Figure 4.4-6 for a schematic representation of an offshore management of payments in Iraq.)



Source: Compiled by JICA Survey Team

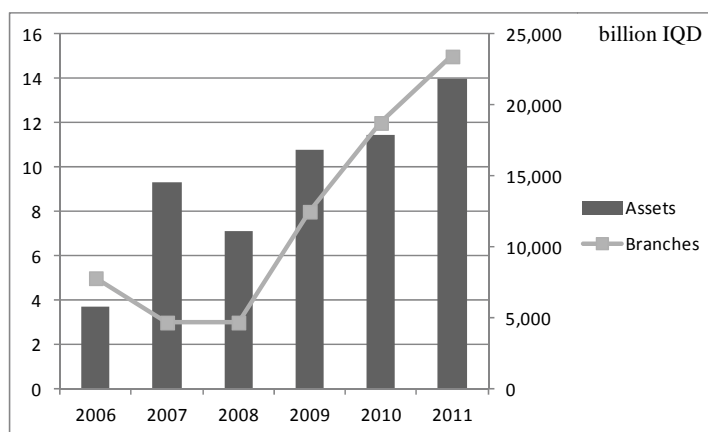
**Figure 4.4-6 Management of Payments for Iraqi Business through Offshore Accounts**

### 3) Local banks with correspondent relations with international banks

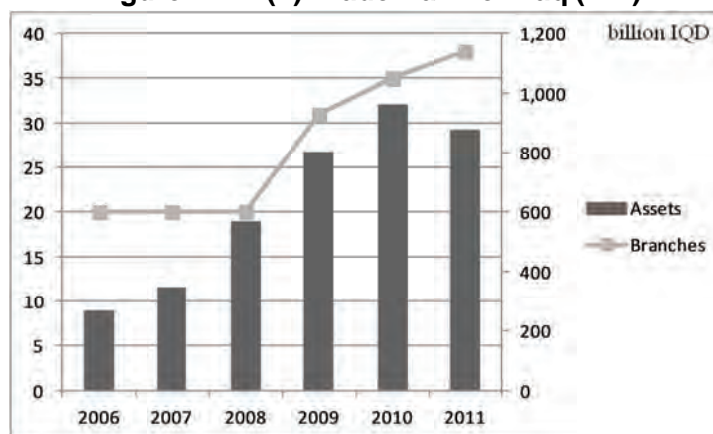
Local banks which currently have strong correspondent relations with international banks are the banks which meet the following conditions: a) having a strong internal control system which complies with know-your-customer (KYC) requirements and AML regulations, b) maintaining good financial standing, c) having an extensive branch network within Iraq and d) fully participating in IPS. For instance, TBI which is the second largest state-owned bank and the Bank of Baghdad (BoB) which is one of the largest private banks with majority shares owned by a foreign bank, namely, Kuwait's Burgan Bank: they have expanded their operations in recent years in terms of the scale of assets and the number of branches (see Figure 4.4-7 (1) and (2)) through correspondent banking relationship with major international banks. TBI, which has 15 branches all over the country, maintains correspondent banking relationships with 182 banks located in 82 cities in 52 countries as of the end of 2010. TBI also plans to expand its business from trade finance, its core business, to industrial and agricultural finance and project finance, opening overseas branches in Turkey, Lebanon and UAE in near future<sup>57</sup>. BoB, with 38 branches across Iraq with one overseas branch in Lebanon, keeps correspondent banking contracts with three major international banks, namely, JP Morgan Chase, Standard

<sup>57</sup> REUTERS (23 May 2013) <http://www.reuters.com/article/2013/05/23/iraq-tradebank-idUSL6N0E41VB20130523>

Chartered Bank, and Citibank and maintains a strong correspondent banking relationships in all major emerging markets within the Middle East through the network of KIPCO group banks<sup>58</sup>, including Burgan Bank (Kuwait), United Gulf Bank (Bahrain), Jordan Kuwait Bank (Jordan), Algeria Gulf Bank (Algeria), Syria Gulf Bank (Syria) and Tunis International Bank (Tunisia).



**Figure 4.4-7 (1) Trade Bank of Iraq (TBI)**



Source: CBI, Research and Statistics Department, Annual Statistical Bulletin 2005-2011.

**Figure 4.4-7 (2) Bank of Baghdad**

#### 4) Money transfers abroad

Sending money overseas from Iraq has become increasingly challenging. Bank customers need to prepare many documents to verify each cash transaction and submit them to the CBI via local banks, which proved to be time-consuming and thus costly. As well, total foreign currency trading volume has been considered not enough: the allocation of foreign currency is currently limited to 5-8 million USD per bank per day based on the average currency trading

<sup>58</sup> KIPCO Company is one of the biggest diversified holding companies in the Middle East and North Africa, holding substantial interests in over 60 companies operating across 26 countries. Its main business sectors are financial services and media.

volume per day in May 2013 of about 160 million USD, assuming that 20-30 banks participate in the currency auction each day. The limited availability of foreign currency is not a reflection of the country's foreign exchange reserves which are estimated at approximately 80-90 billion USD (held with the CBI and DFI).

Companies already involved in business with Iraq are taking a combination of the following three measures<sup>59</sup> to facilitate overseas money transfers.

- a) (Importing companies) For sending money overseas, divide one cash transaction into multi transactions (i.e. split one payment into a few small payments and wire each of them across the following few weeks, or use several banks to wire them). This is similar to the approach taken by companies in Egypt in recent months.
- b) (Exporting companies) For securing payments, sell certain portion of total products (e.g., 40-50% of all shipments) to the office of its Iraqi counterpart in the neighboring countries (since Iraqi companies often have headquarters or branches in the neighboring countries such as UAE and Jordan).
- c) (Both importers and exporters) Switch to L/C transactions, since the documents to verify imports for L/C transactions are much easier to get approvals from CBI than those for cash transfers. Local banks with majority foreign stakes (such as BoB, Credit Bank of Iraq and National Bank of Iraq) or foreign bank branches of major Middle East banks (such as Byblos Bank and Intercontinental Bank of Lebanon) can issue L/Cs between their own branches in Iraq and overseas. These can then be confirmed by select international banks who have credit appetite on these banks.

#### (5) Trade settlement

Between August 2003 and March 2010, trade settlements were made based on the Consortium Bank Scheme (see Figure 4.4-8) wherein each member bank of a consortium of international banks led by JP Morgan Chase<sup>60</sup> issued L/Cs on behalf of TBI. Since March 2010, a new trade settlement scheme has been in use, in which TBI itself opens and issues L/Cs based on a correspondent banking agreement with each international bank (see Figure 4.4-9). Nevertheless, the flow of L/C opening, issuance and confirmation under the new scheme have not yet been smooth<sup>61</sup>.

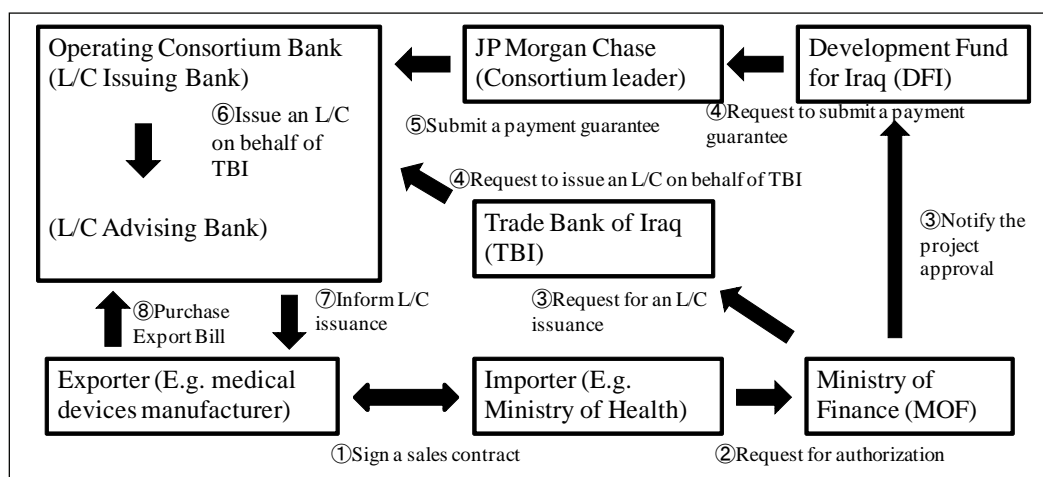
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59 Information acquired through interviews with international banks operating in the Middle East region in May 2013.

60 In August 2003, when the consortium banking scheme started, there were 14 international banks including JP Morgan Chase, the leader of the consortium, Standard & Chartered Bank, Australia and New Zealand Banking Group Limited, National Bank of Kuwait, Bank Millennium SA (Poland), Bank of Tokyo-Mitsubishi, Crédit Agricole CIB/ Calyon (France), Internationale Nederlanden Group (the Netherlands), HypoVereinsbank AG (Germany) and SanPaolo IMI S.p.A (Italy). (Sources: Trade Bank of Iraq annual reports 2007 & 2009 and homepage (<http://www.tbiraq.com>, accessed 19 April 2013)).

61 Information acquired through interviews with companies, banks, industrial associations, etc. doing business with Iraq. (in March 2013).

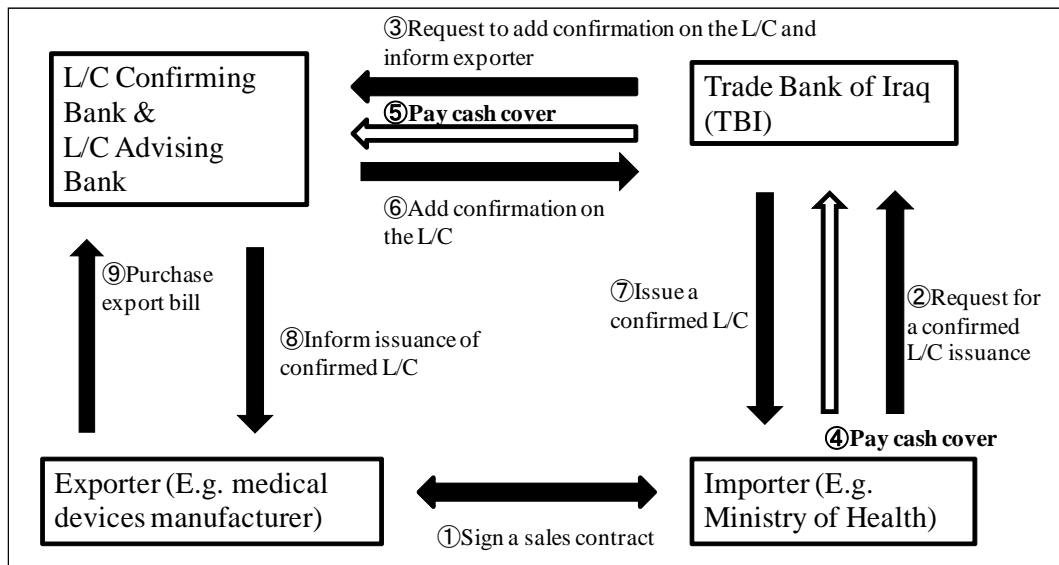
The bottleneck has been the delays in cash cover payments by TBI to international banks. Under the former Consortium Bank Scheme, cover payments required for L/C confirmation by international banks were made by utilizing the funds held in the DFI which was established by UN Security Council Resolution 1483. However, under the new scheme, TBI constantly faces the problem of financing cash cover payments by itself. TBI is currently in the situation where it cannot open and issue an L/C unless the bank receives cash cover from the importer, namely, one of the government ministries<sup>62</sup>.



Source: Compiled by JICA Survey Team based on information on TBI website (<http://www.tbiraq.com/>) and that acquired through interviews with the Bank of Tokyo-Mitsubishi UFJ and the Citibank

**Figure 4.4-8 Consortium Bank Scheme (2003.8-2010.3)**

62 Ibid.



Source: Compiled by JICA Survey Team based on information on TBI website (<http://www.tbiraq.com/>) and that acquired through interviews with companies and banks doing business with and in Iraq.

**Figure 4.4-9 New TBI Trade Settlement Scheme (2010.3 - Present)**

Consortium Bank Scheme was not without flaws: there used to be complaints from both exporters and importers under the Consortium Bank Scheme about (a) its high transaction costs due to involvement of more than two international banks, (namely, JP Morgan Chase London Branch which submitted a payment guarantee and another international bank which in turn issued and confirmed L/Cs), and (b) long transaction time due to time lags among three countries involved (namely, Iraq, London (United Kingdom) and the country of the exporter). In order to solve these problems, TBI and the Iraqi government have turned to the Citibank which in turn started in 2005 TBI L/C Re-Issuance Program (see BOX 4.4-4 for the details). As of May 2013, over 250 companies (mostly multilateral companies including all international oil companies operating in Iraq) across 100 countries (worth about 11 billion USD) have utilized the Citibank's TBI L/C reissuance program<sup>63</sup>.

According to the information acquired through interviews with companies of the neighboring countries (including Jordan, Lebanon, Turkey and UAE) which are doing business in Iraq, the ease of opening an L/C depends on whether the client (i.e., Iraqi ministry) has abundant funds (i.e., a budget allocation) as in the case of the Ministry of Oil. It is considered crucial for exporters to confirm importers (i.e., Iraqi ministries) whether the budgets for their respective projects are in fact approved by the Iraqi Parliament. Unless otherwise, exporters eventually face problems in getting their L/Cs confirmed. In practice, exporters usually choose to pay fees to international banks to receive the confirmation necessary for opening an L/C at TBI or get TBI L/C reissued, rather than risk delays. Also, government projects these days designate

<sup>63</sup> Information acquired through interviews with the Citibank Dubai Branch in May 2013.



several banks, besides TBI, as the L/C issuing bank candidates; the Bank of Beirut and Arab Countries, a Lebanese bank, is often included.

**BOX 4.4-4 TBI L/C Re-Issuance Program by the Citibank Dubai Branch**

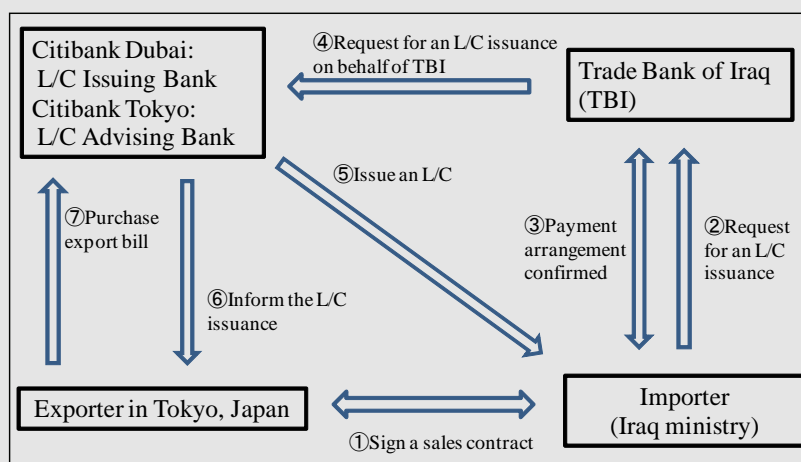
1) In 2005, upon the request from the Iraqi government and TBI, the Citibank Dubai Branch (Citi Dubai) has created the initial program for reissuing TBI L/Cs. As a means to guarantee TBI’s financing to foreign exporters involved in reconstruction projects, the Overseas Private Investment Corporation (OPIC) of the United States earmarked 70 million USD to be managed by Citi Dubai, which was a part of the total 150 million USD approved by the OPIC Board of Directors to establish a US trust facility for supporting TBI to rebuild Iraqi economy. (This program is completed and no longer in operation.)

(Source: OPIC News (November 2005), Vol. 7, No.6)

2) In 2008, Citi Dubai has created a new prepaid trade reissuance facility with Al Bilad Islamic Bank to which TBI started to sub-allocate L/Cs for government projects according to the Iraqi government’s policy to expand private sector banks’ capacity to operate trade finance business. In this program, Citi Dubai re-issued L/Cs on behalf of Al-Bilad on a fully prepaid basis. (This program is completed and no longer in operation.)

(Source: Trade Forfeiting Review (TRF) (21 February 2008) Deals of the Year: Al-Bilad Islamic Bank)

3) As of May 2013, Citi Dubai provides TBI L/C Re-Issuance Program, the mechanism of which is as below. This program was designed to cut costs and time involved in L/C transactions under the Consortium Bank Scheme by concentrating its Iraqi trade finance operation in the Dubai Branch, which has advantages in terms of location (with only one hour time difference from and easy access to Baghdad) and communication capacity (with Arabic fluent staff being constantly in touch with TBI) and by involving only its group branches (i.e., L/Cs are issued by Citibank Dubai Branch and confirmed by the group branches operating in exporters’ countries).



(Source: Compiled by JICA Survey Team based on interview with Citibank Dubai)

#### (6) Foreign currency auction by the CBI

Since 2004, the CBI has held daily auction of hard-currency (i.e. US dollars) to banks (not to individuals) at a fixed rate. The USD-IQD exchange rate has been fixed at 1 USD=1,166 IQD since 17 January 2012<sup>64</sup>. Banks participating in the daily auction pay the CBI a commission of 13 IQD per USD. And companies and individuals may purchase USD from these banks in exchange for evidence of imports and transaction receipts. According to the CBI Instruction dated 24 March 2013, which came into effect in 15 April 2013, the CBI currently imposes the following foreign currency restrictions on banks:<sup>65</sup>

- Banks can only sell up to 500,000 USD/ day per customer for the purpose of wire-transfer
- No limit is imposed for the purpose of payments through L/Cs
- Banks should not sell to customers who import goods to Iraq at a rate more than 10 dinars above the rate they purchased from the CBI

The intention of these CBI restrictions on foreign currency transaction is to avoid USD from being transferred out to neighboring countries (such as Syria and Iran which are under international sanctions) through money laundering activities, which is attributed as a cause of the ongoing IQD weakening. By promoting the use of L/C and limiting the use of wire-transfers, the CBI expects to restrict such illegal smuggling of money<sup>66</sup>.

However, according to the JICA Survey Team's interview survey to companies doing business with Iraq, it is understood that the total volume of USD currently traded daily at CBI auction is considered not enough. It is one of the reasons causing delays in overseas payments transactions.

#### (7) Banking sector differences between the Kurdistan Region and other parts of Iraq

Both regions alike are in the early stage of banking system development, although there is quite a large difference in terms of business environment. The role for the CBI in banking supervision is still weak but is steadily in the process of improvement with the support of international donor agencies. The Central Bank of Kurdistan Region, which is a branch of the CBI, follows banking sector regulations and rules installed by the Federal Government of Iraq.

As well, Iraq remains a high-risk country to do business for foreign companies operating in

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64 Central Bank of Iraq, Foreign Exchange Auctions

[http://www.cbi.iq/documents/CBI\\_FOREIGN\\_EXCHANGE\\_AUCTIONS.pdf](http://www.cbi.iq/documents/CBI_FOREIGN_EXCHANGE_AUCTIONS.pdf) (accessed 1 April 2013)

65 Sansar Capital Management LLC (2013). A Closer Look as the Iraqi Banking Sector.

66 According to the comments of Dr. Abdul Basit Turki al-Sae'ed, the President of the Board of Supreme Audit (BSA), Iraq's Anti-Money Laundering (AML) Law published in 2004 has gone unenforced in the past decade and 80% of USD transferred out of Iraq each week is laundered money out of Iraq based on improper documentations. (Source: Special Inspection General for Iraq Reconstruction. Quarterly Report to the United States Congress 30 April 2013, Quarterly Report to the United States Congress 30 October 2012.

both regions. Accordingly, most of the major European and American multinational companies (including international oil companies), regardless of whether they are operating in the Kurdistan Region or in other cities of Iraq, continue to utilize offshore banking to settle their payments in Iraq.

Nevertheless, there is a big difference in terms of business environment between the two regions. While foreign companies send expatriates to Erbil (in the Kurdistan Region), they only keep Iraqi permanent staff in Basra/Baghdad (in non-Kurdistan Region). And it is true that the high security alert situation in the cities in non-Kurdistan Region largely limits the scope of banking business available there.

For those foreign banks which need to participate in foreign currency auctions held daily by the CBI, it is necessary to establish their main branches in the capital city of Baghdad.

#### **4.4.1.2 Issues**

The banking sector restructuring has been ongoing since 2006, and preparation and issuance of relevant laws, restructuring of two state-owned banks, strengthening the capacity and supervisory power of the CBI, establishment of payment systems, and strengthening of private banks are already carried out or currently under implementation by the CBI with a strong support of international donors. All in all, the banking system in Iraq is on a right track to modernization.

However, in order to promote Japanese companies to do business with and in Iraq, the following are the issues related to the banking sector that need to be further improved.

##### **(1) Restructuring of Rafidain Bank and Rasheed Bank**

Rafidain Bank and Rasheed Bank together dominate Iraqi banking sector in terms of the sizes of assets, credits (loans and guarantees) and deposits. However, not only their balance sheets contain non-performing loans accumulated from the past regime, they have also not been able to resume their international business since 1990s due to international sanctions.

For the Japanese banks to resume ordinary banking relationship with the Rafidain Bank and the Rasheed Bank, it is crucial that their restructuring will be completed by the end of June as planned. It is important for Japanese banks and their Japanese clients to know when the Rafidain Bank and the Rasheed Bank would resume their international businesses. In addition, it is understood that in order for the two banks to resume international business with foreign banks, not only the sanctions imposed on financial assets abroad of the two banks has to be lifted but also they need to further strengthen internal control systems and learn to effectively operate banking businesses in addition to clearing their balance sheets.

##### **(2) Strengthening and restructuring of private banks**

Iraqi private banks need to be strengthened to enable them to offer financial services to foreign investors as well as do more business with the public sector entities.

At present, their capital base is too weak to enable them to issue a large-sized L/C for public sector projects. And even in the case they could, they are often required to have their L/Cs endorsed by an international bank by the exporter's bank.

In addition, there has been a problem of unlevel playing field between state-owned banks and private banks: MOF gave instructions in 2009 to the public entities not to deal with private banks, and there has been a ceiling on the size of L/C that TBI can delegate to private banks. In order to level the playing field, it is necessary to strengthen the financial standing of private banks.

Therefore, it is crucial to strengthen private banks' capital bases. CBI has ordered all private banks to raise their minimum capital to 250 billion IQD by the end of June 2013. The Iraqi government and international donors are expecting that this will trigger mergers among private banks and attract foreign investments, which would accelerate the restructuring of the banking sector.

### (3) Further development of IPS

IPS has been developed since 2006 with RTGS System, ACH and GSRS already installed and a retail payment system being developed. Nevertheless, the participation of foreign banks in IPS is still very low, with 6 out of 15 foreign banks participating in RTGS and none in ACH and 2 in GSRS. Continued efforts to improve IPS and incorporate all banks in the system are necessary.

As well, security situation has to be improved to enable foreign banks to open their main branches in Baghdad and for international banks to open their branches in Iraq. At present, international banks are managing their clients' Iraqi payments at their off-shore accounts by utilizing their partnership relationship with only a few trusted local banks which participate in IPS.

To have an improved business environment, it is necessary to have IPS where all local and foreign banks will participate and transact with each other smoothly.

### (4) Post-“Consortium Bank Scheme” Issue

The issuance of L/C for government sector projects has been practically dominated by TBI since 2003, although it has become open to private banks since 2009. And the problem of delays in getting L/C issued and confirmed has been lingering ever since the termination of the Consortium Bank Scheme in which international banks issued L/Cs on behalf of TBI based on the payment guarantees provided by DFI funds.

In the post-“Consortium Bank Scheme” years since March 2010, TBI constantly faces the problem of financing cash cover payments by itself. Payment arrangements have to be made in advance between TBI and Iraqi importers (i.e. ministries) in order to send cash cover payments to L/C confirming and advising banks, which has been a major bottleneck causing delays in TBI L/C transactions.

Companies of the neighboring countries (including Jordan, Lebanon, Turkey and UAE) doing

business in Iraq are already finding their solutions, including paying high fees to international banks to receive the confirmation necessary for opening an L/C, utilizing TBI L/C re-issuance service, and asking foreign banks which can take Iraqi risks to issue L/Cs.

For those Japanese companies which have not yet found such solutions, the problem of delays in getting L/C issued and confirmed is becoming a great burden. Japanese trading companies and private banks are looking for international banks which can take Iraqi risks and for trusted local banks which can offer financial services to foreign companies and individuals.

Ensuring the security of payments is of an utmost importance to promote Japanese private companies to do business with and in Iraq.

#### (5) Capacity development of CBI

According to the JICA Survey Team's interview survey to companies doing business with Iraq, it is understood that the total volume of USD currently traded daily at CBI auction is considered not enough and the verification process by the CBI of evidences of imports and transaction receipts is time consuming, both of which are causing delays in overseas payments transactions. In order to promote smooth payments overseas via wire transfers and L/Cs, it is important that CBI foreign currency auction be operated smoothly and CBI L/C approval procedure be improved.

#### **4.4.1.3 Additional issues raised by Japanese companies**

The following are issues raised by Japanese companies already doing business with Iraq during the survey mission in March 2013.

##### (1) Travel warning

Since 2003, Japanese banks have been unable to enter Iraq (especially to the capital Baghdad). This is due largely to the Travel Advice and Warning offered by the Ministry of Foreign Affairs.<sup>67</sup> From various interviewees, it was pointed out that this restriction should be loosened to allow private sector companies to take actions and manage risks by themselves.

However, Iraq travel warnings announced by other countries are similar to that of Japan (see Table 4.4-6). The lifting of travel warnings requires further improvement in Iraq's security situation, but with the increasing bombings and political uncertainty related to local elections and the 10-year anniversary of the American invasion, it will not be an easy task.

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<sup>67</sup> Japanese Ministry of Foreign Affairs website:

<http://www2.anzen.mofa.go.jp/info/pcinfectionspothazardinfo.asp?id=45#danger>.

**Table 4.4-6 Travel Advice/ Warnings of Major Countries**

Name of Country	Travel Advice and Warnings
U.K.	Against all but essential travel to whole of Iraq, except for Kurdistan Region
U.S.A.	Against all but essential essential travel to Iraq. Detailed advice on each main city.
Canada	Avoid all travel to whole of Iraq including those under Kurdistan Regional Government
Australia	Do not travel for Iraq overall. Reconsider your need to travel for Duhok, Erbil and Sulaymaniyah
France	Avoid the boarder of Turkey and Iran. Three provinces of Kurdistan reigion (Duhok, Erbil and Sulaymaniyah) are OK. Detailed advice on each main city.
South Korea	The use of passport forbidden for Iraq
Japan	Advicce to postpone all travel. Detiled advice on each main city.

Sources: Websites of foreign affairs ministries of the respective countries (accessed 16 April 2013).

## (2) Economic sanctions

The list of economic sanctions and targets released by the Japanese Ministry of Finance<sup>68</sup> forbids any transactions with Iraq's two largest state-owned banks, Rafidain Bank and Rasheed Bank, as well as the CBI. In order to prevent Japanese banks from violating the Foreign Exchange & Foreign Trade Act, it would be recommendable to revise this list as soon as possible before Rafidain Bank and Rasheed Bank resume their international banking businesses.

Nevertheless, this list complies with the one maintained and regularly updated by the Security Council Committee established pursuant to Resolution 1518 (2003)<sup>69</sup>. Not only Japan but all other states which abide by UN Security Council Resolution 1483 (2003) implement the assets freeze and transfer measures in connection with individuals and entities included in the List of Individuals<sup>70</sup> and List of Entities<sup>71</sup> established pursuant to the resolution. The current list is maintained by the UN Council Committee including the CBI, Rafidain Bank and Rasheed Bank.

### 4.4.2 Stock market

The stock exchange in Iraq is still small in proportion to the size of its population and

68 Japanese Ministry of Finance economic sanction measures:

[http://www.mof.go.jp/international\\_policy/gaitame\\_kawase/gaitame/economic\\_sanctions/list.html](http://www.mof.go.jp/international_policy/gaitame_kawase/gaitame/economic_sanctions/list.html).

MOF Economic Sanctions Targets:

[http://www.mof.go.jp/international\\_policy/gaitame\\_kawase/gaitame/economic\\_sanctions/iraq\\_kankeisha\\_20120823.pdf](http://www.mof.go.jp/international_policy/gaitame_kawase/gaitame/economic_sanctions/iraq_kankeisha_20120823.pdf).

69 Security Council Committee established pursuant to Resolution 1518 (<http://www.un.org/sc/committees/1518/>)

70 [List of individuals established pursuant to resolution 1483 \(2003\)](#)

71 [List of entities established pursuant to resolution 1483 \(2003\)](#).

economic potential of the country. Nevertheless, the Iraq Stock Exchange (ISX) in Baghdad has made a significant reap in 2013 and is expected to double in size compared with the previous year. As well, the Iraq Securities Commission (ISC) plans to expand its activities by opening and starting the operation of the Erbil Stock Exchange in 2014.

#### 4.4.2.1 Current situation

##### (1) Current structure

In 1992, the Baghdad Stock Exchange (BSE) was established under the supervision of the Ministry of Finance. BSE was later replaced by the current Iraq Stock Exchanges (ISX), which was established according to the Interim Securities Law (Order No. 74) on 18 April 2004 and began trading on 24 June 2004. ISX is a non-profit entity owned by its members (47 brokers as of 11 April 2013)<sup>72</sup> and managed by the ISC.

As of 11 April 2013, there are 89 joint-stock companies listed on ISX (see Table 4.4-7). More than 40 percent are financial institutions including banks, investment companies, and insurers. As for the trading volume in 2012, banks were dominant with a 76 percent share (see Figure 4.4-10).

Since August 2007, foreign investors were allowed to trade in shares and securities listed on ISX, and started entering the market in 2009 after the relevant rules were established.<sup>73</sup> Nevertheless, foreign investors are still not active, with its share remaining at a meager 6 percent of total trading volume in 2012.

As of the end of 2012, ISX had a market capitalization of about USD4.55 billion, which is only about 1/100 the size of the Saudi Stock Exchange (USD373 billion), or 7.2% of Iraqi GDP (constant price) of 62.90 billion IQD in 2011<sup>74</sup>. The size of ISX is still very small.

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72 ISX website (<http://www.isx-iq.net/isxportal/portal/brokerListContainer.html>) accessed 11 April 2013)

73 ISC website: Instructions no. (1) of 2007, for non-Iraqi investors trading at ISX, amended in 2010 (<http://www.isc.gov.iq/en/instruction-en>)

74 The Central Bank of Iraq website (<http://www.cbi.iq/index.php?pid=Statistics>), Annual Bulletin 2011. Preliminary estimates.

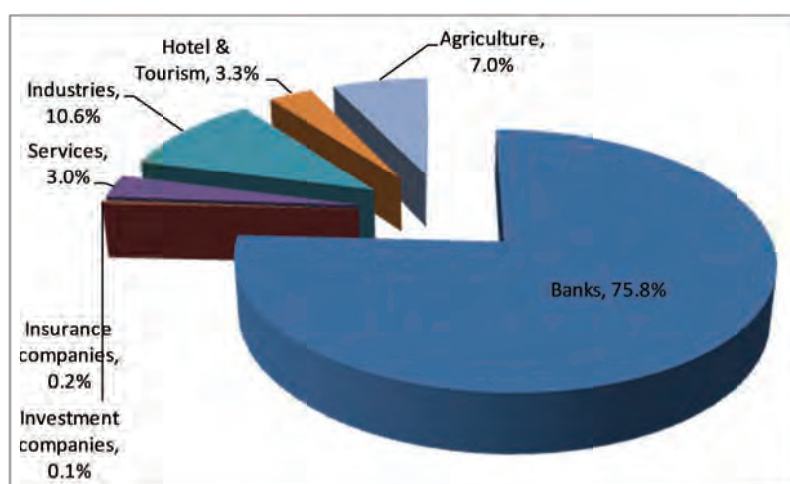
**Table 4.4-7 ISX Listed Companies**

	Number of companies	Subsector Breakdown
Agricultural sector	7	
Industrial sector	25	
Finacial sector	36	
Banks		22
Investment companies		9
Insurance companies		5
Services sector	21	
Hotel & Tourism		10
Communications		1
Other Services		10
Total	89	

Source: Iraq Securities Commission website, <http://www.isc.gov.iq/en/node/435> (accessed 11 April 2013)

(2) Recent developments

In February 2013, the Asiacell Communications, an Iraqi telecommunication company, held an initial public offering (IPO) and successfully attracted 1.49 trillion IQD, the largest IPO in the past four years in the Middle East. As a result of this, market value of ISX is expected to double in size compared with the previous year.<sup>75</sup> Also, there has been an agreement signed between ISC and the KRG on the establishment of the Erbil Stock Exchange (ESX) next year.<sup>76</sup>



Source: Republic of Iraq Council of Ministers, Iraq Securities Commission, “The Annual Report of the Trading Movement of ISX for 2012, <http://www.isc.gov.iq/en>.

