IRAQ:
A ROAD MAP FOR RECOVERY

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The Atlantic Council’s Iraq Initiative provides transatlantic and regional policy makers with unique perspectives and analysis on the ongoing challenges and opportunities facing Iraq as the country tries to build an inclusive political system, attract economic investment, and encourage a vibrant civil society.
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The Konrad-Adenauer-Stiftung Foundation and the Atlantic Council, with support from DT Institute, have convened a US-Europe-Iraq Track II Dialogue. This report details the findings of the Track II Dialogue working groups and recommendations to support the government of Iraq on its long road to recovery.

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Work on the US-Europe-Iraq Track II Dialogue began in Berlin in March 2020 and continued in remote venues through December 2020. The dialogue brought together experts from the United States, Europe, and Iraq for a series of workshops to identify policies to help address Iraq’s political, socioeconomic, and security challenges. The attendees included a mix of former and current high-level officials and experts, all of whom are committed to a better future for Iraq.

This latest round of Track II engagements began as Iraq’s Prime Minister Mustafa al-Kadhimi took office in May 2020, and as his new cabinet was coming to grips with the many challenges facing Iraq. These challenges ranged from widespread anti-government protests to the difficult security situation. Conditions in Iraq further worsened due to Iraq’s already-deteriorating economy, which was exacerbated by the social and economic effects of the COVID-19 pandemic. Iraqi health services were not adequately equipped to address the pandemic, making the prime minister’s start more difficult. The combination of these challenges had forced the previous government to resign.

At the March dialogue session, participants identified specific interventions by Iraqi government, non-governmental, and external actors that could improve the delivery of public services, reduce corruption, and improve security in Iraq. These prospective interventions focused on addressing an entrenched civil service, widespread corruption, and destabilizing militia activity, all of which combined to impose critical barriers to Iraq’s recovery. Based on their long-standing expertise, dialogue participants recommended pursuing measures to improve civil-service competence, mobilize youth, decentralize government services, implement e-governance capabilities, and facilitate militia integration in a manner that strengthens and legitimizes state institutions.

The Track II Dialogue’s experts reconvened in August, September, October, and December 2020 to take up ways to design the interventions identified in the previous session. The first meeting centered on identifying and prioritizing measures to address the concerns raised at the March session. The second and third meetings focused on refining recommendations into actionable policies and identifying the actors, acts, and conditions necessary for their implementation. The fourth meeting refined the implementation plan and developed a roadmap that accounts for how the measures and other interventions, in combination, will help take Iraq from its current depressed state to one of relative stability and prosperity.