**Figure 4.4-10 Shares by Sector in Total Trading Volume (2012)**

<sup>75</sup> Bloomberg (3 February, 2013), (<http://www.bloomberg.com/news/2013-02-03/asiacell-encourages-iraq-bourse-growth-after-1-3-billion-ipo.html>)

<sup>76</sup> The National (11 April 2013) <http://www.thenational.ae/business/markets/kurdistan-gets-help-to-start-erbil-stock-exchange>



#### **4.4.2.2 Issues**

Currently, the Iraqi securities market is governed by two laws: the CPA Order No. 74, which is the Interim Law on Securities Market (issued in 2004) and the Company Law No. 21 (issued in 1997 and amended by CPA Order No. 64 in 2004). The Permanent Securities Law was drafted in 2008 with the assistance of the US Securities & Exchange Commission so as to meet the requirements and principles of the International Organization of Securities Commissions (IOSCO). It has been under discussion for several years, and awaits approval by the Parliament.

In addition, among many issues pointed out by the World Bank<sup>77</sup> the following are important for the Iraqi stock market to further develop and become attractive to foreign investors:

- 1) Strengthen the supervisory power of ISC
  - Grant extensive rule-making and enforcement powers to ISC
  - Ensure its independence from the government
- 2) Strengthen the governance of participating companies
  - Amendment of the Company Law No. 21 to ensure corporate governance and shareholder rights
- 3) Ensure protection of investors' rights
  - Ensure that all companies shall disclose the detailed prospectuses based on globally recognized standards for issues of securities to the public and for listing on ISX
  - All companies need to adopt international accounting and auditing standards
- 4) Expand trade volume of ISX
  - Proceed with the privatization of state-owned enterprises to increase the number of listing companies on ISX
  - Establish a link between the CBI's Government Securities Registration System (where government securities are traded among CBI, MOF and participating banks) and the trading platform of ISX (via Iraq Depository Center) in order to develop the primary market and encourage a secondary market
  - Give ISX permission to establish a Second Market

#### **4.5 Tax and Accounting**

The tax system and accounting system in Iraq is summarized as follows. Information is mainly derived from the documents published by Ernst & Young.

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<sup>77</sup> Source: The World Bank, "Republic of Iraq Financial Sector Review," 24 September 2011).

## 4.5.1 Tax

### 4.5.1.1 Corporate tax

#### (1) Tax rate

Income tax is imposed on both corporate entities and foreign branches based on taxable income which are gained in Iraq.

Corporate income tax rate is 15 % of taxable income. This rate is applicable to all companies except oil and gas production and extraction activities and related industries which include services contracts. The income tax rate of 35 % is applied to the activities related to oil and gas.

**Table 4.5-1 Tax Rates**

Items	Tax Rate
Corporate income tax rate (%)	15 (35 for Oil and Gas Sector)
Capital gains tax rate (%)	15 (35 for Oil and Gas Sector)
Branch tax rate (%)	15 (35 for Oil and Gas Sector)
Withholding tax (%)	15 (15% maximum)
Dividends	0
Interest	15*
Royalties	15*
Branch remittance tax	0

Note: \* A withholding tax is imposed on payments to nonresidents.

Source: Ernst & Young "Doing business in Iraq 2012".

Income is regarded to arise in Iraq in case any of the following occurs in Iraq:

- The place of performance of work
- The place of delivery of work
- The place of signing the contract
- The place of payment of the work

Otherwise, companies enjoy exemption from tax for Iraqi income tax purposes.

A foreign tax credit is available to Iraqi companies on income taxes paid abroad. The foreign tax credit is generally limited to the amount of an Iraqi company's income tax on the foreign income. It is for five years that the excess foreign tax credits may be carried forward.

#### (2) Depreciation

The straight line or declining balance can be used as an accounting method for depreciation. Other methods may be used, if it is approved by the General Commission for Tax. A different depreciation rate is applied for the financial sector.

Iraqi tax authority set different depreciation rates as follows.

**Table 4.5-2 Tax Depreciation**

<b>Asset</b>	<b>Financial Sector</b>	<b>Other Sector (%)</b>
Buildings	2-5	2-5
Office equipment	20	15-20
Motor vehicles	20	15
Plant and machinery	20	15

Source: Ernst & Young, "Doing business in Iraq 2012".

If an entity uses a depreciation rate larger than the rates Iraqi tax authority sets as above, the excess income is disallowed for tax purposes.

### (3) Filing

Within five months after the end of the fiscal year end, tax returns for all corporate entities must be filed in Arabic together with the payment of the total amount of taxes due according to the final tax declaration.

If filing is delayed, 10% of the tax due is imposed as a penalty, up to a maximum of 500,000 IQD, on a taxpayer which is not able to submit or refuses to submit in the deadline, that is, within five months after the financial year end. An additional penalty of 10,000 IQD is imposed on foreign branches that fail to submit final accounts.

An additional penalty of 5% of the amount of tax due is imposed if the tax due is not paid within 21 days after the date of notification.

### (4) Free Trade Zones

Investors in the Free Trade Zones enjoy exemptions. Firstly, both imports and exports are exempted from all taxes and duties except the reconstruction levy. Secondly, capital, profits and investment income from projects in the Zones are exempt from all taxes and fees throughout the life of the project, including the foundation and construction phases.

#### 4.5.1.2 Individual tax

Individual tax is imposed on taxpayers in respect of each year of assessment. The following is a list of the tax rates applied to the resident individuals is as follows.

**Table 4.5-3 Individual Tax Rates**

<b>Amount</b>	<b>Tax rate</b>
Up to IQD 500,000	3%
Over IQD 500,000 and up to IQD 1,000,000	5%
Over IQD 1,000,000 and up to IQD 2,000,000	10%
Over IQD 2,000,000	15%

Source: Ernst & Young, "Doing business in Iraq 2012".

Some deductions are allowed for individual income tax. Allowable deductions from income is as follows,

Personal deduction IQD 5,000,000

Wife deduction IQD 4,000,000

Each son under 18 years or student under 25 years IQD 400,000

Widow or divorcee IQD 6,400,000

Over retirement age (63) IQD 600,000

Social security annual amount

Other allowances which are not more than 30% of the basic salary.

Delegation or overseas allowances received by foreign employees of no more than 25% of the basic salary.

Delegation or overseas allowances received by foreign employees of no more than 25% of the basic salary.

To qualify for the above deduction, Non-Iraqis has to be a resident of Iraq to qualify for the above deductions. To be considered as a resident in Iraq, non-Arab, non-Iraqi the individual has must stay in Iraq for 120 consecutive days during the taxable year or for six months during the taxable year in total. Non-Iraqi Arab person will be regarded as a resident if he stays in Iraq with an employment contract even for just one day during the taxable year. In the meantime, Iraqi persons are always qualified for the above deductions.

#### **4.5.2 Accounting**

Iraqi organizations and foreign entities that operate in Iraq must prepare statutory reports including financial statements in compliance with the Iraqi Unified Accounting System (IUAS) and the requirements of related regulators such as Ministry of Finance and the Board of Supreme Audit.

Basically, financial statements must be presented in compliance with IUAS. However, by the Iraq Banking Law, all banks are required to use International Financial Reporting Standards (IFRS). It is said that all companies in Iraq will be required by regulators to use IFRS in future.

Organizations operating in Iraq shall keep their accounting documents in Arabic, and the financial reports submitted to the authorities must be prepared in Arabic. Foreign auditors are not allowed to audit. Auditors must be Iraqi. The currency to be used in financial accounting report is the Iraqi Dinar.

**Table 4.5-4 Audit Procedure in Iraq**

Sequence	Act
1)	An accounting firm receives financial data from a client organization (usually around December)
2)	The accounting firm prepares financial statements based on IUAS
3)	An auditor signs the financial statements prepared by the accounting firm
4)	The organization submits tax return with other documents to GCT (General Commission for Taxes) by 1 May

Source: JICA Survey Team.

In 1999, the Higher Institute of Accounting and Finance is founded. This institute is the entity which is able to award a professional “Chartered Accountant” certificate. This certificate is regarded as an equivalent to a PhD degree. Students are trained by the Board of Supreme Audit.

The Board of Supreme Audit and the Audit Advisory Board are two important institutions of the accounting system of Iraq.

(1) The Board of Supreme Audit (BSA)

The BSA is responsible for the issuance of accounting standards and policies in Iraq. The chairman of BSA is usually the Chairman of the Audit Advisory Board. BSA is also responsible for the audit of entities in public sector.

(2) The Audit Advisory Board (AAB)

The AAB is in charge of organizing and supervising the accounting/auditing profession in Iraq.

## **Chapter 5 Issues in Doing Business with and in Iraq**

This chapter examines the major issues in doing business with and in Iraq which have been identified in the Survey. The chapter starts with a comparative study on the business environment in Iraq with that in the neighboring countries, followed by a summary of the key issues described in the preceding chapters in the current Report. The chapter then sorts out these issues based upon a degree of consciousness toward the issues among companies doing business with and in Iraq so as to offer the basis for conclusion and recommendations made in Chapter 6.

### **5.1 Business environment and major issues**

The case for improvement of the business environment is justified by, among other factors, the recognition that faster growth of the Iraqi economy is achievable by increasing Foreign Direct Investment (FDI) inflow and expansion of international trade. In making a foreign investment decision as well as a business decision, companies that are potential investors evaluate a candidate country by examining relevant factors that are collectively referred to as the “business environment” or “investment environment.” The business environment may be considered to be a bundle of business-relating risks based on the internal factors. Simultaneously, the business environment consists of various factors such as political and social factors including political stability, public order, economic factors, financial policy, manpower conditions, institutional factors, taxation and more.

The JICA Survey Team had reviewed information relating to the business environment in Iraq as much as possible prior to the environmental analysis. The information includes reports prepared by aid agencies and world renowned law and consulting firms as well as various statistical data published by the reliable organizations<sup>1</sup>. The said reports have mainly been published as a guideline to doing business with and in Iraq, thereby introducing, among others, legal requirements, investment procedures, socio-economic overview and key issues in doing business with and in Iraq. The JICA Survey Team also reviewed investment guidebooks published by both the National Investment Commission (NIC) and the Kurdistan Board of Investment (KBI). These reviews have been made as preliminary work to identify possible issues in doing business with and in Iraq.

In addition to reviewing these comprehensive and primary data, the JICA Survey Team conducted a questionnaire and interview survey to companies in Jordan, Lebanon, Turkey, and the United Arab Emirates (UAE) as well as Japanese companies, thereby asking them about challenging issues in doing business with and in Iraq.

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<sup>1</sup> These include, but not limited to, the International Monetary Fund, Organisation of Economic Co-operation and Development, organizations in the World Bank Group, United Nations agencies, bilateral donor agencies, government agencies in Iraq, government agencies in Japan, and private firms such as Ernst & Young, Herbert Smith LLP and more.

### **5.1.1 Business environment comparative table**

The Survey does not focus on the marketability of Iraq as a target for FDI. The Survey has the objective of gathering practical facts that are useful to evaluate the most feasible and reliable method of entering the Iraqi market. This is because it is important to obtain a realistic picture of business risks as a first step toward entering what is considered a tough market. To ascertain practical evaluation criteria, and also to identify typical trading manners in Arabic countries, the JICA Survey Team compared the business environment among neighboring countries though it was already believed that the Iraqi business environment is exceedingly challenging to business investors.

Table 5.1-1 which is placed at the end of this chapter compares the business environment in Iraq with that of the neighboring countries. The business environment of the Kurdistan Region appears to be least attractive among countries listed in view of the dataset used to construct the table. However, the atmosphere of Erbil city, the capital of the Erbil governorate, is completely different from those of other governorates of Iraq in regard to matters of security. Based on this, many investors located their subsidiary or liaison office in the Kurdistan Region and then sought to expand their business across the border of the governorate. As can be concluded from the above, it is important to identify realities because not all the necessary information is available through official announcement.

The current condition of the Iraqi business environment, in comparison with official announcement and documents which are shown in the table, does not seriously lag behind the competitors compared here. On the other hand, issues which emerged in interviews conducted during the Survey reflects realities of the business environment such as cannot be gleaned from official sources.

The new Iraqi government, since its establishment in 2006, has been focusing on reconstruction tasks to compensate for the lost-era of the immediate past and restart smooth operation of the national economy as well as to remedy the loss of international confidence in the future of the country.

### **5.1.2 Ease of doing business**

According to the comparative table mentioned above, the condition of the Iraqi business environment does not seriously lag behind that of the neighboring countries. However, as described in Chapter 3, ranking of Doing Business<sup>2</sup> co-published by the World Bank and the International Finance Corporation (IFC) provides a different story from the above table. The rankings for all economies are benchmarked to June 2012.

In terms of the “Ease of Doing Business Rank,” Iraq was 165 among 185 countries. Saudi

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<sup>2</sup> Doing Business ranking means the index averages of country’s percentile rankings on 10 topics such as “Starting a Business”, “ Dealing with Construction Permits”, “Getting Electricity”, “Registering Property”, “Getting Credit”, “Protecting Investors”, “Paying Taxes”, “Trading Across Borders”, “Enforcing Contracts” and “Resolving Insolvency”.

Arabia ranked highest among four countries analyzed in Table 5.1-1 (Iraq, Saudi Arabia, Iran and Turkey) and was 22th and followed by Turkey; 71th. While Iran ranked 145th it should be kept in mind that the nation is still subject to economic sanctions, since 2006, pursuant to the United Nations Resolutions No. 1737 of December 2006 and No. 1747 of March 2007. In terms of the index of “Resolving Insolvency”, Iraq was 185th. Regarding “Trading across Borders” it was 179th and was close to the bottom. Moreover, for both “Starting a Business” and “Getting Credit” it ranked 177th.

Thus, objective, practical data indicates that the business environment of Iraq is less than stellar. The JICA Survey Team supplements this by providing more information collected during the Survey, which especially is concerned with companies’ experience in doing business with and in Iraq.

## **5.2 Major issues identified during the Survey**

During the First and the Second Field Surveys, the JICA Survey Team interviewed 75 private and public entities that are linked to Iraqi business and did this on more than 100 occasions. The JICA Survey Team carefully assessed the credibility of information by examining the assumed reasons or background of the interviewed parties so as to avoid generalizing from information specific to individuals. In addition, close reviews on available information materials were made in the Home-office work periods in Japan as well.

The results are summed up as follows.

### **5.2.1 Laws and regulations**

As stated earlier in 4.1, the fundamental framework of laws and regulations which especially concern commercial activities has been adopted since the start of the new Iraqi government and there are no comparative deficiencies in that framework. However, the issue remains as follows.

#### **5.2.1.1 Conflicting relationship among laws**

The framework of Iraqi laws consists of three layers or three categories: “Before 2003”, “Between 2003 and 2006” and “After 2006”. Issues related to laws and regulations are mainly derived from the categorical difficulties. That is, there are still some matters in the relations among the laws that are unclear or conflicting.

#### **5.2.1.2 Enforcement of foreign judgment and arbitration award**

Enforcement of international judgment is difficult under Iraqi laws and regulations. Iraq is a signatory of the Riyadh Arab Agreement for Judicial Cooperation (Riyadh Convention); however, it is not a member of New York Convention, to which most countries have acceded.

The venue for arbitration should be a country that has acceded to both the New York



Convention and Riyadh Convention. In the Riyadh Convention, the judgments and arbitral awards given in one signatory country are directly enforceable in another signatory state, provide that the judgment or award conforms to the principles of Shari'ah, and that the judgment or award is not contrary to public order or good morals.

### **5.2.1.3 Visa and immigration**

Obtaining a multiple entry Visa and resident status in Iraq is one of the outstanding issues. The Amended Foreigners Residence Law allows for foreigner's entry to and departure from Iraq. On the other hand, another law legalizes foreigners to obtain a work permit and a residence permit. Despite these legalities, obtaining the multiple entry Visas and residence permit is not an easy task in Iraq.

## **5.2.2 Labor and human resources**

The workforce, especially the young generation (15 to 24 years old), is expanding every year and the unemployment ratio for this bracket was 30 percent in 2008. In addition, the yearly population growth rate is nearly 3 percent. In this connection, the NDP emphasizes the importance of private sector's role, and of development of human resources, in creating job opportunities. However, both private sector and public sector programs for human resource development are not well developed.

### **5.2.2.1 Quality of education and training**

The majority of interviewees in the Survey are not satisfied with capability of local employees and especially of their impracticality. The NDP indicates that national education has experienced severe deterioration due to the decrease in budgets, lack of supplies, collapse of infrastructure, and overcrowded schools. All these educational inexpediencies are causing the dissatisfactory quality of education.

### **5.2.2.2 Educational capability**

The result of interviews in the Survey suggests that the capability of both academic and administrative staff at educational institutions is not adequate, largely due to a shortage of funds. The NDP clearly points out that teachers are continuing to use classical teaching methods which discourage student engagement.

### **5.2.2.3 Job matching at school**

Schools in Iraq do not have the function of assisting graduates to obtain jobs and businesses to get the employees they need. Generally, companies recruit workers by means of recommendations of local, influential people. Lack of coordination between schools and the

business sector has resulted in preventing schools from obtaining practical information on the needs of the labor market.

### **5.2.3 Financial System**

The banking sector restructuring has been ongoing since 2006, and it is on a right track to modernization led by the Central Bank of Iraq (CBI) with a strong support of international donors. However, in order to promote Japanese companies to do business with and in Iraq, the following issues related to the banking sector need to be further improved.

#### **5.2.3.1 Strengthening and restructuring of private banks**

Iraqi private banks need to be strengthened to enable them to offer financial services to foreign investors as well as do more business with the public sector entities. For this purpose, it is crucial to strengthen private banks' capital bases. CBI has ordered all private banks to raise their minimum capital to 250 billion Iraq dinars (IQD) by the end of June 2013. The Iraqi government and international donors are expecting that this will trigger mergers among private banks and attract foreign investments, which would accelerate the restructuring of the banking sector.

#### **5.2.3.2 Further development of Iraq payment system**

Iraq Payment System (IPS) has been developed since 2006, but the participation of foreign banks in IPS is still very low. As well, security situation has to be improved to enable international banks, which are presently conducting off-shore banking, to open their own branches in Iraq. To have an improved business environment, it is necessary to have IPS where all local and foreign banks will participate and transact smoothly.

#### **5.2.3.3 Post-“Consortium Bank Scheme” issue**

The problem of delays in getting a letter of credit (L/C) issued and confirmed has been lingering ever since the termination of the Consortium Bank Scheme in which international banks issued L/Cs on behalf of the Trade Bank of Iraq (TBI) based on the payment guarantees provided by the Development Fund for Iraq (DFI). Japanese trading companies and private banks are looking for international banks which can take Iraqi risks and for trusted local banks which can offer financial services to foreign companies and individuals.

### **5.2.4 Customs clearance**

Before 2003, Customs clearance operations were its own way anyhow in Iraq. Rehabilitation of the Iraqi Customs clearance system, under way since 2004, is still straggling. The current issues related to Customs clearance in Iraq are mainly caused by unclear regulations, ineffective

working efficiency, and insufficient management capability of Customs officers.

#### **5.2.4.1 Unclear regulation**

At present delays are being caused during Customs clearance procedures because of ambiguity of regulations and their manner of implementation by officials.

#### **5.2.4.2 Uncertain announcement regarding enforcement of a new Customs Law**

Most importers and exporters were confused by the uncertain announcement made by the Customs authority about implementation of a new Customs law.

#### **5.2.4.3 Inefficient and contradictory Customs work**

Final judgment for Customs clearance often relies on one Customs inspector whereas others seem free from demanding jobs. Various foreign traders, during the Survey, suggested that it was not unusual for Customs officers to make different judgments on the same Customs document from one day to the next. In Customs clearance operations, there is a lack of guidelines or manuals that indicate effective practices.

#### **5.2.5.4 Capability of officials**

Most of the officials do simple jobs which require little expertise. Also, various foreign traders, during the Survey, asserted that congestion at Customs clearance points was caused by ineffective work performance of Customs officials.

### **5.2.5 Social and Economic Overview**

The issues related to the social and economic environment in Iraq discussed in the Chapter 3 are derived from the facts based upon statistical data and factual information.

#### **5.2.5.1 Population, labor market and education (high illiterate ratio)**

The population pyramid shown in the Figure 3.1-2 presents a stable appearance, with a broad bottom. The percentage of the population below 30 years of age is almost 70 percent. The United Nations forecasts the population of Iraq will be 50 million in 2030. Based on this tendency, the Iraq's National Development Plan for the Years 2010-2014 (NDP) articulates the necessary to diversify education as well as to promote development of skills for the young generation.

In addition, Table 3.1-3 shows a high illiteracy rate for the above 10 years age bracket (19.1 percent). This would become a negative factor to lure foreign investment into the country in near future.

### **5.2.5.2 Industrial structure**

The GDP by sector (in 2010) shown in Table 3.2-3 suggests that the industrial structure of Iraq is not well balanced. Mining and quarrying accounted for 41.8 percent while manufacturing industry accounted merely for 2.2 percent. The share of manufacturing industry in the whole economy dropped significantly from the two decades back. Iraq needs to promote the sector to increase working opportunity for its young generation.

Further, electricity and water accounted only for 1.1% of the GDP which necessarily suggests that development of basic industrial infrastructure is lagging.

## **5.3 Result of questionnaire surveys**

The JICA Survey Team conducted a questionnaire survey twice. The first questionnaire was at the Interim Workshop in Istanbul, targeting mainly Turkish construction business entities, while the second was at the Interim Workshop in Tokyo asking the questions for Japanese companies. As for the former, the JICA Survey Team collected 17 answers from Turkish construction and engineering firms with support from the Turkish Contractors Association. As to the latter, a total of 88 answers were submitted by the Japanese companies. The answers were utilized as basic information to identify what they think about Iraqi business, especially the issues in doing business with and in Iraq.

### **5.3.1 Issues for Turkish companies to do business with and in Iraq**

Table 5.3-1 summarizes the results of the questionnaire survey conducted in the Interim Workshop in Istanbul.

Political instability, instable security, complicated and ineffective Customs clearance work, uncertain visa procedures, and frequent regulation changes are among the issues that the Turkish companies reported as being detrimental to efforts at doing business with and in Iraq.

About 60 percent of respondents pointed out both “Political instability/political tension” and “Security” were the most impediment issues in Iraqi business. Following these subjects, “Customs procedures” accounted for 53 percent and then “visa procedures”- 47%, “Frequent changes in regulations” - 41 percent and then “Customs regulations” 41 percent follow. All of those issues are closely interrelated. Foreign companies doing business with and in Iraq often point to the frequent changes of Customs regulations and procedures as hindering streamlined and smooth business operation. Those frequent changes are partly caused by the political instability.

Security is another issue for the Turkish companies, even though they may have become accustomed to doing business with and in Iraq. For example, in the same questionnaire survey, 41 percent of the respondents said that Baghdad was not safe while another 41 percent answered that it was improving, but not safe. In this regard, about 82 percent of the Turkish companies

considered that doing business especially in Baghdad involves a security issue.

**Table 5.3-1 Issues of Greatest Concern for Turkish Companies**

Impediment	%	Impediment	%	Impediment	%
1. Political instability/political tension	59%	14. Access to finance	24%	27. Tribals	12%
2. Security	59%	15. Default	24%	28. Local exponditors	12%
3. Customs procedues	53%	16. Bribery & corruptions	24%	29. CBI capacity	12%
4. VISA procedues	47%	17. Skilled manpower	24%	30. TBI capacity	12%
5. Frequent changes in regulation	41%	18. Water supply	24%	31. Taxation not defined by regulation	12%
6. Custom regulations	41%	19. Standardization & transparency of bidding /procurement system	18%	32. Tax administration	6%
7. Electiricity supply	35%	20. Assounting system	18%	33. Border security	6%
8. Private security	35%	21. Judicial system	18%	34. Tax incenteives	6%
9. Transportation	29%	22. Local engagement	18%	35. Tax rates	0%
10. Banking system	29%	23. Company registration	18%	36. Access to land	0%
11. Labor regulation	29%	24. Intellectual property rights	18%	37. Exchange control	0%
12. Import/Export control	24%	25. Business licensing and operation permits	18%	38. Labor dispute	0%
13. Telecommunication	24%	26. L/C issuance	12%	39. Others	0%

Source: JICA Survey Team

### 5.3.2 Countermeasures taken by Turkish companies

Other than the security issue, Turkish companies are facing various issues, as shown in Table 5.3-1. To reiterate the words of Turkish companies, they have to manage the high risk to enjoy a high return.

That the business environment of Iraq is challenging is clear from the Doing Business Ranking, as introduced in 5.1.2. While Iraq has a tough business environment, the average rate of economic growth rate since 2004 has been close to double digits. However, this rapid growth is mainly supported by the oil and gas business; crude oil production and sale, and manufacturing sector other than oil and gas is far from being an important economic contributor to the nation.

In addition, social infrastructure such as the transport and distribution systems, information and telecommunication facilities, educational facilities, healthcare facilities and commercial

facilities are not in adequate condition. The supply of items needed for daily life, and food, is also far from matching the scale and nature of demand.

In other words, there are huge potentials and opportunities in many sectors in Iraq, forming background factors of the high risk-high return market.

The following section introduces how Turkish companies cope with the tough business environment in Iraq. It should be noted that the measures taken by Turkish companies are often taken by companies in other neighboring countries as well.

#### **5.3.2.1 Security issue**

Most Turkish companies, according to the interview responses in the Survey, depend heavily on the dominant tribe of their project site area. They consider this to be an indispensable matter to do business in Iraq. The reliance on the dominant tribe includes hiring workers from the tribal members, even though not all the workers meet the requirement for the project.

In addition, various companies answered in the interviews during the Survey that they would hire a local security company because it is low in cost but well connected with the local human network. In this regards, they are able to predict unrest perpetrated.

#### **5.3.2.2 Frequent change of regulations**

This is also one of the serious issues for Turkish companies. In order to cope promptly with the sudden changes, Turkish companies have established a strong backup system using local law offices. Or, they collect information necessary to cope with the sudden changes by tapping into a closely organized human network in the Kurdistan Region.

#### **5.3.2.3 Visa procedures**

Obtaining work permission and multiple Visas is not without implications for Turkish business people as well. It is difficult to obtain these by straightforward means even for them.

There were suggestions from the interviewees in the Survey that they would consult resourceful Iraqi persons living outside Iraq, but it would cost very much.

#### **5.3.2.4 Customs clearance**

Frequent change of regulations and ambiguous Customs clearance procedure are also the significant issues for Turkish companies; however, these are not as severe a problem as are the others. What it comes down to is that most of them are reluctant to do Customs clearance at the border.

There is only one Custom border between Turkey and Iraq now. More than 150 thousand cargo trucks come across the border every year and each is subject to US\$100 as a transit fee for the governorate in the Kurdistan Region. In this regard, Customs clearance procedure at Turkish Customs border point is less-restricted, according to various interviewees in the Survey.

### 5.3.2.5 Business licensing

Business licensing is one of the complex and time consuming tasks for all the foreign companies even if the procedures are straightforward. Turkish companies would consult resourceful persons inside the Kurdistan Region when it is possible. The Turkish private sector and the Turkish government sector are jointly urging Iraqi government to improve this issue.

### 5.3.2.6 Payment clearance and settlement

Private business or project businesses often utilize cash settlements through the medium of a corporation located in Iraq. In addition, in the Kurdish Region, several Turkish banks have opened branches to support and respond to short-term fund and money transfer needs of Turkish companies doing business with and in Iraq. As well, Turkish major contractors are careful in choosing projects with guaranteed payments such as those owned by International Oil Companies and international donor agencies (including JICA).

## 5.3.3 Issues for Japanese companies to do business with and in Iraq

Table 5.3-2 summarizes the results of the questionnaire survey conducted in the Interim Workshop in Tokyo.

A total of 120 participants joined the workshop. Ninety-nine participants belonged to private entities and remaining 21 to government agencies and the organizers. The breakdown of the private sector participants was: trading firms 12, construction and engineering 8, consulting 8, medical and precision devices manufacturing 7, financial services 3, security 3, heavy industry 3, research one and others (automobile, IT, construction machinery, power plant, logistics, chemical) one each. Eighty-eight participants responded to the questionnaire survey and 77% of them was currently doing business with and in Iraq.

**Table 5.3-2 Issues of Greatest Concern for Japanese Companies**

Business environment	No. of response	Share of the response (%)
Political uncertainty and security	88	100
Complex laws and regulations, frequent changes, uncertainty, etc.	45	51
Financial clearance and settlement	30	34
Customs clearance	25	28
Obtaining Visa	17	19
Contract negotiation and contractual coverage	15	17
Human resources	15	17
Bidding and procurement	11	13
Foreign remittance	9	10
Others	2	2

Source: JICA Survey Team.

The most important issues of Japanese companies in doing business with and in Iraq are political uncertainty, unstable security, complex laws and regulations, difficulty in making financial settlements, complicated and ineffective Customs clearance, and uncertain visa procedure, while there are also other problems as have been explained.

Just like the answers received from the Turkish companies, “Political uncertainty and security” ranked top of the most concerned issues for the participants. In addition, share of this category by Japanese companies was 100 percent while the same by the Turkish companies was 59 percent. This means that political stability and security is the most concerned issue for the Japanese companies in doing business with and in Iraq. Following the political and security issue, complexity of laws and regulations ranked second and then, financial clearance and settlement – 3rd, customs clearance – 4th, and obtaining Visa – 5th.

#### **5.4 Summary of issues**

Table 5.4-1 sorts out the issues raised above based upon the level of consciousness among the companies toward these issues. The level of the consciousness was derived from the interview surveys, the questionnaire surveys and the reports published by international organizations, as mentioned in 5.1. The level of the consciousness is weighted in view of the reliability. For example, the point in “Discussed during the interview survey” is weighted into 3 levels. If improvement of an issue is requested in the interview survey, the level of consciousness toward that issue scores 3; an issue presented as problematic gets 2, while that noted as a general issue scores 1. Similarly, either 2 point or 1 point is given to an issue raised in the questionnaire surveys conducted with Turkish and Japanese companies, according to the share of the answers. An issue identified in the reports in international organizations scores 1, as the Survey puts more emphasis on the on-site realities which can be obtained from the face-to-face meetings.

The second row from the left of the summary table; “Details of issues identified during the Survey,” indicates the details of an issue identified in each business environment factor. The right end row shows the total sum of weighted point of each horizontal row.

As seen from the table, unclear and conflicting relations among laws and sudden change of import and export regulations rank 1<sup>st</sup> which scores 8. Obtaining a Visa and work permission comes next scoring 7, followed by difficulty in L/C open and a letter of guarantee (L/G) issuance and insufficient expertise of workers which score 6.



**Table 5.4-1 Summary Table for Issues in Doing Business with and in Iraq**

<b>Business environment</b>	<b>Details of issues identified during the Survey</b>	<b>Discussed during the interview survey</b> <small>Rem 1)</small>	<b>Raised by questionnaire respondents (Turkish companies)</b> <small>Rem 2)</small>	<b>Raised by questionnaire respondents (Japanese companies)</b> <small>Rem3)</small>	<b>Found in reports by international organizations</b>	<b>Total</b>	
<b>Laws and Regulations</b>	Laws and regulations in general	-Unclear and conflicting relations among laws	3	2	2	1	8
	Import and export regulation	-Sudden change of regulations, sudden enforcement	3	2	2	1	8
	Taxation law	-Unclear regulation tax and application	1	1	1	1	4
	Labor law and labor dispute	Law not setting forth provision that 50% of employees needs to be Iraqi, but in reality, it needs to be.	1	1	0	0	2
	Intellectual property rights	No surveillance network	1	1	0	0	2
	Obtaining a Visa and work permission	Unclear regulation, complicated procedure	3	2	2	0	7
<b>Boarder Trading</b>	Customs Clearance procedures	-Unclear clearance procedure -Ineffective clearance procedure	2	2	0	1	5

Starting and doing business	Company, office registration	Complex procedure	1	1	0	1	3
	Business licensing	Complex procedure	1	1	1	1	4
	Banking service, settlement, remittance	Difficulty in L/C open and L/G issuance	2	1	2	1	6
	Tax levying	Unclear taxation	1	1	1	1	4
	Land procurement and use		1	1	0	0	2
	Availability of labor force	Difficult to hire persons with experienced skills and manageable capability	2	1	1	1	5
	Quality of workers	Insufficient expertise	3	1	1	1	6
	Supporting industry development	Not developed	1	0	0	0	1
	Procurement of parts and raw materials		1	1	0	0	2

Notes:

Rem 1): Definition of weighted points: 3 = Improvement is often requested, 2 = Issues are presented as problematic, 1 = Issues are noted as general

Rem 2): Definition of weighted point: 2 = Issues are presented as problematic, 1 = Issues are noted as general

Rem 3): Definition of weighted point: 2 = Share of responses higher than 15%, 1 = Share of responses lower than 15%

Source: JICA Survey Team

**Table 5.1-1 Frame-work of FDI Promotions “One Stop Shop” Functions**

	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
Investment relating basic laws	<ul style="list-style-type: none"> <li>⊗ New investment la No.13 of 2006</li> <li>⊗ This law stipulates investment planning, incentives and licensing articles.</li> <li>⊗ CPA order No. 38, 54, 79,2004 on tariffs</li> <li>⊗ Law No.54 of 1979 on foreign trade</li> <li>⊗ Central bank law of 2004</li> <li>⊗ Law No.71 of 1987 on labor</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Basic law: Shari’ ah(Islamic law, 1992),</li> <li>⊗ Foreign Investment regulations,</li> <li>⊗ companies regulation,</li> <li>⊗ Investment funds regulations,</li> <li>⊗ Real estate investment funds reg.,</li> <li>⊗ Insurance reg., etc.</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Foreign investment law of 1957</li> <li>⊗ Foreign Investment Promotion and Protection Act of 2002 (FIPPA)</li> <li>⊗ Implementing Regulations of The Law for the Promotion and Protection of Foreign Investments</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Law No.4875 of 2003 (Foreign Direct Investment Law)</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Law No.4 of 2006 stipulates specific requirement peculiar to the governorate but the principal and fundamental investment requirement complied with the Iraq federation</li> </ul>
Investment licensing authorities	<ul style="list-style-type: none"> <li>⊗ NIC (National Investment Commission) is able to provide guidance to investors and facilitate with licensing concerning ministries.</li> <li>⊗ Small scale project is handled by PIC (Provincial Investment Commission) and its privilege and responsibility is almost same as NIC</li> </ul>	<ul style="list-style-type: none"> <li>⊗ SAGIA(Saudi Arabian General Investment Authority)</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Organization for Investment, Economic and Technical Assistance of Iran: OIETAI</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Turkey Prime Ministry Investment Support and Promotion Agency</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Kurdistan Board of Investment (KBI)</li> <li>⊗ Privilege and responsibility of the KBI complied with other PIC</li> </ul>
Promotion agency	<ul style="list-style-type: none"> <li>⊗ NIC provides investors with pre-approval support including approval facilitation, local partnering and information on markets, sectors, and investment</li> </ul>	<ul style="list-style-type: none"> <li>⊗ SAGIA provides both information service thru portal and direct support services to investors</li> <li>⊗ 4 OSS (one stop shop)</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Licensed FDI has the same business rights as the native juristic body</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Investment Support and Promotion Agency of Turkey</li> </ul>	<ul style="list-style-type: none"> <li>⊗ The Board is responsible to legislate necessary regulation to invest in the Kurdistan.</li> </ul>

	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
	incentives.	available. ✘ Business support office(CSCCI) established outside of Saudi			
Promotion activity/ strategy and its basis.	✘ Promotion activity is not clearly stipulated by the law. Commercial attaché at Min. of Foreign affairs	✘ Information on business environment, regulations, costs and support for inv. documentation thru SAGIA, CSCCI	✘ Article 16 to 20 for OSS ✘ Article 21 for promotion, evaluation and registration	✘ Information on business climate, sites and regulations.	✘ Coordinate relevant governmental agencies to start investment.
Available procedures at the one stop shop	Total of 11 steps needed to start commercial operation. Details of actual help and procedures available at the center is not stipulated	Total of 3 steps needed to start commercial operation.	Total of 6 steps needed. OIETAI work as one stop shop. But details unknown * Investment licensing is not mandatory for investors.	-	Total of 5 steps to start commercial operation.
Issues, if any	🚩 Local information on business climates is not data based for digital disclosure				🚩 Local information on business climates is not data based for digital disclosure

### FDI Protections and Restrictions

	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
Law/ Regulation	<ul style="list-style-type: none"> <li>⊗ New investment law No.13 of 2006</li> <li>⊗ Multi-lateral investment guarantee treaty</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Article 7 of Foreign Investment Law</li> </ul>	<ul style="list-style-type: none"> <li>⊗ FDI protection order of the FIPPA</li> <li>⊗ The new FDI law is under discussion at cabinet and is expecting to guarantee full protection of capital, capital gains.</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Law No.4875 of 2003 (Foreign Direct Investment Law)</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Law No.4 of 2006</li> </ul>
Expropriation of assets	<ul style="list-style-type: none"> <li>⊗ Prohibited by the above law or treaty</li> </ul>	-	<ul style="list-style-type: none"> <li>⊗ Prohibited by article 8 of FIPPA</li> <li>⊗ Condemnation shall be duly compensated by currency</li> </ul>	-	-
Repatriation of dividend, profit and liquidation surplus or profits, etc.	<ul style="list-style-type: none"> <li>⊗ Prevention from Seizure by nationalization</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Repatriation of dividend, profit and surplus of licensed foreign firm is guaranteed according to the law.</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Article 12 to 14 of FIPPA</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Repatriation is duly guaranteed by the law.</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Repatriation is duly guaranteed by the law.</li> </ul>
Negative list (Sector where FDI is not allowed)	<ul style="list-style-type: none"> <li>⊗ Basically all positive to invest</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Oil &amp; military related mfg.,</li> <li>⊗ Printing/publishing</li> <li>⊗ Land</li> <li>⊗ Transportation</li> <li>⊗ Fisheries</li> <li>⊗ Blood bank</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Sector which will pose a threat to national security nor national benefit</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Basically all sector allowed except rail and communications</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Basically all sector/project as decided by the Supreme Council for Investment</li> </ul>

### FDI Incentives

	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
Law/ Regulation	Law No.13 of 2006	New Foreign Investment Law of 2000	FIPPA of 2002, Tax law	*Law No.4875 of 2003 (Foreign Direct Investment Law)	*Law No.4 of 2006
Import duty exemption/ reduction treaty	<ul style="list-style-type: none"> <li>⊗ Exemption of import duty for 10 years.</li> <li>⊗ 15 to 25 years tax exemption at EPZ.</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Tax exemption on raw materials and plant/ machinery</li> <li>⊗ Low income tax by 20% (30% to gas project)</li> </ul>	-	<ul style="list-style-type: none"> <li>⊗ Import duty and VAT exemption on machinery, plant.</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Exemption from taxes for machinery, implements, equipment imported for a project</li> <li>⊗ Spare parts import exemption</li> </ul>
Tax incentives	<ul style="list-style-type: none"> <li>⊗ Tax exemption for 10 years</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Roll over on cost losses</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Full exemption in publication and artistic activities, carpet weaving, export oriented activities, agriculture sector, and other economic activities in free trade zones for 20 years.</li> <li>⊗ 50% exemption for salary tax of personnel operating in least developed areas of the country.</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Exemption from customs duties and fund levies</li> <li>⊗ Investment allowance</li> <li>⊗ VAT (Value Added Tax) exemption for imported and locally purchased machinery and equipment</li> <li>⊗ Exemption from taxes, duties and fees</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Exemption of all taxes for 10 years</li> </ul>
Other incentives	<ul style="list-style-type: none"> <li>⊗ Special preference based on bilateral protocol:</li> <li>⊗ Fair and equitable treatment, full protection and security</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Special incentives for FDI to north region: subsidize 50% of salaries, and training fees.</li> <li>⊗ Special credit to highly public investment</li> <li>⊗ Low rate land lease at</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Training and labor market assistance</li> <li>⊗ Loan guarantees, cheap loans or finance</li> <li>⊗ Target sectors(Banking and financial services, Oil, gas and petrochemical industry, Industry and mining</li> </ul>	<ul style="list-style-type: none"> <li>⊗ Subsidy to employee training</li> <li>⊗ Subsidy to social insurance premium</li> <li>⊗ Special loan to R &amp; D</li> <li>⊗ Institutional finance to</li> </ul>	

	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
		national industrial parks ※ 0 interest rate credit thru SIDF ※ Transfer profit money freely ※ Low interest loan spent for 50% project cost		SME investment	
Issues, if any		🚧 100% foreign capital company is not allowed 🚧 Obligated to use local logistic company	🚧 No bilateral trading agreement to settle dispute	🚧 Special condition to acquire investment incentives.	

### Customs Clearance

	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
Law/ Regulations	<ul style="list-style-type: none"> <li>✘ Law No.23 of 1984 : Customs Tariff</li> <li>✘ CPA decision No.17 regulates reconstruction levy subject to 5%</li> <li>✘ A draft of New Tariff Policy has already prepared and waiting for the enforcement. It will be enforced by the end of 2013 (expected) with a new customs tariff based on the Harmonized Tariff System</li> </ul>	<ul style="list-style-type: none"> <li>✘ Royal Decree No. 33 dated 27 Rajab 1377 A.H.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Export Import Regulations Act</li> <li>✘ Executive Ordinance of Export Import Regulations Act</li> <li>✘ Circular Letter</li> </ul>	<ul style="list-style-type: none"> <li>✘ Customs Law No.4458, enacted in February 2000</li> </ul>	
Customs Tariff	<ul style="list-style-type: none"> <li>✘ CPA Order No.12: all imports are subject to 5% of reconstruction tax.</li> <li>✘ Tariff rate varies from 0 to 80% if a new tariff system introduced.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Tariff shall be based on the provisions of Article (26) of the Common Customs Law,</li> <li>✘ The first basis for determining the value for customs purposes is the transaction value of the imported goods.</li> <li>✘ Or, it shall be determined by the sequential application methods:</li> <li>✘ a. Transaction value of identical goods</li> </ul>	<ul style="list-style-type: none"> <li>✘ Article 14 of the Export - Import Law (1993) and Article 25 of the Implementing Regulations (1994)</li> </ul>	<ul style="list-style-type: none"> <li>✘ Customs Law No.4458, enacted in February 2000</li> <li>✘ Addition to customs tariff, 6% is charged subject to RUSF (Resource Utilization Support Fund)</li> </ul>	



	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
		<ul style="list-style-type: none"> <li>✘ b. Transaction value of similar goods</li> <li>✘ c. Deductive value</li> <li>✘ d. Computed value</li> </ul>			
Documents required for export	<ul style="list-style-type: none"> <li>✘ B/L</li> <li>✘ Certificate of origin</li> <li>✘ Commercial invoice</li> <li>✘ Customs declaration</li> <li>✘ Export license</li> <li>✘ Packing list</li> <li>✘ Pre-shipment inspection clean report of findings</li> <li>✘ Technical standard/ health certificate</li> <li>✘ Terminal Handling receipts</li> </ul>		<ul style="list-style-type: none"> <li>✘ B/L or air way bill</li> <li>✘ Commercial Invoice</li> <li>✘ Certificate of Origin</li> <li>✘ Packing lists</li> <li>✘ Certificates - depending on the nature of the cargo (e.g. food/medicine=certificate of health)</li> <li>✘ Letter of Exemption</li> <li>✘ Insurance Policy</li> <li>✘ Delivery Order</li> </ul>	<ul style="list-style-type: none"> <li>✘ B/L</li> <li>✘ Packing list</li> <li>✘ Price list</li> <li>✘ Weight list</li> <li>✘ Certificate of Origin</li> <li>✘ Commercial invoice</li> <li>✘ Letter of authorization, etc.</li> <li>✘ No import/export license needed</li> </ul>	
Documents required for import	<ul style="list-style-type: none"> <li>✘ B/L</li> <li>✘ Certificate of origin</li> <li>✘ Commercial invoice</li> <li>✘ Custom import declaration</li> <li>✘ Import license</li> <li>✘ Inspection report</li> <li>✘ Packing list</li> <li>✘ Pre-shipment inspection clean report of findings</li> <li>✘ Technical standard/ health certificate</li> <li>✘ Terminal handling receipt</li> </ul>	<ul style="list-style-type: none"> <li>✘ CUSTOMS REGULATIONS</li> <li>✘ THE OWNER OF THE GOODS MUST BE IN SAUDI ARABIA AT THE TIME OF CUSTOMS CLEARANCE</li> <li>✘ Import of consolidation shipments are not allowed</li> <li>✘ All shipments are inspected and subject to duty,</li> <li>✘ Shipments are valued locally and rates vary</li> </ul>	<ul style="list-style-type: none"> <li>✘ B/L or air way bill</li> <li>✘ Commercial Invoice</li> <li>✘ Certificate of Origin</li> <li>✘ Packing lists</li> <li>✘ Certificates - depending on the nature of the cargo (e.g. food/medicine=certificate of health)</li> <li>✘ Letter of Exemption</li> <li>✘ Insurance Policy</li> <li>✘ Delivery Order</li> </ul>	<ul style="list-style-type: none"> <li>✘ B/L</li> <li>✘ Packing list</li> <li>✘ Price list</li> <li>✘ Weight list</li> <li>✘ Certificate of Origin</li> <li>✘ Proforma invoice</li> <li>✘ Letter of authorization, etc.</li> <li>✘ No export/import license needed</li> </ul>	

	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
		depending on the item ※ Containers and trailers must have a comprehensive packing list ※ "Make Mark" information: All goods imported into the country must show the country of origin;			
Issues, if any	<ul style="list-style-type: none"> <li>✚ Frequent change of requirement</li> <li>✚ Inefficient clearance operation</li> <li>✚ Out of dated data filing system</li> <li>✚ Customs clearance instruction or manual is not prepared</li> </ul>	<ul style="list-style-type: none"> <li>✚ Strict and complicated pre-shipping inspection requirement(compliance to SASO/ICCP)</li> <li>✚ Complex and time consuming tax exemption procedure</li> <li>✚ VOC from Consular</li> </ul>	<ul style="list-style-type: none"> <li>✚ High import tariff from exporters point of view</li> <li>✚ Strict and complicated customs clearance procedure</li> <li>✚ Strict import control</li> </ul>	<ul style="list-style-type: none"> <li>✚ Extra import duty requirement(Source utilization support fund),</li> <li>✚ Unclear customs clearance rules</li> <li>✚ Poor capability of customs brokers</li> </ul>	<ul style="list-style-type: none"> <li>✚ Same as the Iraq federation government</li> </ul>

## Banking System

	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
Law/ Regulations	<ul style="list-style-type: none"> <li>✘ The Central Bank (CBI) Law issued March 6, 2004</li> <li>✘ Banking Law: September, 2003.</li> <li>✘ Trade Bank of Iraq (TBI) was established under CPA Order No. 20 to implement international business in place of Rafidain Bank, Rasheed Bank and CBI whose financial assets abroad were frozen.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Banking control law (1966)</li> <li>✘ the SAMA Charter, Royal Decree No. M/23 of 23rd Jumada Awal 1377 Hejra corresponding to 15th December 1957 Gregorian.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Foreign currency exchange regulation: Economic committee order No.309/158528</li> <li>✘ Circular letter of CBI</li> <li>✘</li> </ul>	<ul style="list-style-type: none"> <li>✘ The Central Bank Law, Law No. 1211, January 14, 1970</li> <li>✘ Law no.5411, Banking law adoption Date : October 19, 2005</li> <li>✘ As of December 2012, there are a total of 45 banks operating with 10105 branches in <u>Turkey</u> and 75 branches abroad</li> </ul>	
Issues of banking and financing sectors	<ul style="list-style-type: none"> <li>✘ TBI bankers have poor capabilities to operate banking business efficiently</li> <li>✘ Private Banks also are suffering from taking part in the normal banking operations due to less experience.</li> <li>✘ ISC staffs are suffering from obtaining supervisory power as well as rule making ability</li> <li>✘ The current company law is not well concern about corporate governance and shareholder rights</li> <li>✘ Investor's rights are almost forgotten as well.</li> </ul>	-	<ul style="list-style-type: none"> <li>✘ Restriction of profit remittance though it is legally allowed</li> <li>✘ Restriction to issue L/C in US\$. (enacted in Dec. 2006)</li> </ul>	<ul style="list-style-type: none"> <li>✘ No special issues except shortage of funds to develop infrastructure</li> </ul>	

### Infrastructure and Human Resource

	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
Logistics	<ul style="list-style-type: none"> <li>✘ Highways = 1,084 Km</li> <li>✘ Arterial Roads = 11,254 Km</li> <li>✘ Rural Roads = 10,357 Km</li> <li>✘ Boarder Roads = 11,000 Km</li> <li>✘ Secondary Roads = 15,246 Km</li> <li>✘ The total length of the existing railway network is 1901 Km and there are 108 stations.</li> </ul>			<ul style="list-style-type: none"> <li>✘ Total road network: 64,865 km</li> <li>✘ Of which; 2080km highway, 31395km state road, 31390km provincial road</li> <li>✘ Rail way: passenger transportation.5,5 billion passenger-km was procured by transporting 22,3 million passengers in 2010.</li> <li>✘ Air cargo: In 2010, 598,000 tons (domestic) and 1.4 million tons (international cargo).</li> <li>✘ Sea port: Istanbul: 6million tons (3,390,000m3), Izmit: 2million tons(765,000m3), and others 8.8million tons</li> </ul>	<ul style="list-style-type: none"> <li>✘ The region has a developing road connection that connects all over the country, connecting Kurdistan's with all its neighboring regions</li> <li>✘ Two international airport: Erbil and Sulaymaniah</li> </ul>
Power	<ul style="list-style-type: none"> <li>✘ Total installed capacity: 9,700MW (2010)</li> <li>✘ The power demand : 12,000MW(2010)</li> </ul>			<ul style="list-style-type: none"> <li>✘ Installed capacity: 44,766 MW (2010),</li> <li>✘ Consumption: 102million tons of oil equivalent in 2010</li> <li>✘ Consumption increases by 2.5% per year.</li> </ul>	
Water	<ul style="list-style-type: none"> <li>✘ The quantity of water produced per day is 7.2 million cubic meters, and the amount of the current shortage is 2.6 million cubic meters</li> </ul>			<ul style="list-style-type: none"> <li>✘ Consumption by municipalities: 4.56 billion m3(2008)</li> <li>✘ Source: 40% was abstracted from dams, 28% from wells, 23% from springs, 4% from rivers, and 5% from lakes</li> </ul>	

	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
IT				<ul style="list-style-type: none"> <li>✘ 65.8 million mobile subscribers(2012)</li> <li>✘ Number of calls : 14,023,844(2012)</li> <li>✘ IT services market is expected to grow at a 14% over 2012</li> </ul>	
EPZ, FTZ			✘ 6 free zones, 20 special economic zones		
Human resources	<ul style="list-style-type: none"> <li>✘ Under 25 labor force:</li> <li>✘ Enrollment of higher education schools:</li> </ul>		<ul style="list-style-type: none"> <li>✘ Unemployment rate: 15.1% (2012)</li> <li>✘ 588 technical training centers and provides vocational training to about 1.8 million people a year.</li> </ul>		✘ The total number of the students at higher education institutes in the Kurdistan region is 94,700(1.8% of total population).
Issues for hiring workforce	<ul style="list-style-type: none"> <li>✘ No employment bureau or job matching systems available within the country</li> <li>✘ Small supply capacity of experts</li> </ul>	<ul style="list-style-type: none"> <li>✘ Obligated to hire more than 30% of local workers</li> <li>✘ No public employment bureau or job matching systems available</li> </ul>	<ul style="list-style-type: none"> <li>✘ Obligated to employ local workforce even in economic free zones</li> <li>✘ Unclear employment regulation</li> </ul>	✘ Slow procedure to obtain work permission and extension request	
Additional issues which are not listed above.		<ul style="list-style-type: none"> <li>✘ Both international and Saudi industrial standard is obliged to adopted</li> <li>✘ Supporting industry is not developed well</li> </ul>	<ul style="list-style-type: none"> <li>✘ Inefficient and unclear administrative procedure</li> <li>✘ Not well developed administrative rules</li> </ul>	<ul style="list-style-type: none"> <li>✘ Inefficient administrative procedure</li> <li>✘ Inconsistent administrative procedure</li> <li>✘ Inefficient judiciary system</li> </ul>	

### Ease of Doing Business

	Iraq	Saudi Arabia	Iran	Turkey	Kurdistan Region
Rank (2012)	※ 165	※ 22	※ 145	※ 71	-
Starting business	※ 177	※ 78	※ 87	※ 72	-

Source: <http://www.jmcti.org/cgi-bin/main.cgi?Kind=Country> (Investment/ Trade business committee) , [http://www.jetro.go.jp/world/middle\\_east/ir/trade\\_04/](http://www.jetro.go.jp/world/middle_east/ir/trade_04/),  
[http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/kuni/11\\_databook/pdfs/04-05.pdf](http://www.mofa.go.jp/mofaj/gaiko/oda/shiryo/kuni/11_databook/pdfs/04-05.pdf) ,  
<http://www.invest.gov.tr/en-US/infocenter/publications/Documents/ENERGY.INDUSTRY.PDF>,  
[http://en.wikipedia.org/wiki/Water\\_supply\\_and\\_sanitation\\_in\\_Turk](http://en.wikipedia.org/wiki/Water_supply_and_sanitation_in_Turk), [http://www.jetro.go.jp/world/middle\\_east/tr/trade\\_03/#block9ey](http://www.jetro.go.jp/world/middle_east/tr/trade_03/#block9ey)  
[http://export.gov/italy/static/ICT%20Market%20In%20Turkey%202012\\_Latest\\_eg\\_it\\_052547.pdf](http://export.gov/italy/static/ICT%20Market%20In%20Turkey%202012_Latest_eg_it_052547.pdf)



## Chapter 6 Conclusion and Recommendations

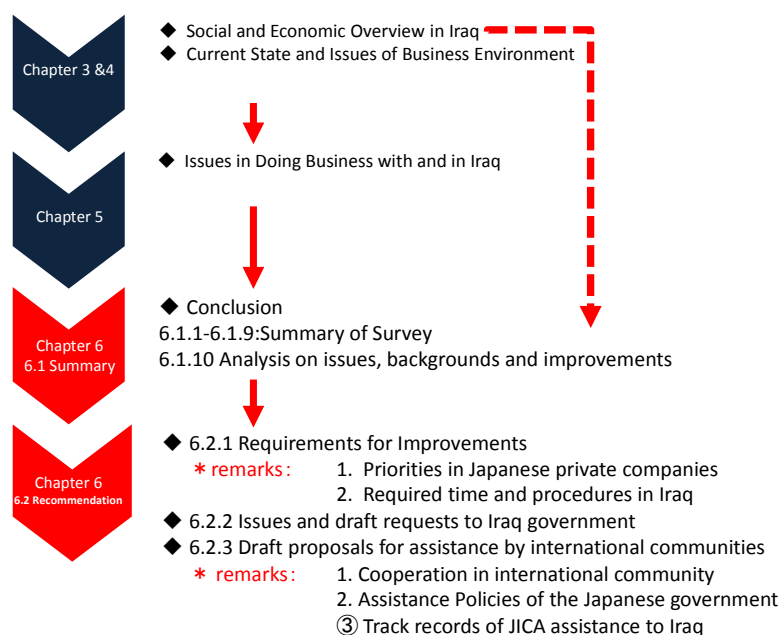
This chapter summarizes the issues in overall business environment in Iraq based upon reviews on results of the whole Survey, particularly the analytical results made both in Chapter 4 and Chapter 5 on the issues in each factor of the business environment. The current chapter then makes recommendations to tackle these issues, thereby contributing to improvement of the business environment in Iraq.

The recommendations consist of: a) those for the international aid agencies, including JICA, to prepare specific requests to the Iraqi government for improvement of the business environment; and b) those for concrete projects that the international communities, including the multilateral agencies, the bilateral agencies, and Non-Governmental Organizations (NGOs), may undertake to cooperate with the Iraqi government to effectively implement the recommendations made in a).

The recommendations in a) are prepared based on the analysis as specified in Chapter 4 and Chapter 5. In addition, they are made in due consideration of priorities given by Japanese private companies and the time and procedures required in Iraq to achieve purpose of each recommendation, or improvement in each constituent of the business environment.

The recommendations in b) aim to propose highly-effective projects by taking account of, among others, cooperation in the international community, the Country Assistance Policies of the Japanese government, and track records of JICA assistance to Iraq.

Figure 6.1-1 shows the process leading to the conclusion and the recommendations in this Report.



Source : JICA Survey Team

**Figure 6.1-1 Process Leading to Survey Conclusions and Recommendations**



## **6.1 Conclusion (Survey Summary)**

As the conclusion of the current Report, this section summarizes the results from the whole Survey as follows.

### **6.1.1 Attractiveness of potentials of Iraqi market**

Potentiality of the Iraqi market is high. The Iraqi market is fairly attractive for the private sector and its investment in terms of high economic growth potential and rich natural resources. In fact, private companies in the neighboring countries have been managing to tackle a variety of issues relating to the business environment so as not to lose business opportunities in Iraq.

### **6.1.2 Trust and expectations for Japanese companies**

In the Survey, it became clear, especially through a number of meetings performed in Iraq, that many of the Iraq people thought highly of Japanese goods and services because of their high quality, as well as the long and good historical relationships between Iraq and Japan. The Japanese assistance for reconstruction of Iraq is also highly appreciated. Most of them expect more active participation of Japanese private companies in the reconstruction of Iraq. Furthermore, they are concerned that Japanese companies and their products currently lagged behind other countries in the reconstruction process.

### **6.1.3 Potential ability of technicians and labor in Iraq**

The current capacity of Iraqi labour force is below that in international competitive countries due to the long-term ravages of wars. However, it can be expected that they will catch up shortly if they receive appropriate support for capacity building and training by the Iraqi government and international communities, since the potential of Iraqi human resources is high. Iraqi people are generally very keen for education and technical training. The structure of the population (population pyramid) of Iraq consisting of a large number of young people can enhance strength of the country's human resources in future.

### **6.1.4 Business opportunities in Kurdistan Region and Basra governorate**

The security situation in Erbil, Kurdistan Region is much better than Japanese private companies imagine. The JICA Survey Team received comments from the Japanese representative officers in Erbil that they were able to have peaceful social life that was not significantly different from that in the neighbouring countries. In addition, in the southern area of Iraq like the Basra governorate, many private companies from the Middle Eastern countries, multinational corporations from Europe and the United States, and private enterprises of China

and South Korea have been expanding their business activities aggressively. Although the security situation in the region is not as stable as the Kurdistan Region, a number of foreign companies are actively developing business in the region under protection of leading private security companies (PSC) and on the basis of careful security action plans. They believe that the security condition in the region is manageable.

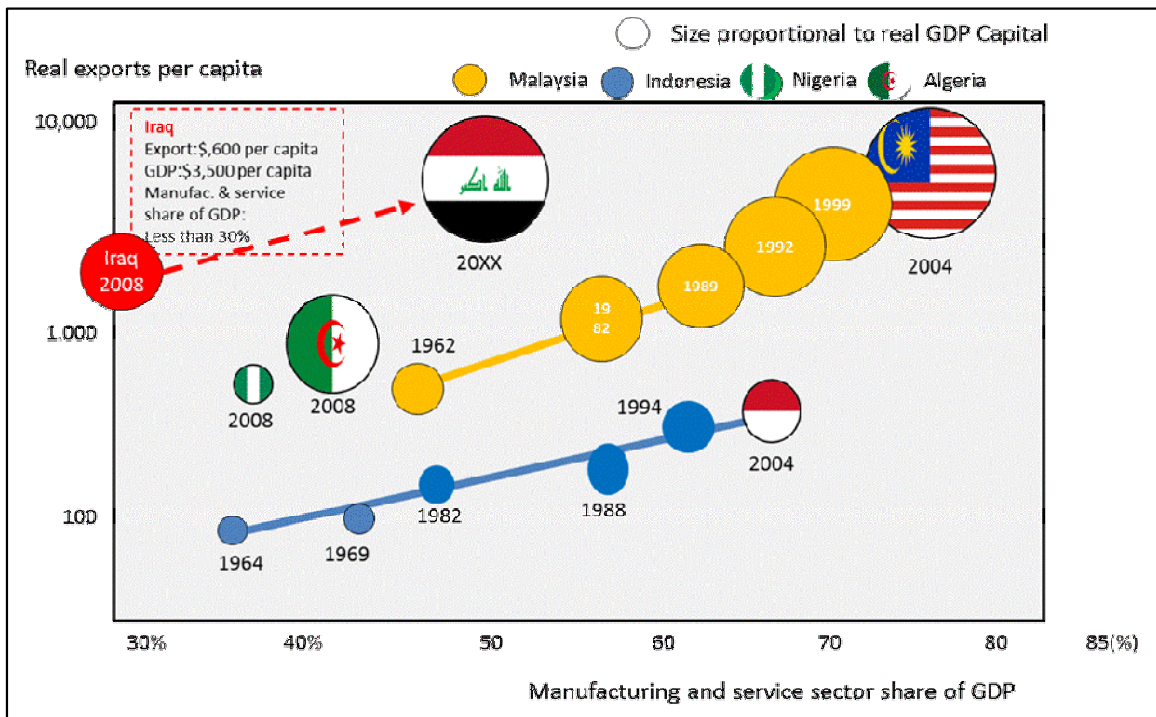
### **6.1.5 Job creation**

An issue relating to job creation, especially for young people, is a major social problem in Iraq. Since instability of the society continues to be one of the most significant issues in the business environment, it is obvious that the job creation contributes to improvement of the business environment in Iraq. The Iraqi government also regarded it as the highest priority in its National Development Plan (NDP) 2010-2014. It is necessary to solve a mismatch problem between job skills demanded by employers and actual skills of job-seekers and to diversify the current industrial structure in Iraq in order to achieve the goal of steady job creation.

### **6.1.6 Issue relating to industrial structure in Iraq**

It is one of the major challenges for Iraqi economy to change the current industrial structure which depends heavily on the oil and gas industry, as pointed out in Chapter 3. The effect of the oil and gas business on job creation is not very large. Diversification of the industrial structure is needed to achieve sustainable development of the Iraq economy and to create jobs steadily to help attain social stability. The invigoration of the manufacturing industry can enhance the supply chain, which is also an important factor in the business environment. The following chart compares historical development patterns of economies of oil producing countries on the basis of the ratio of manufacturing and service sector share of Gross Domestic Product (GDP).

In comparison with other oil-producing countries, the ratio of manufacturing sector in GDP in Iraq is extremely low as compared to the scale of GDP and the amount of the exports per capita. The diversification of industry is an important issue.



Source: JICA Survey Team

**Figure 6.1-2 Iraqi Economy and Historical Development of Oil Producing Countries**

### 6.1.7 Infrastructure situation in Iraq

The state of infrastructure development is one of the important factors affecting the business environment. The infrastructure in Iraq, including transportation, power, water and wastewater treatments, is still in the process of reconstruction as discussed in Chapter 3. Although the Iraqi government is willing to develop infrastructure with the assistance of aid agencies and international organizations, it seems to be difficult to achieve the target set in NDP 2010-2014. The bottleneck is insufficient private investment in the sector. The formation and implementation of Public-Private Partnership (PPP) type projects and Independent Power Producer (IPP) projects is very limited in Iraq.

The issues relating to the private sector's participation in the infrastructure business in Iraq are identified as follows.

- a. Insufficient regulations relating to PPP/IPP projects for the private sector
- b. Insufficient commitment/leadership by the federal and regional governments, including various guarantees for the projects.
- c. Underdevelopment of the laws and regulations to realize project finance

### **6.1.8 Free Zone and industrial park**

The policy and regulatory framework for the Free Zone projects was established in 1998. The General Commission for Free Zone Law was enacted in 1998 and four areas (Khor Al-Zubair, Ninewa/Farafel, Al-Qaim, and Fallujah) were designated as the Free Zones for special development. However, only two Zones, in Khor Al-Zubair and in Ninewa/Farafel, are currently under operation, although new Free Zone projects and various industrial park projects are planned by various authorities. Cooperation and coordination among the authorities to develop the Free Zones and industrial parks is expected by both foreign and domestic private sectors.

### **6.1.9 Business environment in Iraq is under improvement**

The business environment in Iraq has significantly improved, but there still remain various issues.

As analysed in Chapter 5, there are still a number of issues in the Iraqi business environment which need substantial improvement. The CPA (Coalition Provisional Authority) and the Iraqi government have made efforts for the reconstruction and reforms of Iraq since 2003, including improvement of the business environment. Although the policies and regulatory framework for the private sector development are well established in Iraq, the actual conditions for business execution by the private sector are not favourable to them at present.

### **6.1.10 Background and reasons for issues**

The issues that are analyzed in Chapters 4 and 5 are summarized as follows.

#### (1) Visa issues

##### Issues related to Visa issuance:

The following comments were given to JICA Survey Team by private companies.

- a. "Requirements for Visa is not clear."
- b. "Requirements for Visa have been changed frequently."
- c. "There are differences in the procedures and requirements by the Iraqi embassies in different countries."
- d. "It is difficult to obtain multiple-entry Visa."
- e. "The required documents and the entry inspection is different from place to place."
- f. "It takes time to obtain work permits and residence permits."

##### Analysis on issues (reasons and backgrounds):

The following is the analysis on the issues.

- a. There are no specific problems in the regulatory framework (the amendment of the

- foreign resident law).
- b. The operation policies of the Ministry of Interior's Directorate General of Nationality have been changed frequently due to the security conditions in Iraq.
  - c. The discretion involved in visa issuance of the Iraqi embassy in each country is different due to the diplomatic relations of the country with the Iraqi.
  - d. Since the level of insecurity and the increase of the number of foreigners depend on the regions in Iraq, the severity of immigration is different.
  - e. The capacity of staff in each Iraqi embassy may cause problems in Visa issuance (the response in the embassy in Japan is good).

Solutions for issues:

The following is the ideas for solutions.

- a. To improve the issues as soon as possible, in consideration of the significant increase of foreign visitors in Iraq.
- b. To make clearer for the requirements of Visa issuance and to enhance the capacity of staff in Iraqi embassies.
- c. To shorten the time for issuances of the residential permit and work permit.

(2) Issues of licenses/permits

Issues related to licenses/permits:

In addition to the resident permit and work permit, it takes time to obtain licenses and permissions for business from various authorities in Iraq, including the import license, license for tax exemption and other related permissions for business in Iraq.

Analysis on issues (reasons and backgrounds):

The following is the analysis on the issue.

- a. Non effective operation due to less cross-ministry cooperation.
- b. Non efficient business systems and decision-making system (due to less delegation of authority) in each ministry
- c. Insufficient capacity and the low number of staff in the authorities

Solutions for issues:

The following is the ideas for solutions.

- a. Strengthening of monitoring of licensing process for improving communication and coordination among ministries (Enhancements of the function of NIC)
- b. In the future, the study of electronic system for licensing related to investment approvals among the ministries and agencies shall be necessary.
- c. Improvement in the process for licensing in each ministry
- d. Capacity building of staff for administrative services

(3) Enforceability of laws and regulations

Issues related to laws and regulations:

The following comments were given to JICA Survey Team by private companies.

- a. “Lack of official information for foreigners in the laws and regulation in Iraq.”
- b. “Concerns in the enforceability of laws and regulations.”
- c. “No enforceability of the foreign judgements and arbitration awards in Iraq.”

Analysis on issues (reasons and backgrounds):

The following is the analysis on the issues.

- a. There is no special problem in the regulatory framework in Iraq.
- b. Lack of examples and court cases related to business with foreign companies.Lack of sufficient capacity for the announcement of new regulations.
- c. Iraq is not a member of New York Convention (enforceability of foreign arbitration awards)

Solutions for issues:

The following is the ideas for solutions.

- a. To improve the issues as soon as possible, in consideration of the significance for contracting with foreign companies.
- b. To enhance the capacity for notice and announcement to foreign companies.
- c. To conclude the signatory to the New York Convention at earliest.

(4) Issues of banking system

Issues related to banking system:

The following comments were given to JICA Survey Team by private companies.

- a. “Concerns on Letter of Credit (L/C) issuances and amendments in Iraqi banks.”
- b. “Concerns on credibility and reliability of Iraqi banks.”
- c. “Immaturity of the Iraq Stock Exchange (ISX).”

Analysis on issues (reasons and backgrounds):

The following is the analysis on the issues.

- a. Lack of experience in international banking business in Iraqi banks.
- b. Limited credit capacity and financial vulnerability of Iraqi banks.
- c. Delay of introduction of Information and Communication Technology (ICT) for banking services.
- d. Lack of professional capacity of staff for banking services.

Solutions for issues:

The following is the ideas for solutions.

- a. To strengthen the credit capacity of Iraqi banks.
- b. To improve the professional capacity of staff for banking services, including international banking, development finance and investment banking.
- c. To duly consider the issues related to ISX to be one of the challenges in the future.

(5) Custom clearance issues

Issues related to Customs clearance:

The following comments were given to JICA Survey Team by private companies.

- a. “Different criteria in each custom clearance point.”
- b. “Uncertainty in the rules and requirements.”
- c. “Delay of customs clearance operations.”

Analysis on issues (reasons and backgrounds):

The following is the analysis on the issues.

- a. The old Customs Law in 1984 and CPA order in 2003 are still valid; the new Customs law is not yet effective.
- b. While the Customs clearance procedure is subject to the notice of Central Bank of Iraq (CBI) and the regulations imposed by Central Organization for Standardization and Quality Control (COSQC), the requirements for the Customs clearance have been frequently changed; these changes include the requirements for the documents submitted to and the certificates issued by the Iraqi embassies.
- c. The response at the Customs offices varies depending on the Customs clearance points due to the different levels of professional capacity of officers and staff.
- d. The professional capacity of officers and staff in Customs clearance offices in Iraq is low, and the operation system is not advanced without ICT.

Solutions for issues:

The following is the ideas for solutions.

- a. To improve the issues as soon as possible, in consideration of the significant increase of foreign trades.
- b. To take into consideration that the effectuation of the new Customs law is an internal matters of the political decisions of the Iraqi government.
- c. To urgently announce and advertise upon the changes in the rules for the Customs clearance are made.
- d. To strengthen the professional capacity of Customs officers and staff.
- e. To start the planning for introduction of the updated ICT system for the Customs clearance services.

(6) Local employment issues

Issues related to local employment:

The following comments were given to JICA Survey Team by private companies.

- a. “The supporting system for the local recruitment and provision of information about local job seekers seems not to be available.”
- b. “It is difficult to obtain the work permits for foreign engineers, technicians and supervising workers.”
- c. “It is difficult to obtain experienced local staff and workers who meet the requirements set in the job descriptions”

Analysis on issues (reasons and backgrounds):

The following is the analysis on the issues.

- a. Cooperation between the federal government and local governments for facilitation of the local employment is insufficient.
- b. Local workers lack necessary experience and knowledge due to ravages of the long term wars.
- c. Public vocational education and training services are insufficient.
- d. Establishment of new functions for recruiting of local employee for foreign companies at NIC and PICs

Solutions for issues:

The following is the ideas for solutions.

- a. To incorporate the solution in the request for strengthening of the capacity of investment promotion agencies as specified hereunder.
- b. To utilize various opportunities for business training and vocational training provided by international community
- c. To plan establishment of the public vocational training centers in the future.

(7) Issues in capacity of investment promotion agencies

Issues related to capacity of investment promotion agencies:

The following comments were given to JICA Survey Team by private companies.

- a. “National Investment Commission (NIC) and Provincial Investment Commissions (PICs) are currently not able to provide adequate information for foreign companies; such information includes that on the immigration, laws and regulations, bank settlements, Customs clearance, and more.”
- b. “NIC and PICs have currently no supporting services for facilitation of local employment.”
- c. “The current service capacity of NIC and PICs for cross-ministry coordination is



limited<sup>1</sup>; such coordination includes that to obtain licenses and permissions from various ministries and authorities.”

Analysis on issues (reasons and backgrounds):

The following is the analysis on the issues.

- a. Delay of introduction of ICT to accumulate and organize necessary information in the database.
- b. Lack of professional capacity of staff, especially in information disclosure.
- c. Insufficient governability and management in the federal government for the cross-ministry coordination by utilizing the function of NIC.

Solutions for issues:

The following is the ideas for solutions.

- a. To improve the issues as soon as possible, in consideration of the significant increase of business with foreign private companies.
- b. To improve the coordination and cooperation system among the ministries
- c. To urgently improve the function of information disclosure with establishment of the database system.
- d. To strengthen the professional capacity for investment promotion and consultation for potential investors.

## **6.2 Recommendations**

In this section, as recommendations, the requirements for the improvements of the business environment in Iraq for the private sector are described. At the same time, the current section puts forth preliminary proposals for the specific projects that may be undertaken by the international community, JICA in particular, to cooperate in such efforts of the Iraqi government.

### **6.2.1 Requirements for Improvements**

The following is the requirements for the improvements of the business environment in Iraq. These requests are prepared based on analytical results made in Chapter 4, Chapter 5 and Section 6.1 hereof.

- a. Clarifications of requirements and procedures for Visa issuance**
- b. Improvement in notification, dissemination and enforcement of laws and**

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<sup>1</sup> As compared with the NIC and PICs, the capacity to provide appropriate information and coordinating functions of the Kurdistan Board of Investment appears to be higher.

**regulations**

- c. Early signing of the New York Convention**
- d. Enhancement of the professional capacities of state-owned banks including Trade Bank of Iraq (TBI)**
  - **International banking services**
  - **Development finance and project finance**
  - **Investment banking activities**
- e. Clarification of requirements and procedures in Customs clearance**
- f. Enhancement of capacity of NIC**
  - **Enhancement of cross-ministry support for investment projects**
  - **Urgent improvement of the function of information disclosure with establishment of the database system**
  - **Enhancement of official support for private company's recruitment**

The above requests are prepared based also upon results of discussions and questionnaire surveys with private companies in the neighbouring countries and Japan. The following are the requests of these companies which were identified through the questionnaire surveys.

(1) Requests for improvement by Turkish private companies

- Political stability
- Security issue
- Issues relating to Customs clearance procedures
- Frequent changes in regulations
- Regulatory issues relating Customs control

(2) Requests for improvement by Japanese private companies

- Political stability and security
- Integration of laws, regulations and other related activities
- Frequent changes in regulations
- Issues relating to the banking system (L/C and settlements)
- Regulatory issues in Customs
- Issues relating to Customs clearance procedures
- Issues relating to Visa

Details of responses to the questionnaire surveys are presented in the Section 5 of Chapter 2.

## **6.2.2 Issues in business environment and requirements for improvements**

Table 6.2-1 summarizes the issues relating to the business environment in Iraq and the

requirements for the improvements of the business environment in Iraq.

**Table 6.2-1 Issues in the Business Environment and Requirements for Improvements**

Business Environment in Iraq			
issue	Major reason	Requirements for Improvements	
<b>Visa</b>	<p>a. "Requirements for Visa is not clear."            b. "Requirements for Visa have been changed frequently."            c. "There are differences in the procedures and requirements by the Iraqi embassies in different countries."            d. "It is difficult to obtain multiple-entry Visa."            e. "The required documents and the entry inspection is different from place to place."            f. "It takes time to obtain work permits and residence permits."</p>	<p>a. There are no specific problems in the regulatory framework (the amendment of the foreign resident law).            b. The operation policies of the Ministry of Interior's Directorate General of Nationality have been changed frequently due to the security conditions in Iraq.            c. Since the level of insecurity depends on the regions in Iraq, the severity of immigration is different.            d. The capacity of staff in each Iraqi embassy may cause problems in Visa issuance (the response in the embassy in Japan is good).</p>	<p>(a) Clarifications of requirements and procedures for Visa issuance.</p>
<b>Licensing and Permits</b>	<p>It takes time to obtain licenses and permissions for business from various authorities in Iraq, including the import license, license for tax exemption and other related permissions for business in Iraq.</p>	<p>a. Non effective operation due to less cooperation in the cross-ministries            b. Non efficient business systems and decision-making system (due to less delegation of authority) in each ministry            c. Insufficient capacity and the number of staff in the authorities</p>	<p>The request for the improvement of the issue is incorporated in the following (f).</p>
<b>Enforceability of Laws and Regulations</b>	<p>a. "Lack of official information for foreigners in the laws and regulation in Iraq."            b. "Concerns in the enforceability of laws and regulations."            c. "No enforceability of the foreign judgements and arbitration awards in Iraq."</p>	<p>a. There is no special problem in the regulatory framework in Iraq.            b. Lack of examples and court cases related to business with foreign companies.            c. Iraq is not a member of New York Convention (enforceability of foreign arbitration awards).</p>	<p>(b) Improvement in notification, dissemination and enforcement of laws and regulations.            (c) Early signing of the New York Convention.</p>
<b>Banking System</b>	<p>a. "Concerns on L/C issuances and amendments in Iraqi banks."            b. "Concerns on credibility and reliability of Iraqi banks."            c. "Immaturity of the Iraq Stock Exchange."</p>	<p>a. Lack of experience in international banking business in Iraqi banks.            b. Limited credit capacity and financial vulnerability of Iraqi banks.            c. Delay of introduction of ICT for banking services.            d. Lack of professional capacity of staff for banking services.</p>	<p>(d) Enhancement of the professional capacities of state-owned banks including TBI.            ■ International banking services.            ■ Development finance and project finance.            ■ Investment banking activities.</p>
<b>Custom Clearance</b>	<p>a. "Different criteria in each custom clearance point."            b. "Uncertainty in the rules and requirements."            c. "Delay of customs clearance operations."</p>	<p>a. The old Customs Law in 1984 and CPA order in 2003 are still valid; the new custom law is not yet effective.            b. While the Customs clearance procedure is subject to the notice of CBI and the regulations imposed by COSQC, the requirements for the Customs clearance have been frequently changed; these changes include the requirements for the documents submitted to and the certificates issued by the Iraqi embassies.            c. The response at the Customs offices varies depending on the Customs clearance points due to the different levels of professional capacity of officers and staff.            d. The professional capacity of officers and staff in Custom clearance offices in Iraq is low, and the operation system is not advanced without ICT.</p>	<p>(e) Clarification of requirements and procedures in Customs clearance.</p>
<b>Local Employment</b>	<p>a. "The supporting system for the local recruitment and provision of information about local job seekers seems not to be available."            b. "It is difficult to obtain the work permits for foreign engineers, technicians and supervising workers."            c. "It is difficult to obtain experienced local staff and workers who meet the requirements set in the job descriptions"</p>	<p>a. Cooperation between the federal government and local governments for facilitation of the local employment is insufficient.            b. Local workers lack necessary experience and knowledge due to the long term wars.            c. Public vocational education and training services are insufficient.</p>	<p>The request for the improvement of the issue is incorporated in the following (f).</p>
<b>Others</b>			
<b>Investment Promotion</b>	<p>a. "NIC and PICs are currently not able to provide adequate information for foreign companies; such information includes that on the immigration, laws and regulations, bank settlements, Customs clearance, and more."            b. "NIC and PICs have currently no supporting services for facilitation of local employment."            c. "The current service capacity of NIC and PICs for cross-ministry coordination is limited ; such coordination includes that to obtain licenses and permissions from various ministries and authorities."</p>	<p>a. Delay of introduction of ICT to accumulate and organize necessary information in the database.            b. Lack of professional capacity of staff, especially in information disclosure.            c. Insufficient governability and management in the federal government for the cross-ministry coordination by utilizing the function of NIC.</p>	<p>(f) Enhancement of capacity of NIC.            ■ Enhancement of cross-ministry support for investment projects.            ■ Urgent improvement for the function of information disclosure with establishment of the database system.            ■ Enhancement of official support for private company's recruitment.</p>

Source: JICA Survey Team

### 6.2.3 Basis of preliminary proposals for JICA-support projects for improvement of business environment

Preliminary proposals for JICA-support projects that would contribute to improvement of the

business environment in Iraq are developed on the basis of the following policies and perspectives.

- a. To make significant contribution to resolution of high priority issues by Japanese private companies
- b. To promote understanding of the Iraqi government on the necessity of improvements
- c. To promote recognition in Iraq and Japan on results and effects of projects
- d. To be consistent with the Japanese governmental policy relating to the official support to Iraq
- e. To make synergy effects with the past JICA support to Iraq
- f. To be developed to specific projects financed by Official Development Assistance yen-loans, in which Japanese private companies can participate

#### **6.2.4 Preliminary proposals on JICA-support projects for improvement of business environment**

The following are preliminary proposals for JICA-support projects that would contribute to improvement of business environment in Iraq.

**(1) Capacity Building Project for Customs Clearance**

Counter Part in Iraq: Ministry of Finance/General Commission for Customs/  
Kurdistan Regional Government

Support Programs : Dispatching experts  
Capacity Building/Training in Japan  
Data Collection Survey on Capacity Building for the  
Authority of Customs Clearance

**(2) Capacity Building Project for Managing Staff of NIC and PICs**

Counter Part in Iraq: CoM/NIC/PIC/Kurdistan Board of Investment

Support Programs : Dispatching experts  
Capacity Building/Training in Japan  
Data Collection Survey on Capacity Building of  
Investment Promotion Agencies in Iraq

**(3) Capacity Building Project for Development Finance and Project Finance**

Counter Part in Iraq: Ministry of Finance/CBI/TBI/Rafidain Bank/Rasheed  
Bank

Support Programs : Dispatching experts  
Capacity Building/Training in Japan

Data Collection Survey on Capacity Building for Development Finance and Project Finance in the Public Banks

Data Collection Survey on Promotion of Privatization including PPP

Establishment of PPP Fund by Official Development Assistance Loan

**(4) Free Zone and Industrial Park Projects**

Counter Part in Iraq: CoM/Ministry of Finance/Ministry of Planning/Ministry of Industry and Minerals/Kurdistan Regional Government/NIC

Support Programs : Dispatching experts  
Capacity Building/Training in Japan  
Data Collection Survey on Free Zones and Industrial Parks  
Data Collection Survey on Agricultural Industrial Parks

## **Appendix 4.1-1: The Constitution**

### **The Preamble**

In the name of God, the Most merciful, the Most compassionate { We have honored the sons of Adam }

We, the people of Mesopotamia, the homeland of the apostles and prophets, resting place of the virtuous imams, cradle of civilization, crafters of writing, and home of numeration. Upon our land the first law made by man was passed, and the oldest pact of just governance was inscribed, and upon our soil the saints and companions of the Prophet prayed, philosophers and scientists theorized, and writers and poets excelled;

Acknowledging God's right over us, and in fulfillment of the call of our homeland and citizens, and in a response to the call of our religious and national leaderships and the determination of our great authorities and of our leaders and politicians, and in the midst of international support from our friends and those who love us, marched for the first time in our history towards the ballot boxes by the millions, men and women, young and old, on the thirtieth of January 2005, invoking the pains of sectarian oppression inflicted by the autocratic clique and inspired by the tragedies of Iraq's martyrs, Shiite and Sunni, Arabs and Kurds and Turkmen and from all other components of the people, and recollecting the darkness of the ravage of the holy cities and the South in the Sha'abaniyya uprising and burnt by the flames of grief of the mass graves, the marshes, Al-Dujail and others and articulating the sufferings of racial oppression in the massacres of Halabcha, Barzan, Anfal and the Fayli Kurds and inspired by the ordeals of the Turkmen in Bashir and the sufferings of the people of the western region, as is the case in the remaining areas of Iraq where the people suffered from the liquidation of their leaders, symbols, and Sheiks and from the displacement of their skilled individuals and from drying out of its cultural and intellectual wells, so we sought hand in hand and shoulder to shoulder to create our new Iraq, the Iraq of the future, free from sectarianism, racism, complex of regional attachment, discrimination, and exclusion.

Accusations of being infidels, and terrorism did not stop us from marching forward to build a nation of law. Sectarianism and racism have not stopped us from marching together to strengthen our national unity, following the path of peaceful transfer of power, adopting the course of just distribution of resources, and providing equal opportunity for all.

We, the people of Iraq, who have just risen from our stumble, and who are looking with confidence to the future through a republican, federal, democratic, pluralistic system, have resolved with the determination of our men, women, elderly, and youth to respect the rule of law, to establish justice and equality, to cast aside the politics of aggression, to pay attention to women and their rights, the elderly and their concerns, and children and their affairs, to spread the culture of diversity, and to defuse terrorism.

We, the people of Iraq, of all components and across the spectrum, have taken upon ourselves to decide freely and by choice to unite our future, to take lessons from yesterday for

tomorrow, and to enact this permanent Constitution, through the values and ideals of the heavenly messages and the findings of science and man's civilization. The adherence to this Constitution preserves for Iraq its free union of people, of land, and of sovereignty.

## **Section One: Fundamental Principles**

### **Article 1:**

The Republic of Iraq is a single federal, independent and fully sovereign state in which the system of government is republican, representative, parliamentary, and democratic, and this Constitution is a guarantor of the unity of Iraq.

### **Article 2:**

**First:** Islam is the official religion of the State and is a foundation source of legislation:

- A. No law may be enacted that contradicts the established provisions of Islam
- B. No law may be enacted that contradicts the principles of democracy.
- C. No law may be enacted that contradicts the rights and basic freedoms stipulated in this Constitution.

**Second:** This Constitution guarantees the Islamic identity of the majority of the Iraqi people and guarantees the full religious rights to freedom of religious belief and practice of all individuals such as Christians, Yazidis, and Mandeans Sabians.

### **Article 3:**

Iraq is a country of multiple nationalities, religions, and sects. It is a founding and active member in the Arab League and is committed to its charter, and it is part of the Islamic world.

### **Article 4:**

**First:** The Arabic language and the Kurdish language are the two official languages of Iraq. The right of Iraqis to educate their children in their mother tongue, such as Turkmen, Syriac, and Armenian shall be guaranteed in government educational institutions in accordance with educational guidelines, or in any other language in private educational institutions.

**Second:** The scope of the term "official language" and the means of applying the provisions of this article shall be defined by a law and shall include:

- A. Publication of the Official Gazette, in the two languages;
- B. Speech, conversation, and expression in official domains, such as the Council of Representatives, the Council of Ministers, courts, and official conferences, in either of the two languages;
- C. Recognition and publication of official documents and correspondence in the two languages;
- D. Opening schools that teach the two languages, in accordance with the educational guidelines;
- E. Use of both languages in any matter enjoined by the principle of equality such as bank notes, passports, and stamps.

**Third:** The federal and official institutions and agencies in the Kurdistan region shall use both languages.

**Fourth:** The Turkomen language and the Syriac language are two other official languages in the administrative units in which they constitute density of population.

**Fifth:** Each region or governorate may adopt any other local language as an additional official language if the majority of its population so decides in a general referendum.

**Article 5:**

The law is sovereign. The people are the source of authority and legitimacy, which they shall exercise in a direct, general, secret ballot and through their constitutional institutions.

**Article 6:**

Transfer of authority shall be made peacefully through democratic means as stipulated in this Constitution.

**Article 7:**

**First:** Any entity or program that adopts, incites, facilitates, glorifies, promotes, or justifies racism or terrorism or accusations of being an infidel (takfir) or ethnic cleansing, especially the Saddamist Ba'ath in Iraq and its symbols, under any name whatsoever, shall be prohibited. Such entities may not be part of political pluralism in Iraq. This shall be regulated by law.

**Second:** The State shall undertake to combat terrorism in all its forms, and shall work to protect its territories from being a base, pathway, or field for terrorist activities.

**Article 8:**

Iraq shall observe the principles of good neighborliness, adhere to the principle of noninterference in the internal affairs of other states, seek to settle disputes by peaceful means, establish relations on the basis of mutual interests and reciprocity, and respect its international obligations.

**Article 9:**

**First:**

A- The Iraqi armed forces and security services will be composed of the components of the Iraqi people with due consideration given to their balance and representation without discrimination or exclusion. They shall be subject to the control of the civilian authority, shall defend Iraq, shall not be used as an instrument to oppress the Iraqi people, shall not interfere in the political affairs, and shall have no role in the transfer of authority.

B- The formation of military militias outside the framework of the armed forces is prohibited.

C- The Iraqi armed forces and their personnel, including military personnel working in the Ministry of Defense or any subordinate departments or organizations, may not stand for election to political office, campaign for candidates, or participate in other activities prohibited by Ministry of Defense regulations. This ban includes the activities of the personnel mentioned above acting in their personal or professional capacities, but shall not infringe upon the right of these personnel to cast their vote in the elections.

D- The Iraqi National Intelligence Service shall collect information, assess threats to national security, and advise the Iraqi government. This Service shall be under civilian control, shall be subject to legislative oversight, and shall operate in accordance with the law and pursuant to the recognized principles of human rights.



E- The Iraqi Government shall respect and implement Iraq's international obligations regarding the non-proliferation, non-development, nonproduction, and non-use of nuclear, chemical, and biological weapons, and shall prohibit associated equipment, materiel, technologies, and delivery systems for use in the development, manufacture, production, and use of such weapons.

**Second:** Military service shall be regulated by law.

**Article 10:**

The holy shrines and religious sites in Iraq are religious and civilizational entities. The State is committed to assuring and maintaining their sanctity, and to guaranteeing the free practice of rituals in them.

**Article 11:**

Baghdad is the capital of the Republic of Iraq.

**Article 12:**

**First:** The flag, national anthem, and emblem of Iraq shall be regulated by law in a way that symbolizes the components of the Iraqi people.

**Second:** A law shall regulate honors, official holidays, religious and national occasions and the Hijri and Gregorian calendar.

**Article 13:**

**First:** This Constitution is the preeminent and supreme law in Iraq and shall be binding in all parts of Iraq without exception.

**Second:** No law that contradicts this Constitution shall be enacted. Any text in any regional constitutions or any other legal text that contradicts this Constitution shall be considered void.

## **Section Two Rights and Liberties Chapter One**

### **[Rights]**

#### **First: Civil and Political Rights**

**Article 14:**

Iraqis are equal before the law without discrimination based on gender, race, ethnicity, nationality, origin, color, religion, sect, belief or opinion, or economic or social status.

**Article 15:**

Every individual has the right to enjoy life, security and liberty. Deprivation or restriction of these rights is prohibited except in accordance with the law and based on a decision issued by a competent judicial authority.

**Article 16:**

Equal opportunities shall be guaranteed to all Iraqis, and the state shall ensure that the necessary measures to achieve this are taken.

**Article 17:**

**First:** Every individual shall have the right to personal privacy so long as it does not contradict the rights of others and public morals.

**Second:** The sanctity of the homes shall be protected. Homes may not be entered, searched, or violated, except by a judicial decision in accordance with the law.

**Article 18:**

**First:** Iraqi citizenship is a right for every Iraqi and is the basis of his nationality.

**Second:** Anyone who is born to an Iraqi father or to an Iraqi mother shall be considered an Iraqi. This shall be regulated by law.

**Third:**

A. An Iraqi citizen by birth may not have his citizenship withdrawn for any reason. Any person who had his citizenship withdrawn shall have the right to demand its reinstatement. This shall be regulated by a law.

B. Iraqi citizenship shall be withdrawn from naturalized citizens in cases regulated by law.

**Fourth:**

An Iraqi may have multiple citizenships. Everyone who assumes a senior, security or sovereign position must abandon any other acquired citizenship. This shall be regulated by law.

**Fifth:**

Iraqi citizenship shall not be granted for the purposes of the policy of population settlement that disrupts the demographic composition of Iraq.

**Sixth:**

Citizenship provisions shall be regulated by law. The competent courts shall consider the suits arising from those provisions.

**Article 19:**

**First:** The judiciary is independent and no power is above the judiciary except the law.

**Second:** There is no crime or punishment except by law. The punishment shall only be for an act that the law considers a crime when perpetrated. A harsher punishment than the applicable punishment at the time of the offense may not be imposed.

**Third:** Litigation shall be a protected and guaranteed right for all.

**Fourth:** The right to a defense shall be sacred and guaranteed in all phases of investigation and the trial.

**Fifth:** The accused is innocent until proven guilty in a fair legal trial. The accused may not be tried for the same crime for a second time after acquittal unless new evidence is produced.

**Sixth:** Every person shall have the right to be treated with justice in judicial and administrative proceedings.

**Seventh:** The proceedings of a trial are public unless the court decides to make it secret.

**Eighth:** Punishment shall be personal.

**Ninth:** Laws shall not have retroactive effect unless stipulated otherwise. This exclusion shall not include laws on taxes and fees.

**Tenth:** Criminal laws shall not have retroactive effect, unless it is to the benefit of the accused.

**Eleventh:** The court shall appoint a lawyer at the expense of the state for an accused of a felony or misdemeanor who does not have a defense lawyer.

**Twelfth:**

A. Unlawful detention shall be prohibited.

B. Imprisonment or detention shall be prohibited in places not designed for these purposes, pursuant to prison laws covering health and social care, and subject to the authorities of the State.

**Thirteenth:** The preliminary investigative documents shall be submitted to the competent judge in a period not to exceed twenty-four hours from the time of the arrest of the accused, which may be extended only once and for the same period.

**Article 20:**

Iraqi citizens, men and women, shall have the right to participate in public affairs and to enjoy political rights including the right to vote, elect, and run for office.

**Article 21:**

**First:** No Iraqi shall be surrendered to foreign entities and authorities.

**Second:** A law shall regulate the right of political asylum in Iraq. No political refugee shall be surrendered to a foreign entity or returned forcibly to the country from which he fled.

**Third:** Political asylum shall not be granted to a person accused of committing international or terrorist crimes or to any person who inflicted damage on Iraq.

## **Second: Economic, Social and Cultural Liberties**

**Article 22:**

**First:** Work is a right for all Iraqis in a way that guarantees a dignified life for them.

**Second:** The law shall regulate the relationship between employees and employers on economic bases and while observing the rules of social justice.

**Third:** The State shall guarantee the right to form and join unions and professional associations, and this shall be regulated by law.

**Article 23:**

**First:** Private property is protected. The owner shall have the right to benefit, exploit and dispose of private property within the limits of the law.

**Second:** Expropriation is not permissible except for the purposes of public benefit in return for just compensation, and this shall be regulated by law.

**Third:**

A. Every Iraqi shall have the right to own property anywhere in Iraq. No others may possess immovable assets, except as exempted by law.

B. Ownership of property for the purposes of demographic change is prohibited.

**Article 24:**

The State shall guarantee freedom of movement of Iraqi manpower, goods, and capital between regions and governorates, and this shall be regulated by law.

**Article 25:**

The State shall guarantee the reform of the Iraqi economy in accordance with modern economic principles to insure the full investment of its resources, diversification of its sources, and the encouragement and development of the private sector.

**Article 26:**

The State shall guarantee the encouragement of investment in the various sectors, and this shall be regulated by law.

**Article 27:**

**First:** Public assets are sacrosanct, and their protection is the duty of each citizen.

**Second:** The provisions related to the preservation of State properties, their management, the conditions for their disposal, and the limits for these assets not to be relinquished shall all be regulated by law.

**Article 28:**

**First:** No taxes or fees shall be levied, amended, collected, or exempted, except by law.

**Second:** Low income earners shall be exempted from taxes in a way that guarantees the preservation of the minimum income required for living. This shall be regulated by law.

**Article 29:**

**First:**

A. The family is the foundation of society; the State shall preserve it and its religious, moral, and national values.

B. The State shall guarantee the protection of motherhood, childhood and old age, shall care for children and youth, and shall provide them with the appropriate conditions to develop their talents and abilities.

**Second:** Children have the right to upbringing, care and education from their parents. Parents have the right to respect and care from their children, especially in times of need, disability, and old age.

**Third:** Economic exploitation of children in all of its forms shall be prohibited, and the State shall take the necessary measures for their protection.

**Fourth:** All forms of violence and abuse in the family, school, and society shall be prohibited.

**Article 30:**

**First:** The State shall guarantee to the individual and the family – especially children and women – social and health security, the basic requirements for living a free and decent life, and shall secure for them suitable income and appropriate housing.

**Second:** The State shall guarantee social and health security to Iraqis in cases of old age, sickness, employment disability, homelessness, orphanhood, or unemployment, shall work to protect them from ignorance, fear and poverty, and shall provide them housing and special programs of care and rehabilitation, and this shall be regulated by law.

**Article 31:**

**First:** Every citizen has the right to health care. The State shall maintain public health and provide the means of prevention and treatment by building different types of hospitals and health institutions.

**Second:** Individuals and entities have the right to build hospitals, clinics, or private health care centers under the supervision of the State, and this shall be regulated by law.

**Article 32:**

The State shall care for the handicapped and those with special needs, and shall ensure their rehabilitation in order to reintegrate them into society, and this shall be regulated by law.

**Article 33:**

**First:** Every individual has the right to live in safe environmental conditions.

**Second:** The State shall undertake the protection and preservation of the environment and its biological diversity.

**Article 34:**

**First:** Education is a fundamental factor for the progress of society and is a right guaranteed by the state. Primary education is mandatory and the state guarantees that it shall combat illiteracy.

**Second:** Free education in all its stages is a right for all Iraqis.

**Third:** The State shall encourage scientific research for peaceful purposes that serve humanity and shall support excellence, creativity, invention, and different aspects of ingenuity.

**Fourth:** Private and public education shall be guaranteed, and this shall be regulated by law.

**Article 35:**

The state shall promote cultural activities and institutions in a manner that befits the civilizational and cultural history of Iraq, and it shall seek to support indigenous Iraqi cultural orientations.

**Article 36:**

Practicing sports is a right of every Iraqi and the state shall encourage and care for such activities and shall provide for their requirements.

## **Chapter Two**

### **[Liberties]**

#### **Article 37:**

##### **First:**

- A. The liberty and dignity of man shall be protected.
- B. No person may be kept in custody or investigated except according to a judicial decision.
- C. All forms of psychological and physical torture and inhumane treatment are prohibited. Any confession made under force, threat, or torture shall not be relied on, and the victim shall have the right to seek compensation for material and moral damages incurred in accordance with the law.

**Second:** The State shall guarantee protection of the individual from intellectual, political and religious coercion.

**Third:** Forced labor, slavery, slave trade, trafficking in women or children, and sex trade shall be prohibited.

#### **Article 38:**

The State shall guarantee in a way that does not violate public order and morality:

- A. Freedom of expression using all means.
- B. Freedom of press, printing, advertisement, media and publication.
- C. Freedom of assembly and peaceful demonstration, and this shall be regulated by law.

#### **Article 39:**

**First:** The freedom to form and join associations and political parties shall be guaranteed, and this shall be regulated by law.

**Second:** It is not permissible to force any person to join any party, society, or political entity, or force him to continue his membership in it.

#### **Article 40:**

The freedom of communication and correspondence, postal, telegraphic, electronic, and telephonic, shall be guaranteed and may not be monitored, wiretapped, or disclosed except for legal and security necessity and by a judicial decision.

#### **Article 41:**

Iraqis are free in their commitment to their personal status according to their religions, sects, beliefs, or choices, and this shall be regulated by law.

#### **Article 42:**

Each individual shall have the freedom of thought, conscience, and belief.

#### **Article 43:**

**First:** The followers of all religions and sects are free in the:

- A- Practice of religious rites, including the Husseini rituals.
- B- Management of religious endowments (waqf), their affairs, and their religious institutions, and this shall be regulated by law.

**Second:** The State shall guarantee freedom of worship and the protection of places of worship.

#### **Article 44:**

**First:** Each Iraqi has freedom of movement, travel, and residence inside and outside Iraq.

**Second:** No Iraqi may be exiled, displaced, or deprived from returning to the homeland.

**Article 45:**

**First:** The State shall seek to strengthen the role of civil society institutions, and to support, develop and preserve their independence in a way that is consistent with peaceful means to achieve their legitimate goals, and this shall be regulated by law.

**Second:** The State shall seek the advancement of the Iraqi clans and tribes, shall attend to their affairs in a manner that is consistent with religion and the law, and shall uphold their noble human values in a way that contributes to the development of society. The State shall prohibit the tribal traditions that are in contradiction with human rights.

**Article 46:**

Restricting or limiting the practice of any of the rights or liberties stipulated in this Constitution is prohibited, except by a law or on the basis of a law, and insofar as that limitation or restriction does not violate the essence of the right or freedom.

## **Section Three Federal Powers**

### **Article 47:**

The federal powers shall consist of the legislative, executive, and judicial powers, and they shall exercise their competencies and tasks on the basis of the principle of separation of powers.

### **Chapter one [The Legislative Power]**

### **Article 48:**

The federal legislative power shall consist of the Council of Representatives and the Federation Council.

#### **First: The Council of Representatives**

### **Article 49:**

**First:** The Council of Representatives shall consist of a number of members, at a ratio of one seat per 100,000 Iraqi persons representing the entire Iraqi people. They shall be elected through a direct secret general ballot. The representation of all components of the people shall be upheld in it.

**Second:** A candidate to the Council of Representatives must be a fully qualified Iraqi.

**Third:** A law shall regulate the requirements for the candidate, the voter, and all that is related to the elections.

**Fourth:** The elections law shall aim to achieve a percentage of representation for women of not less than one-quarter of the members of the Council of Representatives.

**Fifth:** The Council of Representatives shall promulgate a law dealing with the replacement of its members on resignation, dismissal, or death.

**Sixth:** It is not permissible to combine membership in the Council of Representatives with any work or other official position.

### **Article 50:**

Each member of the Council of Representatives shall take the following constitutional oath before the Council prior to assuming his duties: "I swear by God Almighty to carry out my legal duties and responsibilities with devotion and integrity and preserve the independence and sovereignty of Iraq, and safeguard the interests of its people, and ensure the safety of its land, sky, water, wealth, and federal democratic system, and I shall endeavor to protect public and private liberties, the independence of the judiciary, and pledge to implement legislation faithfully and neutrally. God is my witness."

### **Article 51:**

The Council of Representatives shall establish its bylaws to regulate its work.

### **Article 52:**

**First:** The Council of Representatives shall decide, by a two-thirds majority, the authenticity of membership of its member within thirty days from the date of filing an objection.



**Second:** The decision of the Council of Representatives may be appealed before the Federal Supreme Court within thirty days from the date of its issuance.

**Article 53:**

**First:** Sessions of the Council of Representatives shall be public unless, for reasons of necessity, the Council decides otherwise.

**Second:** Minutes of the sessions shall be published by means considered appropriate by the Council.

**Article 54:**

The President of the Republic shall call upon the Council of Representatives to convene by a presidential decree within fifteen days from the date of the ratification of the general election results. Its eldest member shall chair the first session to elect the speaker of the Council and his two deputies. This period may not be extended by more than the aforementioned period.

**Article 55:**

The Council of Representatives shall elect in its first session its speaker, then his first deputy and second deputy, by an absolute majority of the total number of the Council members by direct secret ballot.

**Article 56:**

**First:** The electoral term of the Council of Representatives shall be four calendar years, starting with its first session and ending with the conclusion of the fourth year.

**Second:** The new Council of Representatives shall be elected forty-five days before the conclusion of the preceding electoral term.

**Article 57:**

The Council of Representatives shall have one annual term, with two legislative sessions, lasting eight months. The bylaws shall define the method to convene the sessions. The session in which the general budget is being presented shall not end until approval of the budget.

**Article 58:**

**First:** The President of the Republic, the Prime Minister, the Speaker of the Council of Representatives, or fifty members of the Council of Representatives may call the Council to an extraordinary session. The session shall be restricted to the topics that necessitated the call for the session.

**Second:** The legislative session of the Council of Representatives may be extended for no more than 30 days to complete the tasks that require the extension, based on a request from the President of the Republic, the Prime Minister, the Speaker of the Council, or fifty members of the Council of Representatives.

**Article 59:**

**First:** The Council of Representatives quorum shall be achieved by an absolute majority of its members.

**Second:** Decisions in the sessions of the Council of Representatives shall be made by a simple majority after quorum is achieved, unless otherwise stipulated.

**Article 60:**

**First:** Draft laws shall be presented by the President of the Republic and the Council of Ministers.

**Second;** Proposed laws shall be presented by ten members of the Council of Representatives or by one of its specialized committees.

**Article 61:**

The Council of Representatives shall be competent in the following:

**First:** Enacting federal laws.

**Second:** Monitoring the performance of the executive authority.

**Third:** Electing the President of the Republic.

**Fourth:** Regulating the ratification process of international treaties and agreements by a law, to be enacted by a two-thirds majority of the members of the Council of Representatives.

**Fifth:** Approving the appointment of the following:

A. The President and members of the Federal Court of Cassation, the Chief Public Prosecutor, and the President of Judicial Oversight Commission by an absolute majority, based on a proposal from the Higher Juridical Council.

B. Ambassadors and those with special grades, based on a proposal from the Council of Ministers.

C. The Iraqi Army Chief of Staff, his assistants, those of the rank of division commander and above, and the director of the intelligence service, based on a proposal from the Council of Ministers.

**Sixth:**

A. Questioning the President of the Republic, based on a petition with cause, by an absolute majority of the members of the Council of Representatives.

B. Relieving the President of the Republic by an absolute majority of the Council of Representatives after being convicted by the Federal Supreme Court in one of the following cases:

1- Perjury of the constitutional oath.

2- Violating the Constitution.

3- High treason.

**Seventh:**

A. A member of the Council of Representatives may direct questions to the Prime Minister and the Ministers on any subject within their specialty and each of them shall answer the members' questions. Only the member who has asked the question shall have the right to comment on the answer.

B. At least twenty-five members of the Council of Representatives may raise a general issue for discussion in order to inquire about a policy and the performance of the Council of Ministers or one of the Ministries and it shall be submitted to the Speaker of the Council of Representatives, and the Prime Minister or the Ministers shall specify a date to come before the Council of Representatives to discuss it.

C. A member of the Council of Representatives, with the agreement of twenty-five members, may direct an inquiry to the Prime Minister or the Ministers to call them to account on the issues within their authority. The debate shall not be held on the inquiry except after at least seven days from the date of submission of the inquiry.

**Eighth:**

A. The Council of Representatives may withdraw confidence from one of the Ministers by an absolute majority and he shall be considered resigned from the date of the decision of withdrawal of confidence. A vote of no confidence in a Minister may not be held except upon his request or on the basis of a request signed by fifty members after the Minister has appeared for questioning before the Council. The Council shall not issue its decision regarding the request except after at least seven days from the date of its submission.

B.

1- The President of the Republic may submit a request to the Council of Representatives to withdraw confidence from the Prime Minister.

2- The Council of Representatives may withdraw confidence from the Prime Minister based on the request of one-fifth of its members. This request shall not be submitted except after an inquiry directed at the Prime Minister and after at least seven days from the date of submitting the request.

3- The Council of Representatives may decide to withdraw confidence from the Prime Minister by an absolute majority of the number of its members.

C. The Government is deemed resigned in case of withdrawal of confidence from the Prime Minister.

D. In case of a vote of withdrawal of confidence in the Council of Ministers as a whole, the Prime Minister and the Ministers continue in their positions to run everyday business for a period not to exceed thirty days until a new Council of Ministers is formed in accordance with the provisions of Article 76 of this Constitution.

E. The Council of Representatives may question independent commission heads in accordance with the same procedures related to the Ministers. The Council shall have the right to relieve them by absolute majority.

**Ninth:**

A. To consent to the declaration of war and the state of emergency by a two thirds majority based on a joint request from the President of the Republic and the Prime Minister.

B. The state of emergency shall be declared for a period of thirty days, which can be extended after approval each time.

C. The Prime Minister shall be delegated the necessary powers which enable him to manage the affairs of the country during the period of the declaration of war and the state of emergency. These powers shall be regulated by a law in a way that does not contradict the Constitution.

D. The Prime Minister shall present to the Council of Representatives the measures taken and the results during the period of the declaration of war and the state of emergency within 15 days from the date of its end.

**Article 62:**

**First:** The Council of Ministers shall submit the draft general budget bill and the closing account to the Council of Representatives for approval.

**Second:** The Council of Representatives may conduct transfers between the sections and chapters of the general budget and reduce the total of its sums, and it may suggest to the Council of Ministers that they increase the total expenses, when necessary.

**Article 63:**

**First:** A law shall regulate the rights and privileges of the speaker of the Council of Representatives, his two deputies, and the members of the Council of Representatives.

**Second:**

A. A member of the Council of Representatives shall enjoy immunity for statements made while the Council is in session, and the member may not be prosecuted before the courts for such.

B. A Council of Representatives member may not be placed under arrest during the legislative term of the Council of Representatives, unless the member is accused of a felony and the Council of Representatives members consent by an absolute majority to lift his immunity or if he is caught in flagrante delicto in the commission of a felony.

C. A Council of Representatives member may not be arrested after the legislative term of the Council of Representatives, unless the member is accused of a felony and with the consent of the speaker of the Council of Representatives to lift his immunity or if he is caught in flagrante delicto in the commission of a felony.

**Article 64:**

**First:** The Council of Representatives may be dissolved by an absolute majority of the number of its members, or upon the request of one-third of its members by the Prime Minister with the consent of the President of the Republic. The Council shall not be dissolved during the period in which the Prime Minister is being questioned.

**Second:** Upon the dissolution of the Council of Representatives, the President of the Republic shall call for general elections in the country within a period not to exceed sixty days from the date of its dissolution. The Council of Ministers in this case is deemed resigned and continues to run everyday business.

**Second: The Federation Council**

**Article 65:**

A legislative council shall be established named the "Federation Council," to include representatives from the regions and the governorates that are not organized in a region. A law, enacted by a two-thirds majority of the members of the Council of Representatives, shall regulate the formation of the Federation Council, its membership conditions, its competencies, and all that is connected with it.

## **Chapter Two**

### **[The Executive Power]**

#### **Article 66:**

The federal executive power shall consist of the President of the Republic and the Council of Ministers and shall exercise its powers in accordance with the Constitution and the law.

#### **First: The President of the Republic**

#### **Article 67:**

The President of the Republic is the Head of the State and a symbol of the unity of the country and represents the sovereignty of the country. He shall guarantee the commitment to the Constitution and the preservation of Iraq's independence, sovereignty, unity, and the safety of its territories, in accordance with the provisions of the Constitution.

#### **Article 68:**

A nominee to the Presidency of the Republic must be:

**First:** An Iraqi by birth, born to Iraqi parents.

**Second:** Fully qualified and must be over forty years of age.

**Third:** Of good reputation and political experience, known for his integrity, uprightness, fairness, and loyalty to the homeland.

**Fourth:** Free of any conviction of a crime involving moral turpitude.

#### **Article 69:**

**First:** The provisions for nomination to the office of the President of the Republic shall be regulated by law.

**Second:** The provisions for nomination to the office of one or more Vice Presidents of the Republic shall be regulated by law.

#### **Article 70:**

**First:** The Council of Representatives shall elect a President of the Republic from among the candidates by a two-thirds majority of the number of its members.

**Second:** If none of the candidates receive the required majority vote then the two candidates who received the highest number of votes shall compete and the one who receives the majority of votes in the second election shall be declared President.

#### **Article 71:**

The President shall take the constitutional oath before the Council of Representatives according to the language stipulated in Article 50 of the Constitution.

#### **Article 72:**

**First:** The President of the Republic's term in office shall be limited to four years. He may be re-elected for a second time only.

#### **Second:**

A- The President of the Republic's term in office shall end with the end of the term of the Council of Representatives.

B- The President of the Republic shall continue to exercise his duties until after the end of the election and the meeting of the new Council of Representatives, provided that a new President of the Republic is elected within thirty days from the date of its first convening.

C- In case the position of the President of the Republic becomes vacant for any reason, a new President shall be elected to complete the remaining period of the President's term.

**Article 73:**

The President of the Republic shall assume the following powers:

**First:** To issue a special pardon on the recommendation of the Prime Minister, except for anything concerning a private claim and for those who have been convicted of committing international crimes, terrorism, or financial and administrative corruption.

**Second:** To ratify international treaties and agreements after the approval by the Council of Representatives. Such international treaties and agreements are considered ratified after fifteen days from the date of receipt by the President.

**Third:** To ratify and issue the laws enacted by the Council of Representatives. Such laws are considered ratified after fifteen days from the date of receipt by the President.

**Fourth:** To call the elected Council of Representatives to convene during a period not to exceed fifteen days from the date of approval of the election results and in the other cases stipulated in the Constitution.

**Fifth:** To award medals and decorations on the recommendation of the Prime Minister in accordance with the law.

**Sixth:** To accredit ambassadors.

**Seventh:** To issue Presidential decrees.

**Eighth:** To ratify death sentences issued by the competent courts.

**Ninth:** To perform the duty of the High Command of the armed forces for ceremonial and honorary purposes.

**Tenth:** To exercise any other presidential powers stipulated in this Constitution.

**Article 74:**

A law shall fix the salary and the allowances of the President of the Republic.

**Article 75:**

**First:** The President of the Republic shall have the right to submit his resignation in writing to the Speaker of the Council of Representatives, and it shall be considered effective after seven days from the date of its submission to the Council of Representatives.

**Second:** The Vice President shall replace the President in case of his absence.

**Third:** The Vice President shall replace the President of the Republic in the event that the post of the President becomes vacant for any reason whatsoever. The Council of Representatives must elect a new President within a period not to exceed thirty days from the date of the vacancy.

**Fourth:** In case the post of the President of the Republic becomes vacant, the Speaker of the Council of Representatives shall replace the President of the Republic in case he does not have a Vice President, on the condition that a new President is elected during a period not to exceed

thirty days from the date of the vacancy and in accordance with the provisions of this Constitution.

## **Second: Council of Ministers**

### **Article 76:**

**First:** The President of the Republic shall charge the nominee of the largest Council of Representatives bloc with the formation of the Council of Ministers within fifteen days from the date of the election of the President of the Republic.

**Second:** The Prime Minister-designate shall undertake the naming of the members of his Council of Ministers within a period not to exceed thirty days from the date of his designation.

**Third:** If the Prime Minister-designate fails to form the Council of Ministers during the period specified in clause "Second," the President of the Republic shall charge a new nominee for the post of Prime Minister within fifteen days.

**Fourth:** The Prime Minister-designate shall present the names of his members of the Council of Ministers and the ministerial program to the Council of Representatives. He is deemed to have gained its confidence upon the approval, by an absolute majority of the Council of Representatives, of the individual Ministers and the ministerial program.

**Fifth:** The President of the Republic shall charge another nominee to form the Council of Ministers within fifteen days in case the Council of Ministers did not win the vote of confidence.

### **Article 77:**

**First:** The conditions for assuming the post of the Prime Minister shall be the same as those for the President of the Republic, provided that he has a college degree or its equivalent and is over thirty-five years of age.

**Second:** The conditions for assuming the post of Minister shall be the same as those for members of the Council of Representatives, provided that he holds a college degree or its equivalent.

### **Article 78:**

The Prime Minister is the direct executive authority responsible for the general policy of the State and the commander-in-chief of the armed forces. He directs the Council of Ministers, presides over its meetings, and has the right to dismiss the Ministers, with the consent of the Council of Representatives.

### **Article 79:**

The Prime Minister and members of the Council of Ministers shall take the constitutional oath before the Council of Representatives according to the language stipulated in Article 50 of the Constitution.

### **Article 80:**

The Council of Ministers shall exercise the following powers:

**First:** To plan and execute the general policy and general plans of the State and oversee the work of the ministries and departments not associated with a ministry.

**Second:** To propose bills.

**Third:** To issue rules, instructions, and decisions for the purpose of implementing the law.

**Fourth:** To prepare the draft of the general budget, the closing account, and the development plans.

**Fifth:** To recommend to the Council of Representatives that it approve the appointment of undersecretaries, ambassadors, state senior officials, the Chief of Staff of the Armed Forces and his deputies, division commanders or higher, the Director of the National Intelligence Service, and heads of security institutions.

**Sixth:** To negotiate and sign international agreements and treaties, or designate any person to do so.

**Article 81:**

**First:** The President of the Republic shall take up the office of the Prime Minister in the event the post becomes vacant for any reason whatsoever.

**Second:** If the event mentioned in “First” of this Article occurs, the President shall charge another nominee to form the Council of Ministers within a period not to exceed fifteen days in accordance with the provisions of Article 76 of this Constitution.

**Article 82:**

A law shall regulate the salaries and allowances of the Prime Minister and Ministers, and anyone of their grade.

**Article 83:**

The responsibility of the Prime Minister and the Ministers before the Council of Representatives is of a joint and personal nature.

**Article 84:**

**First:** A law shall regulate the work and define the duties and authorities of the security institutions and the National Intelligence Service, which shall operate in accordance with the principles of human rights and shall be subject to the oversight of the Council of Representatives.

**Second:** The National Intelligence Service shall be attached to the Council of Ministers.

**Article 85:**

The Council of Ministers shall establish internal bylaws to organize the work therein.

**Article 86:**

A law shall regulate the formation of ministries, their functions, and their specializations, and the authorities of the minister.



## **Chapter Three**

### **[The Judicial Power]**

**Article 87:**

The judicial power is independent. The courts, in their various types and levels, shall assume this power and issue decisions in accordance with the law.

**Article 88:**

Judges are independent, and there is no authority over them except that of the law. No power shall have the right to interfere in the judiciary and the affairs of justice.

**Article 89:**

The federal judicial power is comprised of the Higher Juridical Council, the Federal Supreme Court, the Federal Court of Cassation, the Public Prosecution Department, the Judiciary Oversight Commission, and other federal courts that are regulated in accordance with the law.

#### **First: Higher Juridical Council**

**Article 90:**

The Higher Juridical Council shall oversee the affairs of the judicial committees. The law shall specify the method of its establishment, its authorities, and the rules of its operation.

**Article 91:**

The Higher Juridical Council shall exercise the following authorities:

**First:** To manage the affairs of the judiciary and supervise the federal judiciary.

**Second:** To nominate the Chief Justice and members of the Federal Court of Cassation, the Chief Public Prosecutor, and the Chief Justice of the Judiciary Oversight Commission, and to present those nominations to the Council of Representatives to approve their appointment.

**Third:** To propose the draft of the annual budget of the federal judicial authority, and to present it to the Council of Representatives for approval.

#### **Second: Federal Supreme Court**

**Article 92:**

**First:** The Federal Supreme Court is an independent judicial body, financially and administratively.

**Second:** The Federal Supreme Court shall be made up of a number of judges, experts in Islamic jurisprudence, and legal scholars, whose number, the method of their selection, and the work of the Court shall be determined by a law enacted by a two-thirds majority of the members of the Council of Representatives.

**Article 93:**

The Federal Supreme Court shall have jurisdiction over the following:

**First:** Overseeing the constitutionality of laws and regulations in effect.

**Second:** Interpreting the provisions of the Constitution.

**Third:** Settling matters that arise from the application of the federal laws, decisions, regulations, instructions, and procedures issued by the federal authority. The law shall guarantee the right of direct appeal to the Court to the Council of Ministers, those concerned individuals, and others.

**Fourth:** Settling disputes that arise between the federal government and the governments of the regions and governorates, municipalities, and local administrations.

**Fifth:** Settling disputes that arise between the governments of the regions and governments of the governorates.

**Sixth:** Settling accusations directed against the President, the Prime Minister and the Ministers, and this shall be regulated by law.

**Seventh:** Ratifying the final results of the general elections for membership in the Council of Representatives.

**Eight:**

A. Settling competency disputes between the federal judiciary and the judicial institutions of the regions and governorates that are not organized in a region.

B. Settling competency disputes between judicial institutions of the regions or governorates that are not organized in a region.

**Article 94:**

Decisions of the Federal Supreme Court are final and binding for all authorities.

### **Third: General Provisions**

**Article 95:**

The establishment of special or extraordinary courts is prohibited.

**Article 96:**

The law shall regulate the establishment of courts, their types, levels, and jurisdiction, and the method of appointing and the terms of service of judges and public prosecutors, their discipline, and their retirement.

**Article 97:**

Judges may not be removed except in cases specified by law. Such law will determine the particular provisions related to them and shall regulate their disciplinary measures.

**Article 98:**

A judge or public prosecutor is prohibited from the following:

**First:** Combining a judicial position with legislative and executive positions and any other employment.

**Second:** Joining any party or political organization or performing any political activity.

**Article 99:**

A law shall regulate the military judiciary and shall specify the jurisdiction of military courts, which are limited to crimes of a military nature committed by members of the armed forces and security forces, and within the limits established by law.

**Article 100:**

It is prohibited to stipulate in the law the immunity from appeal for any administrative action or decision.

**Article 101:**

A State Council may be established, specialized in functions of the administrative judiciary, issuing opinions, drafting, and representing the State and various public commissions before the courts except those exempted by law.

## **Chapter Four** **[Independent Commissions]**

**Article 102:**

The High Commission for Human Rights, the Independent Electoral Commission, and the Commission on Public Integrity are considered independent commissions subject to monitoring by the Council of Representatives, and their functions shall be regulated by law.

**Article 103:**

**First:** The Central Bank of Iraq, the Board of Supreme Audit, the Communication and Media Commission, and the Endowment Commissions are financially and administratively independent institutions, and the work of each of these institutions shall be regulated by law.

**Second:** The Central Bank of Iraq is responsible before the Council of Representatives. The Board of Supreme Audit and the Communication and Media Commission shall be attached to the Council of Representatives.

**Third:** The Endowment Commissions shall be attached to the Council of Ministers.

**Article 104:**

A commission named The Martyrs' Foundation shall be established and attached to the Council of Ministers, and its functions and competencies shall be regulated by law.

**Article 105:**

A public commission shall be established to guarantee the rights of the regions and governorates that are not organized in a region to ensure their fair participation in managing the various state federal institutions, missions, fellowships, delegations, and regional and international conferences. The commission shall be comprised of representatives of the federal government and representatives of the regions and governorates that are not organized in a region, and shall be regulated by a law.

**Article 106:**

A public commission shall be established by a law to audit and appropriate federal revenues. The commission shall be comprised of experts from the federal government, the regions, the governorates, and its representatives, and shall assume the following responsibilities:

**First:** To verify the fair distribution of grants, aid, and international loans pursuant to the entitlement of the regions and governorates that are not organized in a region.

**Second:** To verify the ideal use and division of the federal financial resources.

**Third:** To guarantee transparency and justice in appropriating funds to the governments of the regions and governorates that are not organized in a region in accordance with the established percentages.

**Article 107:**

A council named the Federal Public Service Council shall be established and shall regulate the affairs of the federal public service, including appointments and promotions, and its formation and competencies shall be regulated by law.

**Article 108:**

Other independent commissions may be established by law, according to need and necessity.

## **Section Four**

### **Powers of the Federal Government**

**Article 109:**

The federal authorities shall preserve the unity, integrity, independence, and sovereignty of Iraq and its federal democratic system.

**Article 110:**

The federal government shall have exclusive authorities in the following matters:

**First:** Formulating foreign policy and diplomatic representation; negotiating, signing, and ratifying international treaties and agreements; negotiating, signing, and ratifying debt policies and formulating foreign sovereign economic and trade policy.

**Second:** Formulating and executing national security policy, including establishing and managing armed forces to secure the protection and guarantee the security of Iraq's borders and to defend Iraq.

**Third:** Formulating fiscal and customs policy; issuing currency; regulating commercial policy across regional and governorate boundaries in Iraq; drawing up the national budget of the State; formulating monetary policy; and establishing and administering a central bank.

**Fourth:** Regulating standards, weights, and measures.

**Fifth:** Regulating issues of citizenship, naturalization, residency, and the right to apply for political asylum.

**Sixth:** Regulating the policies of broadcast frequencies and mail.

**Seventh:** Drawing up the general and investment budget bill.

**Eighth:** Planning policies relating to water sources from outside Iraq and guaranteeing the rate of water flow to Iraq and its just distribution inside Iraq in accordance with international laws and conventions.

**Ninth:** General population statistics and census.

**Article 111:**

Oil and gas are owned by all the people of Iraq in all the regions and governorates.

**Article 112:**

**First:** The federal government, with the producing governorates and regional governments, shall undertake the management of oil and gas extracted from present fields, provided that it distributes its revenues in a fair manner in proportion to the population distribution in all parts of the country, specifying an allotment for a specified period for the damaged regions which were unjustly deprived of them by the former regime, and the regions that were damaged afterwards in a way that ensures balanced development in different areas of the country, and this shall be regulated by a law.

**Second:** The federal government, with the producing regional and governorate governments, shall together formulate the necessary strategic policies to develop the oil and gas wealth in a way that achieves the highest benefit to the Iraqi people using the most advanced techniques of the market principles and encouraging investment.

**Article 113:**

Antiquities, archeological sites, cultural buildings, manuscripts, and coins shall be considered national treasures under the jurisdiction of the federal authorities, and shall be managed in cooperation with the regions and governorates, and this shall be regulated by law.

**Article 114:**

The following competencies shall be shared between the federal authorities and regional authorities:

**First:** To manage customs, in coordination with the governments of the regions and governorates that are not organized in a region, and this shall be regulated by a law.

**Second:** To regulate the main sources of electric energy and its distribution.

**Third:** To formulate environmental policy to ensure the protection of the environment from pollution and to preserve its cleanliness, in cooperation with the regions and governorates that are not organized in a region.

**Fourth:** To formulate development and general planning policies.

**Fifth:** To formulate public health policy, in cooperation with the regions and governorates that are not organized in a region.

**Sixth:** To formulate the public educational and instructional policy, in consultation with the regions and governorates that are not organized in a region.

**Seventh:** To formulate and regulate the internal water resources policy in a way that guarantees their just distribution, and this shall be regulated by a law.

**Article 115:**

All powers not stipulated in the exclusive powers of the federal government belong to the authorities of the regions and governorates that are not organized in a region. With regard to other powers shared between the federal government and the regional government, priority shall be given to the law of the regions and governorates not organized in a region in case of dispute.

**Section Five**  
**Powers of the Regions**  
**Chapter One**  
**[Regions]**

**Article 116:**

The federal system in the Republic of Iraq is made up of a decentralized capital, regions, and governorates, as well as local administrations.

**Article 117:**

**First:** This Constitution, upon coming into force, shall recognize the region of Kurdistan, along with its existing authorities, as a federal region.

**Second:** This Constitution shall affirm new regions established in accordance with its provisions.

**Article 118:**

The Council of Representatives shall enact, in a period not to exceed six months from the date of its first session, a law that defines the executive procedures to form regions, by a simple majority of the members present.

**Article 119:**

One or more governorates shall have the right to organize into a region based on a request to be voted on in a referendum submitted in one of the following two methods:

**First:** A request by one-third of the council members of each governorate intending to form a region.

**Second:** A request by one-tenth of the voters in each of the governorates intending to form a region.

**Article 120:**

Each region shall adopt a constitution of its own that defines the structure of powers of the region, its authorities, and the mechanisms for exercising such authorities, provided that it does not contradict this Constitution.

**Article 121:**

**First:** The regional powers shall have the right to exercise executive, legislative, and judicial powers in accordance with this Constitution, except for those authorities stipulated in the exclusive authorities of the federal government.

**Second:** In case of a contradiction between regional and national legislation in respect to a matter outside the exclusive authorities of the federal government, the regional power shall have the right to amend the application of the national legislation within that region.

**Third:** Regions and governorates shall be allocated an equitable share of the national revenues sufficient to discharge their responsibilities and duties, but having regard to their resources, needs, and the percentage of their population.

**Fourth:** Offices for the regions and governorates shall be established in embassies and diplomatic missions, in order to follow cultural, social, and developmental affairs.

**Fifth:** The regional government shall be responsible for all the administrative requirements of the region, particularly the establishment and organization of the internal security forces for the region such as police, security forces, and guards of the region.

## **Chapter Two**

### **[Governorates that are not incorporated in a region]**

#### **Article 122:**

**First:** The governorates shall be made up of a number of districts, sub-districts, and villages.

**Second:** Governorates that are not incorporated in a region shall be granted broad administrative and financial authorities to enable them to manage their affairs in accordance with the principle of decentralized administration, and this shall be regulated by law.

**Third:** The governor, who is elected by the Governorate Council, is deemed the highest executive official in the governorate to practice his powers authorized by the Council.

**Fourth:** A law shall regulate the election of the Governorate Council, the governor, and their powers.

**Fifth:** The Governorate Council shall not be subject to the control or supervision of any ministry or any institution not linked to a ministry. The Governorate Council shall have independent finances.

#### **Article 123:**

Powers exercised by the federal government can be delegated to the governorates or vice versa, with the consent of both governments, and this shall be regulated by law.

## **Chapter Three**

### **[The Capital]**

#### **Article 124:**

**First:** Baghdad in its municipal borders is the capital of the Republic of Iraq and shall constitute, in its administrative borders, the governorate of Baghdad.

**Second:** This shall be regulated by a law.

**Third:** The capital may not merge with a region.

## **Chapter Four**

### **[The Local Administrations]**

#### **Article 125:**

This Constitution shall guarantee the administrative, political, cultural, and educational rights of the various nationalities, such as Turkomen, Chaldeans, Assyrians, and all other constituents, and this shall be regulated by law.



**Section Six**  
**Final and Transitional Provisions**  
**Chapter One**  
**[Final Provisions]**

**Article 126:**

**First:** The President of the Republic and the Council of the Ministers collectively, or one-fifth of the Council of Representatives members, may propose to amend the Constitution.

**Second:** The fundamental principles mentioned in Section One and the rights and liberties mentioned in Section Two of the Constitution may not be amended except after two successive electoral terms, with the approval of two-thirds of the members of the Council of Representatives, the approval of the people in a general referendum, and the ratification by the President of the Republic within seven days.

**Third:** Other articles not stipulated in clause “Second” of this Article may not be amended, except with the approval of two-thirds of the members of the Council of Representatives, the approval of the people in a general referendum, and the ratification by the President of the Republic within seven days.

**Fourth:** Articles of the Constitution may not be amended if such amendment takes away from the powers of the regions that are not within the exclusive powers of the federal authorities, except by the approval of the legislative authority of the concerned region and the approval of the majority of its citizens in a general referendum.

**Fifth:**

A- An amendment is considered ratified by the President of the Republic after the expiration of the period stipulated in clauses “Second” and “Third” of this Article, in case he does not ratify it.

B- An amendment shall enter into force on the date of its publication in the Official Gazette.

**Article 127:**

The President of the Republic, the Prime Minister, members of the Council of Ministers, the Speaker of the Council of Representatives, his two Deputies, members of the Council of Representatives, members of the Judicial Authority, and people of special grades may not use their influence to buy or rent any state properties, to rent or sell any of their assets to the state, to sue the state for these assets, or to conclude a contract with the state under the pretense of being building contractors, suppliers, or concessionaires.

**Article 128:**

The laws and judicial judgments shall be issued in the name of the people.

**Article 129:**

Laws shall be published in the Official Gazette and shall take effect on the date of their publication, unless stipulated otherwise.

**Article 130:**

Existing laws shall remain in force, unless annulled or amended in accordance with the provisions of this Constitution.

**Article 131:**

Every referendum mentioned in this Constitution is deemed successful with the approval of the majority of the voters unless otherwise stipulated.

**Chapter Two**  
**[Transitional Provisions]**

**Article 132:**

**First:** The State shall guarantee care for the families of the martyrs, political prisoners, and victims of the oppressive practices of the defunct dictatorial regime.

**Second:** The State shall guarantee compensation to the families of the martyrs and the injured as a result of terrorist acts.

**Third:** A law shall regulate matters mentioned in clauses “First” and “Second” of this Article.

**Article 133:**

The Council of Representatives shall adopt in its first session the bylaws of the Transitional National Assembly until it adopts its own bylaws.

**Article 134:**

The Iraqi High Tribunal shall continue its duties as an independent judicial body, in examining the crimes of the defunct dictatorial regime and its symbols. The Council of Representatives shall have the right to dissolve it by law after the completion of its work.

**Article 135:**

**First:** The High Commission for De-Ba’athification shall continue its functions as an independent commission, in coordination with the judicial authority and the executive institutions within the framework of the laws regulating its functions. The Commission shall be attached to the Council of Representatives.

**Second:** The Council of Representatives shall have the right to dissolve this Commission by an absolute majority after the completion of its function.

**Third:** A nominee to the positions of the President of the Republic, the Prime Minister, the members of the Council of Ministers, the Speaker, the members of the Council of Representatives, the President, members of the Federation Council, their counterparts in the regions, or members of the judicial commissions and other positions covered by de-Ba’athification statutes pursuant to the law may not be subject to the provisions of de-Ba’athification.

**Fourth:** The conditions stated in clause “Third” of this Article shall remain in force unless the Commission stated in item “First” of this Article is dissolved.

**Fifth:** Mere membership in the dissolved Ba’ath party shall not be considered a sufficient basis for referral to court, and a member shall enjoy equality before the law and protection unless covered by the provisions of De-Ba’athification and the directives issued according to it.

**Sixth:** The Council of Representatives shall form a parliamentary committee from among its members to monitor and review the executive procedures of the Higher Commission for De-Ba’athification and state institutions to guarantee justice, objectivity, and transparency and

to examine their consistency with the laws. The committee's decisions shall be subject to the approval of the Council of Representatives.

**Article 136:**

**First:** The Property Claims Commission shall continue its functions as an independent commission in coordination with the judicial authority and the executive institutions in accordance with the law. The Property Claims Commission shall be attached to the Council of Representatives.

**Second:** The Council of Representatives shall have the right to dissolve the Commission by a two-thirds majority vote of its members.

**Article 137:**

Application of the provisions of the articles related to the Federation Council, wherever it may be cited in this Constitution, shall be postponed until the Council of Representatives issues a decision by a two-thirds majority vote in its second electoral term that is held after this Constitution comes into force.

**Article 138:**

**First:** The expression "the Presidency Council" shall replace the expression "the President of the Republic" wherever the latter is mentioned in this Constitution. The provisions related to the President of the Republic shall be reactivated one successive term after this Constitution comes into force.

**Second:**

A. The Council of Representatives shall elect the President of the State and two Vice Presidents who shall form a Council called the "Presidency Council," which shall be elected by one list and with a two-thirds majority.

B. The provisions to remove the President of the Republic present in this Constitution shall apply to the President and members of the Presidency Council.

C. The Council of Representatives may remove a member of the Presidency Council with a three-fourths majority of the number of its members for reasons of incompetence and dishonesty.

D. In the event of a vacant seat in the Presidency Council, the Council of Representatives shall elect a replacement by a two-thirds majority vote of its members.

**Third:** Members of the Presidency Council shall be subject to the same conditions as a member of the Council of Representatives and must:

A. Be over forty years of age.

B. Enjoy good reputation, integrity and uprightness.

C. Have quit the dissolved (Ba'ath) Party ten years prior to its fall, in case he was a member of it.

D. Have not participated in suppressing the 1991 and Al-Anfal uprisings. He must not have committed a crime against the Iraqi people.

**Fourth:** The Presidency Council shall issue its decisions unanimously and any member may delegate to one of the two other members to take his place.

**Fifth:**

A- Legislation and decisions enacted by the Council of Representatives shall be forwarded to the Presidency Council for their unanimous approval and for its issuance within ten days from the date of delivery to the Presidency Council, except the stipulations of Articles 118 and 119 that pertain to the formation of regions.

B- In the event the Presidency Council does not approve, legislation and decisions shall be sent back to the Council of Representatives to reexamine the disputed issues and to vote on them by the majority of its members and then shall be sent for the second time to the Presidency Council for approval.

C- In the event the Presidency Council does not approve the legislation and decisions for the second time within ten days of receipt, the legislation and decisions are sent back to the Council of Representatives, which has the right to adopt it by three-fifths majority of its members, which may not be challenged, and the legislation or decision shall be considered ratified.

**Sixth:** The Presidency Council shall exercise the powers of the President of the Republic stipulated in this Constitution.

**Article 139:**

The Prime Minister shall have two deputies in the first electoral term.

**Article 140:**

**First:** The executive authority shall undertake the necessary steps to complete the implementation of the requirements of all subparagraphs of Article 58 of the Transitional Administrative Law.

**Second:** The responsibility placed upon the executive branch of the Iraqi Transitional Government stipulated in Article 58 of the Transitional Administrative Law shall extend and continue to the executive authority elected in accordance with this Constitution, provided that it accomplishes completely (normalization and census and concludes with a referendum in Kirkuk and other disputed territories to determine the will of their citizens), by a date not to exceed the 31st of December 2007.

**Article 141:**

Legislation enacted in the region of Kurdistan since 1992 shall remain in force, and decisions issued by the government of the region of Kurdistan, including court decisions and contracts, shall be considered valid unless they are amended or annulled pursuant to the laws of the region of Kurdistan by the competent entity in the region, provided that they do not contradict with the Constitution.

**Article 142:**

**First:** The Council of Representatives shall form at the beginning of its work a committee from its members representing the principal components of the Iraqi society with the mission of presenting to the Council of Representatives, within a period not to exceed four months, a report that contains recommendations of the necessary amendments that could be made to the Constitution, and the committee shall be dissolved after a decision is made regarding its proposals.

**Second:** The proposed amendments shall be presented to the Council of Representatives all at once for a vote upon them, and shall be deemed approved with the agreement of the absolute majority of the members of the Council.

**Third:** The articles amended by the Council of Representatives pursuant to item “Second” of this Article shall be presented to the people for voting on them in a referendum within a period not exceeding two months from the date of their approval by the Council of Representatives.

**Fourth:** The referendum on the amended Articles shall be successful if approved by the majority of the voters, and if not rejected by two-thirds of the voters in three or more governorates.

**Fifth:** Article 126 of the Constitution (concerning amending the Constitution) shall be suspended, and shall return into force after the amendments stipulated in this Article have been decided upon.

**Article 143:**

The Transitional Administrative Law and its Annex shall be annulled on the seating of the new government, except for the stipulations of Article 53(A) and Article 58 of the Transitional Administrative Law.

**Article 144:**

This Constitution shall come into force after the approval of the people thereon in a general referendum, its publication in the Official Gazette, and the seating of the government that is formed pursuant to this Constitution.

## **Appendix 4.1-2: Iraqi Investment Law No (13) of 2006**

In the name of the people The Presidency Council Pursuant to what was approved by the Council of Representatives and endorsed by the Presidency Council and based on the provisions of paragraph (First) of Article (61) and paragraph (Third) of Article (73) of the Constitution, the following law is promulgated:

No (13) of 2006

The Investment Law

### **Chapter One**

#### **Definitions**

##### **Article 1**

The following terms, wherever mentioned in this Law, shall have the following specific meanings unless the context indicates otherwise:

A. The Council: The Council of Ministers

B. National Commission for Investment: The Commission established in accordance with this law responsible for drawing up the national policy and laying out its guidelines and monitoring the implementation of these guidelines and instructions in investment. It shall specialize in investment projects of a federal nature exclusively.

C. Region's Commission: The investment commission of the region responsible for granting investment licenses in the region.

D. Governorate Commission: The investment commission of the governorate not organized in a region responsible for investment planning and granting investment licenses in the governorate.

E. The Commission: The National Commission for Investment or the Region's Commission or the Governorate Commission as the case.

F. Chairman of the Commission: The Chairman of the National Commission for Investment

G. The Project: The economic activity subject to the provisions of this law.

H. The Assets: The tools, apparatuses, equipments, machineries, requirements, gear, transportation means and office furniture specified for exclusive use in the project, and the

furniture, furnishings and the requirements of the hotels, tourist cities, hospitals, schools and colleges

I. The Foreign Investor: Is the investor who does not hold the Iraqi nationality in the case of a real person, and is registered in a foreign country in the case of a juridical or legal person

J. The Iraqi Investor: Is the investor who holds Iraqi Nationality in case of a real person and is registered in Iraq in the case of a juridical or legal person.

K. Taxes and Fees: All types of taxes and fees levied in accordance with the applicable laws.

L. The designed production capacity: Is the production capacity designed within a specific unit of time (hour, unit, day ... etc) in accordance to what is fixed in the documents incoming with the machines of the supplier.

M. Investment Portfolio: A collection of investments in shares and bonds.

N. Investment: Is the investment of capital in any economic or service activity or project that results in a legitimate benefit for the country.

## **Goals and Means**

### **Article 2**

This law aims at the following:

First: To promote investment and transfer modern technologies in order to contribute to the process of developing and enhancing Iraq, and expanding and diversifying its production and service base.

Second: To encourage the Iraqi and foreign private sector to invest in Iraq by providing the required facilities for establishing investment projects and enhancing its competitive capacities in the local and foreign markets for projects included in this law.

Third: To develop human resources based on market demands and provide work opportunities for the Iraqis.

Fourth: To protect the rights and properties of investors.

Fifth: To expand exports and improve the balance of payments and the balance of trade of Iraq.

### **Article 3**

The following means shall be adopted to realize the objectives of this law:

First: To grant projects covered by the provisions of this law the necessary privileges and guarantees for its continuation and development by providing support in a way that enhances the competitive capacities of these projects in the local and foreign markets.

Second: To grant projects that obtained an investment license from the Commission, additional facilities and exemptions from taxes and fees in accordance with the stipulations of this law.

## **Chapter Two**

### **The National Commission for Investment and the Investment Commissions in the Regions and Governorates**

#### **Article 4**

First: A Commission shall be established and called the "The National Commission for Investment". It shall enjoy a juridical personality and shall be represented by the Chairman of the Commission or the person authorized by him. It shall be responsible for drawing up the national policies for investment and drawing up its plans, regulations and guidelines as well as monitoring the implementation of these guidelines and instructions in investment. It shall specialize in strategic investment projects of a federal nature exclusively.

Second: The National Commission for Investment" shall be managed by a Board of Directors comprised of nine members who must be competent and specialized, and hold a college degree that suits the specialty of the Commission. They must not have been sentenced for a felony or misdemeanor of moral turpitude, or have declared their bankruptcy

Third:

A. Upon a request by the Prime Minister, the Council of Ministers shall nominate a Chairman of the Commission at a grade of Minister and a Deputy Chairman at a grade of Deputy-Minister for a period of five years and present them to the Council of Representative for approval.

B. The Prime Minister shall appoint four members for a period of five years at a grade of Director General.



C. The Prime Minister shall select three members from the private sector for five years after their nomination by Chairman of the Commission and specifying their compensations according to the bylaws.

D. At the conclusion of the membership of any member of the Commission referred to in Paragraph (A and B) of this Article in cases not involving dismissal and resignation, the Prime Minister shall assign them to any governmental entity at the same grade. Those mentioned in (A) of this article shall be retired on pension when not assigned to a government position equivalent to their grade.

E. The Council of Representatives may directly dismiss the Chairman of the National Commission for Investment and his Deputy, or upon a request by the Prime Minister for compelling reasons.

F. The Council of Ministers may dismiss or replace any member of the Commission or replace him with others in case he does not adhere to the standards and regulations of the Commission.

G. The Board of Directors of the National Commission for Investment shall meet at the invitation of its Chairman. A bylaw issued by the Commission shall specify the quorum, decision taking, making recommendations and the course of work of the Commission and any other issue.

H. The National Commission for Investment shall be connected to the Prime Minister.

I. The salary scale and entitlements of the Commission's employees shall be determined by a decision of the Prime Minister based on a proposal from the Chairman of the National Commission for Investment.

Fourth: The Commission's headquarters shall be in Baghdad and it may appoint representatives in the regions and governorates.

Fifth: The National Commission for Investment shall draw up an overall national strategic policy for investment identifying the more important of the sectors and shall prepare a map of investment projects in Iraq in the light of the information it receives from the regions and governorates. It shall also prepare lists of investment opportunities in strategic and federal investment projects with initial information about these projects and making it available to those wishing to invest.

## **Article 5**

First: The regions and governorates not organized in a region may form investment commissions in their areas. The latter shall enjoy the powers of granting the investment licenses, investment planning, promoting investment and opening branches in their areas within the provisions of this law in consultation with National Commission for Investment to guarantee the availability of the legal conditions.

Second: the Investment Commissions of the regions and governorates shall be composed of at least seven members including the chairman and the vice chairman of at least seven years of experience and competence and with a university degree appropriate to the specialization of the commission and not convicted in a felony or a misdemeanor involving turpitude or has declare his bankruptcy.

Third: The regions and governorates not organized in a region shall establish a mechanism of forming the investment commission of the region and the governorate and removing the Commission's members in case he/she does not adhere to the standards and charters of the Commission in a way which is not in conflict with the provisions of this law.

Fourth: The Investment Commissions of the regions and governorate shall coordinate their work with the National Commission for Investment, and shall coordinate and consult with local governments regarding investment plans and facilities.

Fifth: The regions and governorates commissions shall draw up their investment plan in a way that does not contradict with the federal investment policy and shall prepare list of the investment opportunities in the areas that are subject thereto, with initial data about these projects and offer it to those wishing to invest.

Sixth: The region's Commission shall be connected to the Prime Minister of the region and is subject to the scrutiny of the region's Council. The governorate commission shall be connected to the Governor and is subject to the scrutiny of the governorate council in way that does not contradict with the provisions of this law.

Seventh: Regions and Governorates Commissions board of directors shall convene upon an invitation from their chairman. The quorum of convening and adopting resolutions and recommendations shall be determined by absolute majority. The conduct of work shall be organized by by-laws issued by the Commission.

## **Article 6**

In addition to ordinary correspondence, the Commission may adopt electronic mail with the official entities connected with the work and activity of the Commission through local networks or the Internet according to guidelines set by the Commission.

## **Article 7**

A. The Commission shall accept investment license requests for projects whose capital is not less than the minimum amount determined by the Council of Ministers or the Council of Ministers of region as the case, by a regulation issued based on a proposal by the Commission.

B. The Commission must obtain the approval of the Council of Ministers before granting the license if the value of the investment project is more than two hundred and fifty million dollars.

C. The Commission shall make its final decision concerning the requests of investment license within a period not exceeding (45) forty five days from the date of filing a request.

D. The decisions of the Commission regarding the approved investments projects shall be obligatory for the purposes of this law.

## **Article 8**

The Commission shall have an independent annual budget whose revenues shall be made up of its allocated amounts in the State General Budget

## **Article 9**

The Commission shall promote investment by working on the following:

First: Building confidence in the investment environment, identifying investment opportunities, and promoting and stimulating investment in them.

Second: Simplifying the procedures for registration, issuing of investment projects licenses, and following up on existing projects and giving them priority in processing with the official entities. Completing the procedures of answering investor requests and obtaining the required approvals for the investor and the project.

Third: Establishing one window at the National Commission for Investment and the Regions and Governorates Commissions, which includes authorized representatives from the ministries, and members nominated by the Councils of the regions and governorates as the case and the concerned authorities to undertake issuing licenses and obtain the approvals of other authorities in accordance with the law.

Fourth: Providing advice, information, and data to investors and issuing special manuals in this regard.

Fifth: Setting forth and implementing programs to promote investment in different areas of Iraq in order to attract investors.

Sixth: Facilitating the allocation of the needed lands and renting them out for establishing projects for a sum to be determined by the Commission in coordination with the concerned authorities.

Seventh: Establishing secure and free investment areas with the agreement of the Council of Ministers.

Eighth: Encouraging Iraqi investors (residing in Iraq) through providing them with easy loans and financial facilities in coordination with the Ministry of Finance and with the assistance of Banking Institutions, provided that the investor obtaining the loan shall employ a number of unemployed Iraqis proportional with the volume of the loan.

Ninth: Any other tasks related to its work and assigned by the Council of Ministers.

### **Chapter Three Privileges and Guarantees**

#### **Article 10**

The Investor irrespective of his/her nationality shall enjoy all privileges, facilitations and guarantees and shall be subject to the obligations stated in this law. The Iraqi and foreign investor shall have the right for, the purposes of housing projects, the use of the land for a sum to be determined between him and the land owner without land speculation according to conditions set forth by the National Commission for Investment and the approval of the Council of Ministers. The Commission shall facilitate the allocation of the required lands for the housing projects. The housing units shall be allocated for ownership by the Iraqis after the completion of the project.

#### **Article 11**

The investor shall enjoy the following benefits:

First: The investor shall have the right to take out the capital he brought into Iraq and its proceeds in accordance with the provisions of this law and pursuant to the instructions of the Central Bank of Iraq in an exchangeable currency after paying all his taxes and debts to the Iraqi Government and all other authorities.

Second: The foreign investor shall have the right to:

A. Exchange shares and bonds listed in the Iraqi Stock Exchange.

B. Form investment portfolios in shares and bonds. Third: Renting or leasing lands needed for the project for the term of the investment project, provided that it does not exceed 50 years renewable with the agreement of the Commission, and provided that the nature of the project and its benefit for the national economy is taken into consideration when determining the period.

Fourth: Insuring the investment project with any foreign or national insurance company it deems suitable.

Fifth: Opening accounts in Iraqi or foreign currency or both at a bank inside or outside Iraq for the licensed project.

## **Article 12**

This law shall guarantee the following for the investor:

First: Priority in recruitment and employment shall be given to Iraqi workers. The right to employ and use non-Iraqi workers in case it is not possible to employ an Iraqi with the required qualifications and capable of performing the same task in accordance with guidelines issued by the Commission.

Second: Granting the foreign investor and non-Iraqis working in the investment projects the right of residency in Iraq and facilitating his/her entry and exit to and from Iraq.

Third: Non-seizure or nationalization of the investment project covered by the provisions of this law in whole or in part, except for projects on which a final judicial judgment was issued.

Fourth: Non-Iraqi technicians and administration employees working in any project shall have the right to transfer their salaries and compensations outside Iraq in accordance with the law after paying their dues and debts to the Iraqi government and all other entities.

## **Article 13**

Any amendment to this Law shall not have any retroactive affect regarding the guarantees, exemptions, and rights recognized by this Law.

## **Chapter Four**

### **Investor Obligations**

#### **Article 14**

The investor shall observe the following:

First: To notify the National Commission for Investment (inserted in handwriting ), the Region or Governorate Commission in writing immediately after the installation and equipping of the fixed assets for the purposes of the project and the date of the beginning of commercial activity.

Second: To keep proper records audited by a certified accountant in Iraq in accordance with the law.

Third: To provide an economic and technical feasibility study for the project and any information, data or documents required by the Commission or other competent authorities regarding the budget of the project and the progress made in its execution.

Fourth: To keep records of the project's duty-free imported materials in accordance with the provisions of this Law and specifying the depreciation periods of these materials.

Fifth: To protect the safety of the environment and to adhere to the valid quality control systems in Iraq and international regulations accredited in this field, also the laws related to security, health, public order and values of the Iraqi society.

Sixth: To adhere to the valid Iraqi laws regarding salaries, vacations, work hours and conditions and others as a minimum.

Seventh: Commitment to the correspondence of the work progress schedule submitted by the investor with reality provided that the time difference shall not exceed six months, and that the National Commission for Investment shall set forth punitive conditions in case of exceeding the six-month period and that the Commission shall have the right to withdraw the license.

Eighth: To train and rehabilitate its Iraqi employees as well as raising their efficiency, skill and capabilities. Priority in employment and recruitment shall be given to the Iraqis.

## **Chapter Five**

### **Exemptions**

#### **Article 15**

First: The project that has obtained an investment license from the Commission shall enjoy exemption from taxes and fees for a period of (10) ten years as of the date of commencing commercial operations in accordance with the areas of development defined by the Council of Ministers at the suggestion of the National Commission for Investment based on the degree of economic development and the nature of the investment project.

Second: The Council of Ministers shall have the right to propose draft laws to extend or grant exemptions in addition to the exemptions stipulated in paragraph (First) of this Article, or provide incentives, guarantees or other benefits to any project or sector or region and for the years and percentages it deems appropriate in accordance with the nature of the activity, its geographical location and its contribution to manpower employment and its effect on driving the economic development, and for considerations of national interest.

Third: The National Commission for Investment has the right to increase the years of tax and fees exemption in a way directly proportional to the increase in the Iraqi Investor share in the project to reach fifteen years if the Iraqi Investor share in the project was more than 50%.

#### **Article 16**

If the project is moved during the granted period of the exemption from a development area to another, the project shall receive, for the purposes of the exemption mentioned in paragraph (First) of Article (15) during the remaining term, the treatment of the projects in the development areas it is moving to, provided that the Commission is informed of such move.

#### **Article 17**

The project that obtains an investment license shall also enjoy the following:

First: Assets imported for the purposes of the investment project shall be exempted from fees, provided that their entry to Iraq is made within (3) three years from the date of granting the investment license.

Second: The imported assets required for the expansion, development or modernization of the project shall be exempted from fees in case they led to an increase in the designed capacity, provided they are brought in within three years from the date of notifying the Commission of the expansion or development. Expansion, for the purposes of this law, shall mean adding fixed capital assets aimed at increasing the designed capacity of the project in commodities or services or materials by a percentage exceeding (15%) fifteen percent. Development, for the

purposes of this law, shall mean replacing project machines with more developed ones, totally or partially or making a development on the standing devices and equipments of the project by adding new machines and devices or parts thereof with the aim of raising the productive efficiency or improving and developing the quality of the products and services.

Third: Spare parts imported for the purposes of the project shall be exempted from fees if the value of these parts does not exceeded (20%) twenty percent of the fixed assets value, provided that they are not be used for any other purpose.

Fourth: Hotels, tourist institutions, hospitals, health institutions, rehabilitation centers and educational and scientific organizations projects shall be granted additional exemptions from duties and taxes on their imports of furniture, furnishings and requisites for renewing and updating purposes at least once every four years, provided that these items are brought into Iraq or used in the project within (3) three years from the date of the approval decision of the Commission on the import lists and their quantities, and provided that these items are not used for purposes other than the imported purposes.

#### **Article 18**

If it is found that the fixed assets exempted, in whole or in part, from taxes or fees were sold in violation of the provisions of this law or were used in anything other than the project or for purposes other than the authorized purposes, the investor must pay the taxes, fees, and fines incurred pursuant to the law.

### **Chapter Six Procedures for Granting Investment and Project Establishment License**

#### **Article 19**

First: The investor shall obtain the license in addition to obtaining the rest of the licenses for the purpose of enjoying the privileges and exemptions provided by the Commission.

Second: The Commission shall grant the license for investment or project formation based on a request submitted by the investor according to conditions facilitated and prepared by the Commission. The request submitted by the investor shall include the following:

- A. Filling a request form prepared by the Commission
- B. Financial competency from an accredited bank
- C. Projects performed by the investor inside or outside Iraq



D. Details of the project intended to invest in and its economic feasibility.

E. A timetable for completing the project.

#### **Article 20**

First: The Commission must issue the establishing license through establishing one window in the region or the governorate not organized in a region that includes authorized representatives of the ministries and relevant bodies. The Commission shall grant project formation license and obtain approvals from the entities in accordance with the law.

Second: The Commission must help the investor to obtain licenses by approaching the competent authorities and exploring the opinions of the entities concerning the issuance of the formation license. These entities must issue the decision to reject, approve or request amendment within 15 days from the date of being notified. The failure to reply from the entity from which the opinion is solicited shall be deemed as an approval and in case of a rejection there must be cause for it.

Third: In case of disagreement between the National Commission for Investment decision and the other relevant entity regarding the granting of the license other than the Region's Commissions, the dispute shall be brought before the Prime Minister for settlement.

Fourth: In case the request for registration is rejected, the requestor may file a complaint to the Chairman of the region or the governorate Commission concerned within (15) fifteen days after receiving notification of the rejection decision. The Chairman of the Commission concerned shall take a decision concerning the complaint in question within a period of seven days. The petitioner may appeal the decision of the Chairman of the Commission concerned rejecting his complaint to the authority to which the Commission concerned is connected to within 15 days from the date the complaint's rejection and its decision is deemed final.

### **Chapter Seven General Provisions**

#### **Article 21**

The project capital subject to the provisions of this law shall be made up of the following: First: Cash transferred to Iraq through financial banks and companies or any other legal means with the aim of investing it for the purposes of this law.

Second: The in-kind assets and incorporeal rights imported to Iraq or purchased

from the local markets by the cash transferred into Iraq:

A. In-kind assets related to the project.

B. The machinery, tools, equipment, buildings, constructions, transportation means, furniture and offices appliances required for establishing the project.

C. The incorporeal rights that include patents, registered trade marks, technical know-how, engineering services, administrative and marketing services and the similar.

Third: Profits, proceeds and reserves resulting from the capital invested in Iraq in the project if the capital of such a project was increased or was invested in another project covered by the provisions of this law.

#### **Article 22**

The foreign investor shall enjoy additional privileges in accordance with international agreements signed between Iraq and his country or multilateral international agreements which Iraq has joined.

#### **Article 23**

If the project ownership is transferred during the granted period of the exemption, it shall continue to enjoy granted exemption, facilities and guarantees until the end of that period, provided that the new investor continue to work on the project in the same specialization or in another, with the approval of the Commission. The new investor must take the place of the former investor in the rights and obligations consequent to the provisions of this law.

#### **Article 24**

First: The investor, with the approval of the Commission, may sell exempted fixed assets or relinquish it to another investor benefiting from the provisions of this law, provided that he uses them in his project.

Second: The investor, after informing the Commission, may sell the exempted fixed assets to any person or other project not subject to the provisions of this law after paying the outstanding fees and taxes.

Third: The investor, with the approval of the committee, may re-export the exempted fixed assets.

### **Article 25**

In the event two or more companies or enterprises merge, the new company or entity resulting from the merger must set up separate accounts for each project before the merger in order to register and apply exemptions and facilitations stipulated in this law during the remaining period of the exemption.

### **Article 26**

Any project approved in accordance with the provisions of the previous applicable laws shall continue to benefit from all exemptions granted to it pursuant to that law and until the expiration of the exemption period and under the same terms.

### **Article 27**

Disputes arising between parties who are subject to the provisions of this law shall be subject to the Iraqi law unless otherwise agreed, contrary to the cases that are subject to the provisions of the Iraqi law exclusively or the jurisdiction of Iraqi courts.

1 Disputes arising from the work contract shall exclusively be subject to the provisions of the Iraqi law and the jurisdiction of Iraqi courts. Non-Iraqi laborer shall be exempted if the work contract stipulated otherwise.

2 If parties to a dispute are non-Iraqis and in disputes not arising from a crime, the opponents may agree on the law to be applied, the competent court or any other agreement to resolve their dispute.

3 If a dispute between the partners or between the owner of the project and others in a project subject to the provisions of this law resulted in the stoppage of work for a period exceeding three months, the Investment Commission may withdraw the license and ask the owners of the project to settle the dispute within a period not to exceed three months. If such period elapsed without settling the dispute between the partners or between the owner of the project and others, the commission may take legal measures to liquidate the project and notify the owner of the project or one of the partners of such action. The liquidation money shall be deposited in one of the banks after paying the dues of the State or any other dues after final judgment of their entitlement is rendered.

4 If one of the parties to a dispute is subject to the provisions of this law, they may, at the time of signing the agreement, agree on a mechanism to resolve disputes including arbitration pursuant to the Iraqi law or any other internationally recognized entity.

5 Disputes arising between the Commission or any governmental entity and any of those subject to the provisions of this law on matters not related to violations of one of the provisions of this

law shall be subject to Iraqi law and courts on civil matters. As for commercial disputes, parties may resort to arbitration provided that such an arrangement is stipulated in the contract organizing the relationship between parties.

#### **Article 28**

In case the investor violates any of the provisions of this law, the Commission shall have the right to warn the investor in writing to remove the violation within a specific period. In case the investor does not remove the violation within the specified period, the Commission shall summon the investor or who represents him to state his position and grant him other respite to settle the issue. Upon repeating or not removing the violation, the Commission shall have the right to withdraw the investor's license it issued and order stoppage of work on the project and retain the State's right to deny the investor the granted exemptions and privileges from the date of the violation and allow others to retain their rights to demand compensation for the damage caused by this violation, without breaching any punishments or other compensations stipulated in the applicable laws.

#### **Article 29**

All areas of investments shall be subject to the provisions of this law except:

First: Investment in Oil and Gas extraction and production.

Second: Investment in banks and insurance companies sectors.

#### **Article 30**

The Council of Ministers shall have the right to:

First: Issue regulations to facilitate the implementation of the provisions of this law.

Second: Issue bylaws defining the Commission's formations, divisions, tasks, process of its work, its authorities, financial affairs, employee affairs and any others matters.

#### **Article 31**

The Committee may issue instructions to facilitate the implementation of regulations issued by the Council of Ministers pursuant to the provisions of this law.

#### **Article 32**

The Provisions of this law shall be applied to the existing and operating projects of the mixed and private sectors which have commenced before the issuance of this law and upon a request from its management and the approval of the Commission with no retroactive effect.

**Article 33**

No text shall be valid which contradicts the provisions of this law.

**Article 34**

The (dissolved) CPA Order No. 39 of 2003 shall be revoked.

**Article 35**

The Arab Investment Law no (62) of 2002 issued by the dissolved Revolution Command Council shall be annulled.

**Article 36**

This Law shall enter into force from the date of its publication in the Official Gazette.

**Justifying Reasons**

For the purpose of driving the process of economic and social development and bringing technical and scientific experience and developing human resources, and for creating work opportunities for the Iraqis by encouraging investments and supporting the process of establishing investment projects in Iraq and their expansion and development at various economic levels and by granting privileges and exemptions for these projects, this law is legislated.

**The First Amendment of Investment Law Number 13 of 2006**  
**In the name of the people**  
**Presidency Council**  
**Decision No. (2)**

**Based on what the House of Representatives passed, as per the directives of  
Article One of Item (61) and Paragraph (A) of Article Five of Item (138) of  
the constitution,**

**The Presidential Council has decided in its session held on 04 January 2010 to  
pass the following into law:  
No (2) for the year 2010  
First Amendment on Investment Law  
No (13) for the year 2006**

**Item 1 – The text of Articles (One) and (Two) of Item (5) is revoked from law to be replaced with the following:**

**One:**

In the regions and governorates that are not affiliated with a region, Investment Commissions are to be formed, which have corporate personalities, and are represented by their heads or anyone authorized by the head, and are funded from the region or governorate budget, and have the authority to issue Investment Licenses, investment planning, and encouragement, and can open branches in the area where they have jurisdiction in coordination with the National Commission of Investment to ensure that the law is properly enforced.

**Two:**

- A- The commission is headed by an employee with expertise and specialization, who is to be appointed in the post of a general manager for (5) years as suggested by the government that is not affiliated with a region and with the approval of the Presidential Council. The head of the commission is to be the chairman of the board of directors for the commission.
- B- The head of the commission has a deputy to be appointed in the post of an assistant general manager for (5) five years by the region or the governorate not affiliated with a region, and is to be the deputy chairman of the board of directors.
- C- The commission has a board of directors made up of (7) seven members including the head of the commission and his/her deputy.

- D- The region or the governorate not affiliated with a region is to appoint two of its local officials from related agencies, with an administrative level of no less than a manager, as part time members in the board of directors for (3) three years.
- E- The region or the governorate not affiliated with a region is to appoint, based on the suggestion of the head of the commission, three private sector individuals, with expertise and specialization, and with at least a college degree, and who have committed no felony or disgraceful offence, or declared their bankruptcy, as members in the board of directors for (3) three years, with rewards to be determined according to the internal code of the commission.
- F- It is stipulated in the appointment of the chairman of the board and his deputy and the members of a region or a government not affiliated with a region, that it be done in coordination with the National Commission of Investment, and that they not be members in a Governorate Council or be deputies or assistants of the Governor.
- G- The Governor, his deputies, his assistants, and the Governorate Council chairman and members do not have the right to be chairman, deputy chairman, or members of the Investment Commission in the region or the governorate not affiliated with a region.
- H- The appointment and dismissal of the chairman and members of Investment Commission in the Governorate not affiliated with a region is done in coordination with the National Commission of Investment.

**Item 2 – The text of Item (10) is revoked from the law and is replaced by the following:**

One: The Iraqi or foreign investor enjoy the same privileges, facilities, and guarantees, and submit to the obligations stated in this law.

Two:

A- The Iraqi or foreign Investor have the right to own lands and properties which belong to the government, for a revenue to be calculated based on a special system, and have the right to own lands and properties belonging to mixed and private sectors for the exclusive purpose of executing housing projects.

B- A mark to prevent discretion is to be placed on the property deed until the foreign investor completes the execution of his obligations, with a confirmation from the Investment Commission that issued the license.

C- The Iraqi or foreign investor commits to abide by the purpose for which the land or property ownership was given, and not to trade in it.

D- If the Iraqi or foreign investor who was given ownership of a land or property as per this law, failed to fulfill their obligations in the period specified in the agreement made with the Investment Commission who issued the license, then the Real Estate Registration Administration, based on a request from said commission, would revoke the registration and return the land or property to its former owner in return for paying back the sale price.

E- The Iraqi or foreign investor commits to make residential units within a period specified in the agreement, and to sell or lease them to citizens as per the directives issued for that purpose. The Iraqi or foreign investor can handle the rest of the residential project for as long as the license is valid as per the agreement terms made with the investor.

Three:

A- The Iraqi or foreign investor can lease lands and properties from the Government, private, or mixed sectors to establish investment projects on them for a period that does not exceed the period of the license, which does not exceed (50) fifty years that can be renewed after considering the nature of the project and its economic feasibility.

B- The investment commission which issues the license can make an agreement with the Iraqi or foreign investor to return the project to the government, the region, or the governorate not affiliated with a region after the expiry of the license period and with the terms agreed upon in the agreement signed with the investor.

C- The Iraqi or foreign investor can transfer the ownership of the investment project in whole or in part during the period of the license to any other Iraqi or foreign investor, provided that the new investor continues the work of the project in the same specialization or in another specialization after securing the approval of the commission which granted the license. The new investor replaces the old one in terms of rights and obligations stipulated by this law and the terms of the agreement signed with the said investor. In case the Iraqi or foreign investor transfers the ownership of the project during the period in which they have privileges, facilities, and guarantees granted by the agreement, then the new investor continues to enjoy them until the end of that period.

D- The commission which granted the license can make an agreement with the Iraqi or foreign investor to own the investment project as land and building, or just as building, depending on whether the project was a housing one or not respectively and consecutively, after the end of the license period without enjoying the privileges, facilities and guarantees stated in this law.

Four:

A- The procedures of leasing government properties to Iraqi and foreign investors for establishing investment projects as per this law are excluded from the directives of the Sale and Lease of Government Assets Law No. (32) for the year 1986, or any other law replacing it. The basis of calculating the rent is determined by a system made for this purpose.



B- The procedures of selling government properties to Iraqi and foreign investors for establishing housing projects as per this item of the law are excluded from the directives of the Sale and Lease of Government Assets Law No. (32) for the year 1986, or any other law replacing it.

**Item 3 – The text of Paragraph (A) of Article (Two) of Item (11) of the law is revoked, to be replaced by the following:**

A- Dealing in Iraq Stock Exchange with shares and bonds that are dealt in it, and acquiring membership of private stock and mixed companies, even when there are properties within the assets of said companies.

**Item 4 – Article (Four) of Item (20) of the law is revoked, to be replaced by the following:**

Four:

A- When a foundation request is denied, then the applier can request reconsideration from the head of the commission of the Region or governorate not affiliated with a region within (15) fifteen days from the date of notification of the rejection. The head of the addressed commission should make a decision about the request within (7) days from the date the plea was registered in his office.

B- The plea submitter can make an objection at the National Commission of Investment within (15) fifteen days from the date the rejection decision was issued. The Commission has to make a decision about the objection within (15) fifteen days from the date it was registered at the office of the head of the National Commission of Investment.

C- If the National Commission of Investment refused a foundation request submitted to it, then the requester can ask the Commission to reconsider its decision within (15) fifteen days from the date the requester was notified of the refusal decision. The Commission has to make a decision about the reconsideration plea within (7) seven days from the date it was registered at the office of the commission head. The commission's decision can be objected to at the Council of Ministers within (15) fifteen days from the date of its notification.

**Item 5 – A new item is added to Chapter Seven (General Rules) of the original law. It is given the number (30), and the subsequent Items are renumbered accordingly, and as follows:**

The Ministry of Finance, and the Ministry of Municipal and Public Works, Baghdad and other governorate municipal administrations, Commissions and other agencies not related to a ministry are committed to provide lands and properties appropriate for establishing investment projects and notifying the National Commission about their numbers, areas, ownerships, classifications and uses. The National Commission assigns them to Iraqi or foreign investors

according to a system suggested by the National Commission and with the approval of the Council of Ministers.

**Item 6 – A new paragraph is added to the text of Item (32) so that the Item then has two paragraphs (A) and (B). It reads as follows:**

A- The directives of this law apply to mixed and private sector working projects by request from their administrations and the approval of the commission without a backward effect.

B- The public sector projects contracted for rehabilitation or operation with private and mixed sectors can have all the privileges, facilities and guarantees permissible by the law. This also applies to projects that were contracted before this law was passed, provided that the application does not mean exemption from any fees or taxes which were due before this law was passed.

## Appendix 4.1-3: Investment License Application

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<b>Please do not write in the box below. For NIC use only</b>	<b>جمهورية العراق</b> <b>رئاسة مجلس الوزراء</b> <b>الهيئة الوطنية للاستثمار</b>	يرجى عدم الكتابة في هذا المربع. لإستخدام الهيئة الرسمي فقط.
<b>Application No.</b>		رقم الطلب:
<b>Date Received:</b>		تاريخ الاستلام:
<b>Received By (employee name):</b>		تم استلام الطلب من قبل (اسم الموظف):
<b>Republic of Iraq</b> <b>Presidency of the Council of Ministers</b> <b>National Investment Commission</b>		
<b>طلب إجازة استثمار</b> <b>Investment License Application</b>		

تشكلت الهيئة الوطنية للاستثمار بموجب قانون الاستثمار رقم ١٣ لسنة ٢٠٠٦ وهي المسؤولة عن رسم السياسات الوطنية للاستثمار ووضع الضوابط لها ومراقبة تطبيق الضوابط والتعليمات في مجال الاستثمار وتختص بالمشاريع الاستثمارية الإستراتيجية ذات الطابع الإتحادي.

The National Investment Commission (NIC) was established in accordance with Investment Law 13 of 2006 and is responsible for drawing up the national policy and laying out its guidelines and monitoring the implementation of these guidelines and instructions for investment. It shall specialize in investment projects of federal nature.

<b>Welcome Investors!</b>	<b>أهلاً بالمستثمرين!</b>
Dear Investor: Welcome to the National Investment Commission (NIC) for promoting and facilitating investment in Iraq. We are here to assist you in your project which we hope to be a successful one. This application is your first step. Once completed, you will be assigned an application number and the NIC employee who will provide you with additional support and address any questions or concerns you may have.	إلى المستثمر الكريم: أهلاً وسهلاً بك في الهيئة الوطنية للاستثمار من أجل ترويج وتسهيل الاستثمار في العراق. نحن هنا لمساعدتك في تقديم العون الذي نحتاجه في مشروعك والذي نتأمل أن يكون مشروعاً ناجحاً. هذا الطلب هو الخطوة الأولى. نعد أن نقوم باتمامه، سوف يتم تحديد رقم للطلب واسم الموظف من قبل الهيئة الذي سيقوم بتزويدك بالمزيد من المساعدة، والإجابة عن أية أسئلة أو استفسارات قد تكون لديك.
<b>Instructions for Completing This Form</b>	<b>تعليمات تعبئة هذا الطلب</b>
<ol style="list-style-type: none"> <li>This form consists of 9 pages.</li> <li>The purpose of this form is to obtain an Investment License according to Investment Law No. 13 of 2006</li> <li>Complete all sections of this form. Write N/A if the section does not pertain to your business. Do not leave any fields blank.</li> <li>To submit this form, email one copy as an attachment, or deliver in person to the NIC offices in the Green Zone, Freedom Tower, next to Ibn Sina Hospital, Sixth Floor.</li> <li>The National Investment Commission will send you a notice within 48 hours confirming the receipt of your application.</li> <li>This form can be completed in hard copy or electronically by visiting our website <a href="http://www.investpromo.gov.iq">www.investpromo.gov.iq</a></li> <li>This form must be completed in Arabic, and the Investor may add the English language.</li> <li>If the Investor is a Natural Person, he will only complete the section pertaining to the Natural Person, and write N/A in the fields that are not applicable. The same thing for the artificial or legal person.</li> <li>If you have any questions regarding this form, please email: <a href="mailto:info@investpromo.gov.iq">info@investpromo.gov.iq</a> or call: + 964-7901-970-107</li> </ol>	<ol style="list-style-type: none"> <li>يتألف هذا الطلب من ٩ صفحات.</li> <li>الغرض من تعبئة هذا الطلب هو الحصول على إجازة استثمار بموجب قانون الاستثمار رقم ١٣ للعام ٢٠٠٦.</li> <li>يرجى تعبئة البيانات كافة و إذا كان الحقل لا يعنيه، يرجى كتابة "لا ينطبق" ولا تترك أية حقول فارغة.</li> <li>لتقديم هذا النموذج، يرجى إرساله عبر البريد الإلكتروني كملرف، أو تسليمه شخصياً إلى مبنى الهيئة الواقع في المنطقة الخضراء، فريدم تاور، بالقرب من مستشفى ابن سينا، الطابق السادس.</li> <li>ستقوم الهيئة الوطنية للاستثمار بإرسال إشعار باستلام الطلب خلال ٤٨ ساعة من تاريخ الاستلام.</li> <li>يمكن تعبئة هذا الطلب بخط اليد، أو إلكترونياً عبر موقع الهيئة الإلكتروني <a href="http://www.investpromo.gov.iq">www.investpromo.gov.iq</a></li> <li>يجب تعبئة هذا الطلب باللغة العربية، وللمستثمر إضافة اللغة الإنجليزية إذا كان المستثمر شخصاً طبيعياً فعليه فقط تعبئة القسم المخصص للشخص الطبيعي، وكتابة عبارة لا ينطبق على الحقول التي لا تعنيه. كذلك الحال بالنسبة للشخص المعنوي.</li> <li>إذا كان لديك أية أسئلة عن هذه الإستمارة، يرجى إرسال بريد إلكتروني إلى العنوان <a href="mailto:info@investpromo.gov.iq">info@investpromo.gov.iq</a> أو الاتصال بالرقم: + 964-7901-970-107</li> </ol>

<b>Section A: Date this form was submitted to NIC:</b>	<b>القسم A: تاريخ تقديم الطلب إلى الهيئة الوطنية للاستثمار:</b>												
<table border="1"> <thead> <tr> <th>Month</th> <th>Day</th> <th>Year</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	Month	Day	Year				<table border="1"> <thead> <tr> <th>اليوم</th> <th>الشهر</th> <th>السنة</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	اليوم	الشهر	السنة			
Month	Day	Year											
اليوم	الشهر	السنة											
<b>Submission Method:</b>	<b>طريقة تقديم الطلب:</b>												
<input type="checkbox"/> Electronically <input type="checkbox"/> Fax <input type="checkbox"/> Mail <input type="checkbox"/> In Person	<input type="checkbox"/> إلكترونياً <input type="checkbox"/> فاكس <input type="checkbox"/> البريد العادي <input type="checkbox"/> شخصياً												

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[www.investpromo.gov.iq](http://www.investpromo.gov.iq)

Section B: Information About the Investor (Natural Person) – (if the Investor is artificial or legal person, please move directly to section C	القسم B: معلومات عن المستثمر (الشخص الطبيعي) – (إذا كان المستثمر شخصاً معنوياً، انتقل مباشرة إلى C)
B1. Name of Investor:	B1 اسم المستثمر:
B2. Date of Birth:	B2 تاريخ الولادة:
B3. Nationality:	B3 الجنسية:
B4. Work Address:	B4 عنوان العمل:
B5. Office Phone No.	B5 رقم الهاتف (المكتب):
B6. Cell Phone No.	B6 رقم الهاتف (الغالب):
B7. Fax No.	B7 رقم الفاكس:
B8. Email (Please Write Clearly):	B8 العنوان الإلكتروني (يرجى الكتابة بوضوح):
B9: Have you declared legally incompetent? <input type="checkbox"/> Yes <input type="checkbox"/> No	B9 هل صدر بحقك حكماً بإشهار الإفلاس أو الحجر؟ <input type="checkbox"/> نعم <input type="checkbox"/> كلا
B10. Contact Person:	B10 أسم الشخص المعني بتوفير المعلومات والإجابة عن أي استفسارات:
B11. Contact Person's Title:	B11 منصب الشخص المعني الوارد في الحقل السابق:
B12. Office Phone No.	B12 رقم الهاتف (المكتب):
B13. Cell Phone No.	B13 رقم الهاتف (الغالب):
B14. Fax No.	B14 رقم الفاكس:
B15. Email (Please Write Clearly):	B15 البريد الإلكتروني (يرجى الكتابة بوضوح):
B16. Investor's Website: <input type="checkbox"/> This Investor does not currently have a website	B16 الموقع الإلكتروني للمستثمر: <input type="checkbox"/> لا يوجد موقع إلكتروني لهذا المستثمر في الوقت الحاضر
B17. Do you have a workplace in Iraq? (If the answer is yes, please write the address in the next field). <input type="checkbox"/> Yes <input type="checkbox"/> No	B17 هل لديك محل إقامة في العراق؟ (إذا كانت الإجابة بنعم فُيرجى ذكر العنوان) <input type="checkbox"/> نعم <input type="checkbox"/> كلا
B18. Additional Notes:	B18 ملاحظات إضافية:

Section C: Information About the Investor (Artificial or Legal Person)	القسم C: معلومات عن المستثمر (الشخص المعنوي)
C1. Name of Company or Investment Entity:	C1. اسم الشركة أو الجهة المستثمرة:
C2. Nationality of Company or Investment Entity:	C2. جنسية الشركة أو الجهة المستثمرة:
C3. Date and Place of establishing the Company or Investment Entity:	C3. محل وتاريخ تأسيس الشركة أو الجهة المستثمرة:
C4. Type of Company or Investment Entity: <input type="checkbox"/> Company <input type="checkbox"/> Joint Venture <input type="checkbox"/> Organization <input type="checkbox"/> Other Entity	C4. نوع الشركة أو الجهة المستثمرة: <input type="checkbox"/> شركة <input type="checkbox"/> مشروع مشترك <input type="checkbox"/> منظمة <input type="checkbox"/> صفة أخرى
C5. Sector for the Company or Investment Entity: <input type="checkbox"/> Private <input type="checkbox"/> Mixed <input type="checkbox"/> Public	C5. القطاع الذي تنتمي إليه الشركة أو الجهة المستثمرة: <input type="checkbox"/> خاص <input type="checkbox"/> مختلط <input type="checkbox"/> عام
C6. Contact Person:	C6. اسم الشخص المعني بتوفير المعلومات والإجابة عن أي استفسارات:
C7. Contact Person's Title:	C7. منصب الشخص المعني الوارد اسمه في الحقل السابق:
C8. Office Phone No.	C8. رقم هاتف الشخص المعني (المكتب):
C9. Cell Phone No.	C9. رقم هاتف الشخص المعني (النقال):
C10. Fax No.	C10. رقم الفاكس للشخص المعني:
C11. Email (Please Write Clearly):	C11. البريد الإلكتروني للشخص المعني (يرجى الكتابة بوضوح):
C12. The Company or Investment Entity's Website: <input type="checkbox"/> This Company or Investment Entity does not currently have a website	C12. الموقع الإلكتروني للشركة أو الجهة المستثمرة: <input type="checkbox"/> لا يوجد موقع إلكتروني لهذه الشركة أو الجهة المستثمرة في الوقت الحاضر
C13. This Company or Investment Entity is: <input type="checkbox"/> Iraqi Owned <input type="checkbox"/> Foreign Owned C13-1. If foreign owned, list the address for the Company or Investment Entity's headquarter:	C13. جنسية الشركة أو الجهة المستثمرة هي: <input type="checkbox"/> عراقية <input type="checkbox"/> أجنبية C13-1. إذا كانت الشركة أو الجهة المستثمرة أجنبية، أكتب عنوان مركز الإدارة الرئيسي لها:
C14. What is the primary activity of the Company or Investment Entity?	C14. ما هو النشاط الأساسي للشركة أو الجهة المستثمرة؟
C15. How many employees are currently working in the company or Investment Entity?	C15. كم عدد العاملين في الشركة أو الجهة المستثمرة؟
C16. Has this company or Investment Entity ever filed for bankruptcy or currently undergoing litigation? If yes, please explain: <input type="checkbox"/> Yes <input type="checkbox"/> No	C16. هل تم الإعلان عن إفلاس الشركة أو الجهة المستثمرة؟ <input type="checkbox"/> نعم <input type="checkbox"/> كلا

<p><b>Section C: Information About the Investor (Artificial or Legal Person) – (Continue)</b></p> <p><b>C17. Has this Company or Investment Entity applied for an Investment License before?</b></p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If yes, please answer the following questions:</p> <p><b>C17-1. What was the name of the company or Investment Entity whose name was on the application?</b></p> <p>_____</p> <p><b>C17-2. Date of previous application (MM / DD/ YYYY)</b></p> <p>_____</p> <p><b>C17-3. Application No.</b> _____</p> <p><input type="checkbox"/> Don't know the No.</p> <p><b>C17-4. My application was:</b> <input type="checkbox"/> Approved <input type="checkbox"/> Rejected</p> <p>If rejected, please indicate the reason for rejection:</p> <p>_____</p>	<p><b>القسم C: معلومات عن المستثمر (الشخص المعنوي) – تابع</b></p> <p><b>C17. هل سبق وأن تقدمت هذه الشركة أو الجهة المستثمرة بطلب للحصول على إجازة استثمار؟</b></p> <p><input type="checkbox"/> نعم <input type="checkbox"/> كلا</p> <p>إذا كانت الإجابة بنعم، يرجى الإجابة على الأسئلة التالية:</p> <p><b>C17-1. ما هو اسم الشركة أو الجهة المستثمرة التي مُنحت لها إجازة الاستثمار؟</b></p> <p>_____</p> <p><b>C17-2. تاريخ الطلب السابق (اليوم / الشهر / السنة)</b></p> <p>_____</p> <p><b>C17-3. رقم الطلب السابق:</b> _____</p> <p><input type="checkbox"/> لا أعرف رقم الطلب</p> <p><b>C17-4. الطلب الذي قدمته:</b> <input type="checkbox"/> تمت الموافقة عليه <input type="checkbox"/> تم رفضه</p> <p>إذا تم رفض الطلب، يرجى ذكر السبب:</p> <p>_____</p>
<p><b>C18. The Company or Investment Entity's primary market is:</b></p> <p><input type="checkbox"/> Local (Country and City): _____</p> <p><input type="checkbox"/> Regional (Country and Region): _____</p> <p><input type="checkbox"/> National (Country Only): _____</p> <p><input type="checkbox"/> International: (list countries): _____</p> <p>_____</p>	<p><b>C18. الأسواق الرئيسية لهذه الشركة أو الجهة المستثمرة هي:</b></p> <p><input type="checkbox"/> أسواق محلية (أذكر الدولة والمدينة): _____</p> <p><input type="checkbox"/> أسواق إقليمية (أذكر الدولة والإقليم): _____</p> <p><input type="checkbox"/> أسواق في كافة أنحاء الدولة: (أذكر الدولة): _____</p> <p><input type="checkbox"/> أسواق دولية (أذكر الدول): _____</p> <p>_____</p>
<p><b>C19. Has the Company or Investment Entity's top management changed or is it expected to change in the next 18 months? If yes, please explain:</b></p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p><b>C19. هل تغيرت الإدارة العليا للشركة أو الجهة المستثمرة خلال الثمانية عشر شهراً الماضية؟ وهل تتوقع أن تتغير في الثمانية عشر شهراً المقبلة؟ إذا كان الجواب بنعم، يرجى التوضيح:</b></p> <p><input type="checkbox"/> نعم <input type="checkbox"/> كلا</p>
<p><b>C20. How would you rate the products / services of the Company or Investment Entity in comparison to that of your competitors?</b></p> <p>_____</p>	<p><b>C20. ما هو تقييمك للسلع أو الخدمات التي تقدمها الشركة أو الجهة المستثمرة بالمقارنة مع المستثمرين الآخرين في المجال نفسه؟</b></p> <p>_____</p>

Section D: Information about the Project	القسم D: معلومات عن المشروع
<p><b>D1. Investment Activity: (Please check)</b></p> <p><input type="checkbox"/> Agriculture</p> <p><input type="checkbox"/> Manufacturing</p> <p><input type="checkbox"/> Transportation</p> <p><input type="checkbox"/> Communication</p> <p><input type="checkbox"/> Electricity</p> <p><input type="checkbox"/> Information Technology</p> <p><input type="checkbox"/> Tourism</p> <p><input type="checkbox"/> Construction</p> <p><input type="checkbox"/> Housing</p> <p><input type="checkbox"/> Services</p> <p><input type="checkbox"/> Other Investments (Please list):</p>	<p><b>D1. نوع النشاط الاستثماري (يرجى وضع علامة في المربع المناسب)</b></p> <p><input type="checkbox"/> زراعي</p> <p><input type="checkbox"/> صناعي</p> <p><input type="checkbox"/> نقل</p> <p><input type="checkbox"/> اتصالات</p> <p><input type="checkbox"/> كهرباء</p> <p><input type="checkbox"/> تكنولوجيا المعلومات</p> <p><input type="checkbox"/> سياحي</p> <p><input type="checkbox"/> تشييد وبني تحتية</p> <p><input type="checkbox"/> إسكان</p> <p><input type="checkbox"/> أنشطة استثمارية أخرى (يرجى ذكرها)</p>
<p><b>D2. Project Products (if any):</b></p>	<p><b>D2. السلع أو الخدمات الأساسية التي سيقدمها المشروع:</b></p>
<p><b>D3. Location of the Project (if known):</b></p>	<p><b>D3. موقع المشروع (إذا كان معروفاً)</b></p>
<p><b>D4. Brief Description of the Project:</b></p>	<p><b>D4. وصف موجز للمشروع:</b></p>
<p><b>D5. Estimated number of job opportunities:</b></p>	<p><b>D5. ما هي النسبة المتوقعة لتتسخيل الأيدي العاملة العراقية في المشروع:</b></p>
<p><b>D6. Time period required for completion of the project:</b></p>	<p><b>D6. المدة اللازمة لإنجاز المشروع:</b></p>
<p><b>D7. Type of assets, machinery and other inputs, etc, to be imported into Iraq or purchased locally for the project.</b></p>	<p><b>D7. نوع الموجودات والمكانن والمدخلات الأخرى، الخ. التي سيتم استيرادها إلى العراق أو شراؤها محلياً لأغراض المشروع.</b></p>

Section D: Information about the Project (Cont.)	القسم D: معلومات عن المشروع (تابع)
<p><b>D8: Financing</b></p> <p>D8-1. Total Investment Capital: _____ USD</p> <p>D8-2. Fixed Capital: _____ USD</p> <p>D8-3. Working Capital: _____ USD</p> <p>D8-4. Capital Sources:</p> <ul style="list-style-type: none"> <li>Contribution of Iraqi investors: _____ % <ul style="list-style-type: none"> <li>Cash: _____ USD</li> <li>Other Assets: _____ USD</li> </ul> </li> <li>Contribution of Foreign Investors: _____ % <ul style="list-style-type: none"> <li>Foreign Currency: _____ ( )</li> <li>Equipment, Machinery, Materials: _____ USD</li> </ul> </li> <li>Other sources of capital (Please list):</li> </ul> <p>• Loan: _____ USD</p> <p>Sources of loan (please check)</p> <p><input type="checkbox"/> From foreign financial institutions</p> <p><input type="checkbox"/> From Iraqi financial institutions</p> <p>(Entities that obtain loans should clearly indicate the terms and conditions of the loan, and guarantees, and the repayment terms of the loan)</p>	<p><b>D8. التمويل</b></p> <p>D8-1. رأس المال المُستثمر: _____ دولار أمريكي</p> <p>D8-2. رأس المال الثابت: _____ دولار أمريكي</p> <p>D8-3. رأس المال العامل: _____ دولار أمريكي</p> <p>D8-4. مصادر رأس المال:</p> <ul style="list-style-type: none"> <li>مساهمة المستثمرين العراقيين: _____ % <ul style="list-style-type: none"> <li>النقد: _____ دولار أمريكي</li> <li>موجودات أخرى: _____ دولار أمريكي</li> </ul> </li> <li>مساهمة المستثمرين الأجانب: _____ % <ul style="list-style-type: none"> <li>عملة أجنبية: _____ ( )</li> <li>معدات ومكانن ومواد: _____ دولار أمريكي</li> </ul> </li> <li>مصادر أخرى لرأس المال (يرجى ذكرها):</li> </ul> <p>• مبلغ القرض _____ دولار أمريكي</p> <p>مصدر القرض (يرجى وضع علامة في المربع المناسب)</p> <p><input type="checkbox"/> من مؤسسات مالية أجنبية</p> <p><input type="checkbox"/> من مؤسسات مالية عراقية</p> <p>(يجب على الجهات الحاصلة على القرض أن تذكر بوضوح شروط القرض والضمانات المقدمة. أو يمكنك تزويد الهيئة بهذه المعلومات عند حصولك على القرض)</p>
<p><b>D9. Will there be transfer of technology?</b></p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If the answer is yes, please provide:</p> <ul style="list-style-type: none"> <li>A brief description of the technology that will be transferred:</li> <li>Benefits of the technology that will be transferred:</li> </ul>	<p><b>D9. هل هناك نقل للتكنولوجيا؟</b></p> <p><input type="checkbox"/> نعم <input type="checkbox"/> كلا</p> <p>إذا كان الجواب نعم، يرجى بيان الآتي:</p> <ul style="list-style-type: none"> <li>شرح موجز عن التكنولوجيا التي سيتم نقلها:</li> <li>فوائد التكنولوجيا الجديدة:</li> </ul>



Section E: Supporting Documents	القسم E: الوثائق المرافقة للطلب
<p>Your application will not be considered unless accompanied by the following documents. Be sure that each document has the same name as in the list below on the cover page and all of its pages. Please check the box next to each item to indicate that you have submitted the required documents.</p> <p><input type="checkbox"/> Exhibit A: This form (NIC-1)</p> <p><input type="checkbox"/> Exhibit B: Executive Summary</p> <p><input type="checkbox"/> Exhibit C: Project Feasibility Study</p> <p><input type="checkbox"/> Exhibit D: Proof of Financial Means</p> <p><input type="checkbox"/> Exhibit E: Past Performance</p> <p><input type="checkbox"/> Exhibit F: Project Timeline</p> <p><input type="checkbox"/> Exhibit G: A legal document showing the relationship between the applicant and the investor</p> <p><input type="checkbox"/> Exhibit H: Copy of official positive Identification Card or Passport for the Investor (the Natural Person)</p> <p><input type="checkbox"/> Exhibit I: Copy of official positive Identification Card or Passport for the applicant</p> <p><input type="checkbox"/> Exhibit J: Articles of Incorporation or Certificate of Incorporation for the company and Certificate of Incorporation for the Company's office or branch in Iraq.</p>	<p>لن يتم قبول هذا الطلب إلا إذا تم إرفاق الوثائق التالية وتأكد من أن كل وثيقة تحمل التسمية نفسها كما في القائمة أدناه على صفحاتها الأولى وجميع الصفحات الأخرى، راجين وضع إشارة في المربع الخاص بالوثيقة التي قدستها.</p> <p><input type="checkbox"/> الوثيقة A: هذا النموذج (NIC-1)</p> <p><input type="checkbox"/> الوثيقة B: الملخص التنفيذي</p> <p><input type="checkbox"/> الوثيقة C: دراسة الجدوى الاقتصادية</p> <p><input type="checkbox"/> الوثيقة D: وثيقة بالكفاءة المالية من مصرف معتمد</p> <p><input type="checkbox"/> الوثيقة E: وثائق عن المشاريع التي نفذها المستثمر (أربعة كحد أقصى)</p> <p><input type="checkbox"/> الوثيقة F: الجدول الزمني لإنجاز المشروع</p> <p><input type="checkbox"/> الوثيقة G: السند القانوني لعلاقة مقدم الطلب بالمستثمر</p> <p><input type="checkbox"/> الوثيقة H: نسخة من البطاقة الشخصية أو جواز السفر للمستثمر (الشخص الطبيعي)</p> <p><input type="checkbox"/> الوثيقة I: نسخة من البطاقة الشخصية أو جواز السفر لمقدم الطلب</p> <p><input type="checkbox"/> الوثيقة J: عقد تأسيس الشركة وشهادة تأسيسها أو شهادة تأسيس مكتب الشركة أو الجهة المستثمرة أو فرعها في العراق</p>
Section E: Supporting Documents	القسم F: مقدم الطلب
F1. Name of Applicant:	F1. اسم مقدم الطلب:
F2. Relationship to the Company:	F2. صلته بالشركة / الجهة المستثمرة:
F3. Nationality:	F3. الجنسية:
F4. Office Phone No.	F4. رقم الهاتف (المكتب):
F5. Cell Phone No.	F5. رقم الهاتف (النقال):
F6. Fax No.	F6. رقم الفاكس:
F7. Email (Please Write Clearly):	F7. البريد الإلكتروني (يرجى الكتابة بوضوح):
F7. Home Address:	F8. عنوان الإقامة:
F8. Work Address:	F9. عنوان العمل:
Section G: Signature	القسم G: التوقيع
<p>I hereby certify that the above information is true and accurate to the best of my knowledge.</p> <p>Signature: _____</p> <p>Title: _____</p> <p>Date Signed: _____</p>	<p>أؤيد صحة المعلومات الواردة في هذه الإستمارة حسب أفضل اعتقادي وبخلافه أتحمّل التبعات القانونية ولأجله وقعت.</p> <p>التوقيع: _____</p> <p>الصفة: _____</p> <p>تاريخ التوقيع: _____</p>

Do Not Write Below This Line. For NIC Use Only  
الرجاء عدم الكتابة في هذا القسم المخصص للاستخدام الرسمي من قبل الهيئة الوطنية للاستثمار فقط.

يرجى وضع العلامة في المربع المناسب عندما يتم إتمام كل مهمة من المهمات المدرجة أثناء التوقيع.  
Check the box next to each item when the task is completed and enter your initials and date.

		التوقيع Signature		
<input type="checkbox"/>	1. Date application received: _____		تاريخ استلام الطلب:	<input type="checkbox"/>
<input type="checkbox"/>	2. Name of person receiving the application:		اسم الموظف الذي استلم الطلب:	<input type="checkbox"/>
<input type="checkbox"/>	3. Assigned To (NIC Staff):		اسم الموظف الذي سيصبح مسؤولاً عن هذا الطلب:	<input type="checkbox"/>
<input type="checkbox"/>	4. Are all the supporting documents included with the application? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, list the missing documents (use the list in section E)		هل تم إرفاق الوثائق المساندة للطلب؟ <input type="checkbox"/> نعم <input type="checkbox"/> كلا إذا كان الجواب بـ "كلا"، فما هي الوثائق الناقصة (استخدم القائمة في القسم E)	<input type="checkbox"/>
<input type="checkbox"/>	5. Receipt Notification Sent on: Sent by: _____ Sent Via: <input type="checkbox"/> Electronically <input type="checkbox"/> Fax <input type="checkbox"/> Mail <input type="checkbox"/> In Person		تم إرسال إشعار باستلام الطلب بتاريخ: اسم الموظف الذي أرسل الإشعار: تم إرساله عن طريق: <input type="checkbox"/> إلكترونيًا <input type="checkbox"/> فاكس <input type="checkbox"/> البريد العادي <input type="checkbox"/> شخصياً	<input type="checkbox"/>
<input type="checkbox"/>	6. Date entered into NIC database: Entered by: _____		تاريخ إدخال المعلومات في قاعدة بيانات الهيئة: اسم الموظف الذي قام بإدخالها:	<input type="checkbox"/>
<input type="checkbox"/>	7. Position of Legal Department: <input type="checkbox"/> Approved <input type="checkbox"/> Not Approved Comments:		موقف الدائرة القانونية: <input type="checkbox"/> مقبول <input type="checkbox"/> مرفوض (اذكر السبب) الملاحظات:	<input type="checkbox"/>
<input type="checkbox"/>	8. Position of the relevant entity: <input type="checkbox"/> Approved <input type="checkbox"/> Not Approved Comments:		موقف الجهة ذات العلاقة: <input type="checkbox"/> مقبول <input type="checkbox"/> مرفوض (اذكر السبب) الملاحظات:	<input type="checkbox"/>

**Do Not Write Below This Line. For NIC Use Only**  
الرجاء عدم الكتابة تحت هذا الخطر. هذا القسم مخصص للاستخدام الرسمي فقط من قبل الهيئة الوطنية للاستثمار

يرجى وضع العلامة في المربع المناسب عندما يتم إتمام كل مهمة من المهمات المدرجة أثناء التوقيع.  
Check the box next to each item when the task is completed and enter your initials and date.

		التوقيع Signature			
<input type="checkbox"/>	9.	<b>Position of NIC Chairman:</b> <input type="checkbox"/> Approved <input type="checkbox"/> Not Approved <b>Comments:</b>	موافق رئيس الهيئة: <input type="checkbox"/> مقبول <input type="checkbox"/> مرفوض (اذكر السبب) الملاحظات:	9.	<input type="checkbox"/>
<input type="checkbox"/>	10.	<input type="checkbox"/> License Issued on: _____ <input type="checkbox"/> Rejection Letter Sent on: _____ <input type="checkbox"/> A letter was sent requesting more information on (date): _____ <input type="checkbox"/> Further Action: _____	<input type="checkbox"/> تم إصدار اجازة الاستثمار بتاريخ: _____ <input type="checkbox"/> تم إرسال رسالة رفض بتاريخ: _____ <input type="checkbox"/> تم إرسال رسالة للحصول على المزيد المعلومات: _____ <input type="checkbox"/> إجراء آخر: _____	10.	<input type="checkbox"/>
<input type="checkbox"/>	11.	<b>Application reviewed and filed on:</b> <b>(Date):</b> _____ <b>Filed by (staff):</b> _____	تم مراجعة المعلومات كافة وحفظ هذا الطلب بتاريخ: _____ اسم الموظف الذي حفظ الطلب: _____	11.	<input type="checkbox"/>

**Additional Notes:**

ملاحظات إضافية:

## Appendix 4.1-4: Environmental Standards under Iraqi Law

### Environmental Standards under Iraqi Law

There are standards to be applied for those relating to environmental, emission, exhaust, waste, handling and other activities in design, construction, operation, maintenance and administration.

Air quality standards applicable under Iraqi law are those as mentioned at the following table.

Waste water standards as physical, chemical and biological limits are applicable under Iraqi law as mentioned at the following table.

**Table: Air Quality Standards applicable under Iraqi Law**

Pollutant	Maximum Limit	Time of Exposure
SO <sub>2</sub>	0.1 ppm	1 hour
	0.04 ppm	24 hour
	0.018 ppm	annual
CO	10 ppm	8 hour
	35 ppm	1 hour
NO <sub>2</sub>	0.05 ppm	24 hour
	0.04 ppm	annual
O <sub>3</sub>	0.06 ppm	1 hour
Total Suspended Particulates	350 µg/m <sup>3</sup>	24 hour
	150 µg/m <sup>3</sup>	1 hour
Falling Dust	10 t/km <sup>2</sup> /month Residential zone 20 t/km <sup>2</sup> /month Industrial zone	30 days
Hydrocarbons	0.24 ppm	3 hour
Pb	2 µg/m <sup>3</sup>	24 hour
	1.5 µg/m <sup>3</sup>	3 months
	1 µg/m <sup>3</sup>	1 year
Benzene	0.003 mg/m <sup>3</sup>	1 year
Dioxin	0.6 g/m <sup>3</sup>	1 year

(Source: MIM)

**Table: Waste Water Standards applicable under Iraqi Law**

Item	Materials	Concentration	
		Case B1	Case B2
1.	color	-	
2.	temperature	Less than 35 C degree	Less than 45C degree
3.	Suspended solids	60	750
4.	Hydrogen ion concentration	9.6 – 5	9.6 – 5

5.	Dissolved oxygen	-	-
6.	B.O.D.5	Less than 40	1000
7.	CO.D.CR 2.7	Less than 100	-
8.	Cyanide	0.05	0.5
9.	Fluorine	5.0	10
10.	Free chlorine	Trace	100
11.	Chlorides	<p><b>A.</b> If the ratio of the amount of water discharged to the amount of source water 1:1000 or less the allowed increase of concentration in the source by 1% of natural concentration in the source prior to discharge.</p> <p><b>B.</b> If the ratio of the amount of water discharged to the amount of source water more than 1:1000 must not increases the concentration of chlorides in the water discharged than 600 mg / l.</p> <p><b>C.</b> If the concentration of chlorides in source water less than 200 mg / l, then each case must be studied basis by the party responsible for implementing the system.</p>	
12.	Phenol	0.01 – 0.05	5 - 10
13.	Sulfate	<p><b>A.</b> If the ratio of the amount of water discharged to the amount of source water 1:1000 or less the allowed concentration and amounts lead to increase the source concentration by 1% of natural concentration in the source prior to discharge.</p> <p><b>B.</b> If the ratio of the amount of water discharged to the amount of source water more than 1:1000 then the concentration of sulfate in the discharge must not increases 400mg/l.</p> <p><b>C.</b> If the concentration of sulfate in source water less than 200 mg / l then each case must be studied basis by the party responsible for implementing the system.</p>	
14.	Nitrate	50	-
15.	Phosphate	3.0	-
16.	Ammonium	-	-
17.	The DDT Pesticide	0.0	-
18.	Lead	0.1	0.1
19.	Arsenic	0.05	0.05
20.	Copper	0.2	-
21.	Nickel	0.2	0.1
22.	Selenium	0.05	-
23.	Mercury	0.005	0.001

24.	Cadmium	0.01	0.1
25.	Zinc	2.0	0.1
26.	Chrome	0.1	0.1
27.	Aluminum	5.0	20
28.	Barium	4.0	0.1
29.	Boron	1.0	1.0
30.	Cobalt	0.5	0.5
31.	Ferrite	2.0	15
32.	Manganese	0.5	-
33.	Silver	0.05	0.1
34.	Total hydrocarbons and their derivatives	<p>Allows the discharge of hydrocarbons to the group of water resources A-1 or -2 according to the concentrations and parameters set forth in the tables below that measured concentrations before mixing with water source, and shall not discharge any hydrocarbons materials into water sources A-3 or -4.</p> <p><b>First:</b> 10 mg / l and in accordance with the following parameters:</p> <p><b>A.</b> No less than the amount of water discharged to the amount of water source 1:1000 or less.</p> <p><b>B.</b> The river must be continues flow state.</p> <p><b>Second:</b> 5 mg / l and in accordance with the following parameters:</p> <p><b>A.</b> The amount of water discharged to the amount of source water should not less than 1:500 or less.</p> <p><b>B.</b> The river must be continues flow state.</p> <p><b>Third:</b> 3 mg / l and in accordance with the following parameters:</p> <p><b>A.</b> The amount of water discharged to the amount of source water should not less than 1:300 or less.</p> <p><b>B.</b> The river must be continues flow state.</p>	
35.	Sulfate	-	3.0
36.	Ammonia	-	10
37.	Ammonia gas	-	6.0
38.	Sulfur dioxide	-	7.0
39.	Alcohol-oil	-	Not allowed
40.	Calcium Carbide	-	Not allowed
41.	Organic solvents	-	Not allowed
42.	Benzene	-	0.5
43.	Chlorobenzene	-	0.1
44.	TNT	-	0.5
45.	Bromine	-	1-3

(Notes)

Case B1 and case B2 means:

B1 - water wasted and discharged to the water source.

B2 - water wasted and discharged into public sewage.

Water source types mentioned means:

A1 - rivers and their tributaries and branches.

A2 - streams, canals, channels and subsidiaries original and secondary.

A3 - lakes, ponds and other water parks.

A4 - springs, wells and groundwater.

Concentrations listed are calculated in (mg / l) except as mentioned towards them.

Source: Ministry of Industry and Minerals

## **Appendix 4.1-5: Kurdistan Regional Investment Law**

### **Kurdistan Regional Investment Law No. 4 of 2004**

**In the Name of God, Most Gracious, Most Merciful  
In the Name of the People  
President's Office - Kurdistan Region - Iraq**

Pursuant to legislation by the Kurdistan National Assembly -Iraq, and by virtue of Article 10 of Law no. (1) of 2005, the President of Kurdistan Region -Iraq hereby issues the following Law:

#### **Law no. (4) of 2006**

#### **Law of Investment in Kurdistan Region - Iraq**

##### **Chapter I**

##### **General Provisions**

##### **Section I**

##### **Definitions**

##### **Article (1):**

The following words and phrases shall have the meanings explained hereunder:

- 1 Region: Kurdistan Region - Iraq
- 2 Government: Government of the Region
- 3 Council: Supreme Council for Investment
- 4 President: President of the Supreme Council for Investment
- 5 Board: Investment Board in the Region
- 6 Chairman of the Board: Chairman of the Investment Board
- 7 Project: Any economic activity or investment project set up by a natural or artificial person on an allocated plot of land, and with a national or foreign capital to which the provisions of this Law and relevant regulations and directives apply.
- 8 Taxes and Duties: These include all types of taxes and duties set under the applicable legislation.
- 9 Investor: Natural or artificial person, whether a local or a foreigner, who invests his funds in the Region in accordance with the provisions of this Law.
- 10 Competent Authorities: These include all government authorities responsible for the industry which the Project is related to.
- 11 Invested Funds: Value of the funds invested in the Project and estimated in national or foreign currency.



12 Foreign Capital: Amount of investments, whether in cash, in kind or in rights and interests, which have a cash value in the Region.

## **Section II**

### **Areas of Investment**

#### **Article (2):**

The provisions of this Law shall apply to the Projects approved by the Board in one of the following sectors:

- 1 Manufacturing industries, electric power and related services
- 2 Agriculture, whether crop growing farms or animal farms, forestry and related services
- 3 Hotels, tourist and recreational projects, funfairs, and amusement parks
- 4 Health and environment
- 5 Science and technology research, and information technology
- 6 Modern communication and transport
- 7 Banks, insurance companies, and other financial institutions
- 8 Infrastructure projects, including construction, reconstruction and housing projects, roads and bridges, railways, airports, irrigation and dams
- 9 Free zones, modern commercial markets, and relevant advisory services
- 10 Education at all levels, within the framework of the educational policy of the Region
- 11 Any project in any other industry which the Council agrees that it is covered by the provisions of this Law.

### **Section III**

#### **Treatment of Foreign Investors**

**Article (3):**

Foreign Investors and Foreign Capitals shall be treated the same way as national Investors and national Capitals. A foreign Investor shall be entitled to own all the capital of any project that he sets up in the Region under this Law.

### **Section IV**

#### **Allocation of Plots of Land**

**Article (4):**

1 The Board shall liaise with the ministries and departments involved in determining the locations of investment Projects which will be set up in every governorate under this Law, and shall put a note of caution on the titles that such locations are used for the purposes of the Board.

2 The departments concerned shall coordinate with the Board to specify and allocate the plots of land needed by the Project within the initial layout inside and outside the cities, either by lease or by land usufruct, at a promotional price, and in accordance with regulations to be set by the Board as an exemption from the "Law of Sale and Lease of Properties of the State", which is applicable in the Region.

3 Upon receiving a proposal by the Board, the Council may transfer the ownership of plots of land that are allocated to strategic Projects, at a promotional price or free of charge, provided that the nature and importance of the Project and the public interest will be taken into consideration when transferring the ownership as an exemption from the Law of Sale and Lease of Properties of the State, which is applicable in the Region.

3 A note of caution shall be entered at the relevant Departments of Land Registry regarding the plots of land allocated to investment Projects. Such notes of caution shall be lifted only under the Board's written consent, after complete fulfillment of the Investor's obligations.

4 To ensure achievement of its purposes, the Board may possess, free of charge, freehold titles over plots of land that are already property of the State and have a burden of disposal rights, after charging off such rights by paying fair and appropriate compensation in accordance with the applicable laws, regulations and directives.

5 An Investor may buy or lease plots of land and real properties needed to set up, expand, develop and diversify the Project in accordance with the provisions of this Law, within the surface area and time scale estimated according to the Project's objects and actual needs, without prejudice to the provisions of Paragraph (3) of this Article.

6 Plots of land needed for investment Projects under this Law shall be partitioned into surface areas estimated as per the Project's objects and actual needs, in accordance with special controls and regulations set by the Board in exemption from applicable laws and regulations.

7 Alteration of the Project's location shall be governed by the same standards and regulations as those of specifying the Project's location for the first time.

8 Competent Authorities shall liaise with the Board to provide public services such as water supply, electric power, sewage pipes, public roads and communications etc. within the Project's precinct. For this purpose, the necessary funds shall be allocated in the Budget.

9 In addition to the entitlement of a foreign Investor for the possession and lease of real properties and productive vehicles under this Law, he shall be entitled to buy or lease residential properties and non-productive vehicles needed for his Project, after obtaining the Board's approval, and in compliance with controls and regulations set by the Board for this purpose.

## **Chapter II**

### **Exemptions and Obligations**

#### **Section I**

#### **Tax and Customs Exemptions**

##### **Article (5):**

1 A Project shall be exempt from all non-custom taxes and duties for 10 years starting from the date of providing services by the Project, or the date of actual production.

2 Equipment and machinery that are imported for the Project shall be exempt from taxes, duties and the condition to obtain an Import License, provided that they cross the Region's borders within two years from the approval of their lists by the Chairman of the Board, and that they are used exclusively for the purposes of the Project, failing which the exemptions will not apply to them and the Investor will be compelled to pay tax and will be penalised with a fine which is twice as much as the amount of tax due.

3 Spare parts that are imported for the Project shall be exempt from taxes and duties, provided that their value does not exceed 15% of the price of equipment and machinery, and with the prior approval of their lists and quantities by the Chairman of the Board.

4 Equipment, machines and tools needed to expand, develop or upgrade/modernise the Project shall be exempt from taxes and duties.

5 Raw materials imported for production shall be exempt from customs duties for 5 years, provided that the types and quantities of such materials are specified by the Board, with the priority given to using the locally available raw materials which are suitable in quality and quantity for the investment Project.

6 An Investor may, under the provisions of this Law, import all his Project's needs, including the equipment and machinery. Such imports shall be exempt from all customs duties as they cross the Region's borders, provided that they are used exclusively for the Project's purposes.

## **Section II Additional Exemptions**

### **Article (6):**

1. In accordance with the public interest of the Region, the Board may give additional facilities and incentives to investment Projects licensed under this Law to which either of the following features applies, and in compliance with controls and regulations set by the Board for this purpose:

(i) Projects set up in under-developed areas in the Region.

(ii) Joint Ventures set up by national and foreign Investors.

2. Depending on the nature of Service Projects which are set up under the provisions of this Law, and in particular Projects of hotels, hospitals, tourist resorts, universities and schools, the Board may offer additional exemptions from charges and duties on their purchases of furniture and supplies for upgrading and modernization once every 3 years, provided that these should enter into the Region and be used solely for the Project within one year from the date of approval of the purchase lists and quantities by the Chairman of the Board.

## **Section III Legal Guarantees**

### **Article (7):**

1 An Investor may obtain insurance cover for his investment Project from any foreign or national insurance company that he sees fit, such that all aspects of operations that he carries out will be insured.

2 An Investor may employ local and foreign staff needed for the Project, with the priority given to recruiting local manpower in accordance with the laws and regulations applicable in the Region.

3 A foreign Investor shall be entitled to transfer the profits and interests of his capital abroad, in accordance with the provisions of this Law.

4 The Project's non-Iraqi members of staff, and their agents outside the Region, shall be entitled to transfer their dues and wages abroad in accordance with the applicable laws.

5 A foreign Investor shall be entitled to send his capital back abroad upon winding up or disposal of the Project, without prejudice to applicable laws and regulations regarding taxes and customs.

6 An Investor may transfer his investment totally or partly to another foreign Investor or to a national Investor, or may assign the Project to his partner with the approval of the Board. The new Investor then replaces the previous Investor with regard to rights and obligations arising from the Project.

7 An Investor may, for his Project which is licensed under this Law, open bank accounts in national currency, in foreign currency, or in both, with banks located inside or outside the Region.

8 Without prejudice to applicable laws regarding the boards of directors of joint-stock companies, the Projects registered under this Law shall be deemed as private sector Projects, regardless of the legal form and nature of their shareholding funds.

9 An Investor may under this Law maintain confidentiality of technical and economic know-how of the Project, and may uphold the investment initiatives in accordance with the provisions of laws, regulations and directives applicable in the Region. Any person will be punished by law if he discloses any information in his possession by virtue of his post, or information related with the investment initiative and with technical, economic or financial aspects of the Project.

## **Section IV**

### **Investor's Obligations**

#### **Article (8):**

An Investor shall comply with the following:

- 1 To specify the area of his investment regarding the Projects implemented by him, and to reveal his financial statements/balance sheets and the contracts that he implemented.
- 2 To inform the Board about the completion of the Project, and when it starts in providing services or in actual production.
- 3 To provide the facilities needed by the Board's personnel enabling them to collect and acquire the necessary information about various aspects of the Project, for the purposes of the Board.
- 4 To keep special records of the Project's imported materials which are exempt from customs duties under the provisions of this Law.
- 5 To safeguard the environment, maintain public health and safety, and comply with standardization and quality control systems, in accordance with international standards.
- 6 To offer training and qualification to the Project's local members of staff.

## **Section V**

### **Legal Procedures upon Investor's Contravention**

#### **Article (9):**

- 1 Upon the Investor's contravention of the provisions of this Law, or contravention of any clause in the contract between the Investor and the Competent Authorities, the Board shall send a notice to the contravener requesting immediate halt of the activity causing the contravention and giving him an appropriate period of time, determined by the Board and commensurate with the nature of the contravention, to remove the contravention and its effects.
- 2 If the Investor carries on without removing the contravention and its effects as per the provisions of paragraph (1) above, the plot of land shall be recovered from him, and the Board shall take possession of the installations (if any) built on it by the Investor in due demolish value in accordance with the law. The new Investor, to whom the plot of land will be allocated to complete the Project under this Law, will be responsible for paying the demolish value, and the contravener shall be responsible for any damage arising from his failure in carrying out his obligations.

3 If the Investor grants, without the Board's approval, a full or partial sublease of the plot of land allocated for his Project, or if the Investor, without the Board's approval, exploits the plot of land for purposes other than those for which it was allocated, the Board shall recover from him the plot of land or the part thereof subleased or exploited for the improper purposes, and the Investor shall pay twice the amount for the period of the land sublease or its exploitation for improper purposes. This amount shall be collected in accordance with the Law of Government Debt Collection applicable in the Region. In the event of recovery of the whole plot of land, the contravening Investor will be treated in accordance with the provisions of paragraph (2) above with regard to the installations built on it at the time of recovery.

### **Chapter III Investment Hierarchy**

#### **Section I Investment Board, its Structure and Tasks**

**Article (10):**

1 A board shall be set up under the name of "Investment Board of Kurdistan Region". It shall have a corporate status and enjoy financial and administrative independence. It can take all the legal procedures necessary for the purposes of carrying out the provisions of this Law.

2 The Board shall have a Chairman who has the rank of a Minister. He shall enjoy the rights and powers of a Minister. He shall be responsible for running the Board's operations and supervising and controlling its activities and everything related to the Board's tasks and affairs. The following departments shall be associated with him:

- (i) Department of Research and Information
- (ii) Department of Promotion, Assessment and Licensing of Projects
- (iii) Department of Legal Administrative and Financial Affairs
- (iv) Department of Industrial Cities and Zones

1 The Board shall be located in Erbil, the Capital of the Region. It may open branches in the governorates of Kurdistan Region such that each branch will be run by an employee who has the rank of a Director General.

2 The Board may set up, merge or cancel Divisions and Sub-divisions whenever necessary.

3 The structure of the Board's Departments and Branches, and their tasks and powers, shall be specified in a bylaw set by the Board and endorsed by the Council.

4 The Board shall set up the suitable environment for investments so as to achieve economic development of the Region. The Board shall lay down the investment strategies, plans and policies and shall present them to the Council for approval. Moreover the Board shall coordinate activities of its Branches in the Region's governorates.

**Article (11):**

The Board's Chairman and any of its Directors General should satisfy the following:

- 1 He should have at least a university degree related to his post.
- 2 He should have at least a 7-year experience of work in his field of specialism.

**Article (12):**

For the purposes of this Law, the resolutions passed by the Council regarding the investment Projects shall be binding to all relevant Ministries, Agencies and Departments in the Region.

**Article (13):**

The Chairman of the Board may make contracts with natural or artificial persons, inside or outside the Region, to perform the tasks and duties assigned to them in order to fulfill the purposes of the Board. Their rights and obligations shall be specified by the Chairman of the Board.

## **Section II**

### **Supreme Council for Investment**

**Article (14):**

1 The Supreme Council for Investment in the Region shall consist of a President who is the Region's Prime Minister, a Vice President who is the Region's Deputy Prime Minister, and the other Council's members who are the Minister for Finance and the Economy, Minister for Trade, Minister for Municipalities, Minister for Planning, Minister for Agriculture, Minister for Industry and the Chairman of the Investment Board.

2.

- (i) The President of the Council may call any other Minister to join in the meetings of the Council regarding any Project which is related to his Ministry.
- (ii) The President of the Council may call representatives of the private sector involved in the Project.
- (iii) The Council shall set its own bylaw specifying how it holds its meetings and how it passes its resolutions.

3. The Council shall exercise the following powers:



- (i) Setting up the investment policies and strategies proposed by the Board within the framework of the general policy of the Region.
- (ii) Approval of the Board's plans and programs of activity within the framework of the general plan for the Region.
- (iii) Discussion of the regular reports submitted by the Chairman of the Board regarding the Board's progress and matters related to the investment circumstances in the Region, and taking the necessary measures on that regard.
- (iv) Discussion of the Board's financial position (Balance Sheet), and approval of its annual draft budget.
- (v) Approval of the contract of loans and credit facilities given to the Board with the guarantee of the Government, or from banks or special finance institutions in accordance with the set rules and regulations, provided that their purposes are solely to finance the Board's activities within its scope of work.
- (vi) Setting up a system of monitoring, following up and assessing the performance of foreign investments, in order to identify and overcome any obstacles or hurdles.
- (vii) Approval of the bylaw of the Board.

### **Section III**

#### **Budget of the Board**

#### **Article (15):**

The Board shall have a budget included in the general budget of the Government of the Region.

### **Chapter IV**

#### **Licensing and Arbitration**

#### **Section I**

##### **Procedures of Project Licensing**

#### **Article (16):**

1 In order to benefit from the exemptions and privileges mentioned in this Law, an Investor should obtain a Licence issued by the Board for setting up the Project.

2 The Board shall give the Licence for setting up the Project pursuant to an application submitted by the Investor in accordance with the conditions set by the Board. The Board will have to decide on the application within 30 days from the date of fulfillment of the technical, legal and economic conditions and requirements, in accordance with the provisions of this Law, and without prejudice to the standards and controls set by the Board.

3 The Board shall consult Competent Authorities on the advantages of issuing the Licence, and such authorities will have to give their viewpoint for the acceptance, rejection or amendment request, within thirty days from the date of the Board's referral of the application to them. Failure to reply shall be considered as an acceptance, and in the event of rejection, the decision will have to be justified.

4 When an application is rejected, the applicant may raise an objection to the President of the Council within 15 days from the date of notification of the rejection decision. The President of the Council will have to decide on the objection within 30 days, and his decision on this matter shall be conclusive.

## **Section II Arbitration**

### **Article (17):**

Investment disputes shall be settled in accordance with the contract concluded between both parties, and if there is no clause in the contract on this regard, the disputes shall be settled amicably between both parties. If they fail to reach an amicable settlement, they may refer the matter to arbitration whose regulations are stated in the laws applicable in the Region, or in accordance with the rules of dispute settlement mentioned in any of the mutual or international conventions of which Iraq is a member.

## **Section III Final Provisions**

### **Article (18):**

1 The Prime Minister's Decree (Suleimaniah Administration) no. 89 of 2004 regarding the promotion of investment in Kurdistan Region is hereby nullified. The Investment Promotion Board and its structure under Article 16 of the aforementioned Decree shall be dissolved, and its rights, obligations, and all its movable and immovable properties shall revert to the Investment Board formed under the provisions of this Law.

2 All investment Projects licensed by the Investment Promotion Board formed under the nullified Decree mentioned in paragraph (1) above, and the investment projects licensed by the Erbil Administration in accordance with applicable laws, shall be considered as legal investment Projects, and shall continue to enjoy the advantages and incentives granted to them.

3 All other Projects that are being studied and assessed, and on which no final decision has been made by the dissolved Board, shall be referred as investment Projects to the Investment Board formed under the provisions of this Law, and the Competent Authorities within the Board shall carry on with the procedures taken by the dissolved Board.

**Article (19):**

An Investor shall not be allowed to own plots of land that contain oil, gas, or any expensive or heavy mineral resources.

**Article (20):**

An Investor who implements joint-stock investment Projects shall offer the necessary security to protect the funds of the shareholders. The Board shall take the insurance and banking measures necessary to guarantee their rights.

**Article (21):**

The Board's accounts shall be subject to auditing by the Board of Supreme Audit.

**Article (22):**

The cases for which there are no provisions in this Law shall be governed by the general rules mentioned in other relevant laws, provided that their provisions do not contradict the provisions of this law. If there is any contradiction, the provisions of this Law shall apply.

**Article (23):**

The President of the Council shall issue the necessary instructions to facilitate the implementation of this Law.

**Article (24):**

The Council of Ministers and the Competent Authorities shall implement the provisions of this Law.

**Article (25):**

This Law shall take effect as of the date of its issuance, and it will be published in the official gazette "Kurdistan Gazette."

(Signed) Masoud Barzani President of Kurdistan Region - Iraq

Issued in Erbil, July 2006

Necessitating Reasons This Law has been issued in order to create a climate for promoting investment in the Iraqi Kurdistan Region, to remove any legal obstacles, to allow the investment of national and foreign capitals jointly or separately in investment projects in a manner that contributes effectively to the economic development process, to offer promotional incentives, facilities and tax exemptions to invested capitals, and to establish an investment Board involved in organising various aspects of investment activities in the Region.

## Appendix 4.1-6: Investment Factsheet Kurdistan Region – Iraq

### Investment Factsheet Kurdistan Region – Iraq

General	
Status	Kurdistan is Federal Region of Iraq.
Governorates and Capital	Erbil (Capital), Slemani, Duhok
Population	5.2m (2010)
Area	40,643sqkm
Languages	Kurdish, Arabic, Turkmani, et al.
Religions	Muslims, Christians, Yazidi, et al.
Ethnic groups	Kurds, Arabs, Assyrians, Chaldeans, Turkmen, Armenians et al.
Currency/Exchange Rate	Iraqi Dinar (IQD), per USD:1,200 (average)
Time zone	GMT +3
Climate (average low-high)	Summer (39-48°C), Winter (02-13°C)

Political	
President	Masoud Barzani
Prime Minister	Nechirvan Edris Barzani
Kurdistan Regional Government (KRG)	Coalition Government formed of Kurdistan Democratic Party (KDP), Patriotic Union of Kurdistan (PUK), and other parties <a href="http://www.krg.org">www.krg.org</a>
Parliament Speaker	Dr. Arslan Bayez

Economic	
GDP	USD 23.6 bn (2011 est.)
GDP per capita	USD 4,452 (2011 est.)
GDP composition by sector	Services (30.1%), Public services (20.6%), Agriculture (17.5%), Trade & Transport (13.5%), Mining & Manufacturing (9.4%), Construction (7.6%), Banks & Insurance (1.3%)
Public budget	USD 12.5 bn (IQD 12,604 tr) (2012)
Trade partners (selection)	Turkey, Iran, China, UAE, Syria, Lebanon, Jordan, USA, EU countries
FDI countries (selection)	Turkey, UAE, Lebanon, Egypt, USA, UK and other EU countries
Labor force	1.2m (2012)
Unemployment rate	6% (2012)ix
Population under 14 years	38.17% (2008)
Net population growth rate	3% (2011-2012)

## Useful Information

Consulates and Foreign Representations	United States, United Kingdom, France, Germany, Russia, Turkey, Japan, South Korea and 19 others
Heritage	Erbil is home to an ancient citadel as the oldest continuously inhabited settlement in the world (tentative list for UNESCO world heritage)
International airports	Erbil (EBL), Slemani/Sulaymaniyah (ISU)
International universities (selection)	American University of Iraq in Sulaymaniyah, Lebanese French University, Ishik University, Sabis University
International schools (selection)	German School, American School, British International School, Cambridge International School, International MLF French School, International School of Choueifat
Visa	For visa advice, please contact your nearest KRG office: <a href="http://dfr.krg.org/">http://dfr.krg.org/</a>

## Security Situation

- No significant incidents have occurred since 2007.
- No foreigner has been kidnapped.
- No coalition soldier has lost his life.



## Investment Conditions based on Investment Law (No 4/2006)

- From 2006 to mid-2012 the overall, investment amounted to USD 22 bn by 79% national investment, 15% FDI and 6% Joint Ventures.
- The investment law covers all economic sectors except oil and gas. Priority sectors are Agriculture, Industry and Tourism.
- Public benefits award to eligible investment projects include:

- 
- Provision of land plots for subsidized lease
  - Provision of public infrastructure to the project fence
  - Exemption from corporate taxes (10 years) and customs duties (5 years)
  - Foreign and national investors are treated equally.
  - Foreign investors may choose to invest in Kurdistan with or without local partners and may employ foreign labor.
  - Full repatriation of profits is allowed.
  - For further information, please visit: [www.lirdostamomvest.emt.org](http://www.lirdostamomvest.emt.org)
- 

Source: Kurdistan Board of Investment

### Appendix 4.3-1: List of Regulated Products

Products	Specification
<b>Toys</b>	Children’s toys, Wax crayons, Water colors, Modeling clay,
<b>Electric and electronic products</b>	Electrical and electronic household appliances, Electrical installation accessories for household purposes (switches, plugs, socket-outlets, adaptor, cord extension, etc...). Batteries (lead-acid Batteries, dry primary batteries). Lamps for household purposes (fluorescent lamps, tungsten lamps, energy saving lamps). Power electric cables (PVC insulated for rated voltage 450/750V; power cables for rated voltage 600/1000 V. Household Luminaries and their components (starter, ballast). Heating elements and thermostat for household electric storage water heaters. Telephone cables. Evaporative air coolers and their electrical components (Motor, water pump)
<b>Vehicles, tyres and parts</b>	Vehicles and spare parts, Safety glasses for vehicles, Tyres and tubes for different cars, trucks, trailers, buses, bicycles, motorcycles.
<b>Construction products</b>	Cement. Galvanized plates. Aluminum alloys –bars, extruded round tubes and sections for general engineering purposes. Carbon steel bars for the reinforcement of concrete. Structural steel. Welded fabric steel for the reinforcement of concrete. Galvanized Carbon steel and ductile iron pipes and their fittings. Clay building bricks. Water taps and valves (Draw-off taps and stop valves for water services and Mixing valves). Plastic pipes, fittings, accessories and joints.
<b>Food products</b>	Dairy and dairy products. Fat and oil. Meats/fish/poultry and their products. Beverage, juice, honey, jams and marmalades. Food additives Canned food product. Dry food products. Water bottled. All other food products (except fresh vegetables and fruits). Cigarettes, cigars, easel
<b>Cosmetics, personal hygiene products and cleaning agents</b>	Cosmetics (all kinds). Toothpaste, tooth powder; shaving cream and foam. Household Detergent powder (High foam, for Automatic machine). Household liquid detergent and cleaning pastes. Toilet soap, baby soap, and liquid soap. Air freshener (all kinds). Baby diapers and elderly diapers. Sanitary napkins. Facial tissues (all kinds including kitchen towels, wet and odorized tissues and toilet tissues). Toothbrushes. Cloth softener. Cleaners for carpet, floor, oven, glass. Cleaning compound for toilet bowels solid and liquid. Sodium hypochlorite solution. Calcium hypochlorite and chlorinated lime. Razor blades and disposable shaving systems. Pipeline cleaning compound – Alkaline.
<b>Household hardware:</b>	Safety matches. Plastic and rubber erasers. Pencils. Wooden color pencils, Pencils sharpener. Hoses.

<b>Kitchenware</b>	Paper plates and cups and paper drinking straw. Disposable plastic cups, plates and containers. Plastic drinking straws. Plastic table utensils and cutlery Aluminum table cutlery. Stainless steel and silver plated table cutlery. Aluminum foils catering containers. Aluminum foil and flexible laminated for wrapping food products and pharmaceutical. Metal containers for food. Metallic cookware, kettles, teapots, and sewing utensils (coated and non-coated). Porcelain tableware. Plastic containers for food material.
<b>Chemicals</b>	Oil paint (all kinds).Automobile paint/putty/polish/clear. Paint thinner Interior Epoxy paint for drink water trucks. Emulsion paint (acrylic and P.V.A), plastic paint
<b>Textile and footwear</b>	Shoes and slippers. Socks. Under wear. Bed sheet (blankets, comforters, sheets). Wicks
<b>Household fuel-burning appliances</b>	LPG cooking appliances and water heaters. Paraffin space heating and cooking appliances and water heaters for domestic use
<b>Others</b>	All kinds of metallic cans and metallic covers

Source: Bureau Veritas





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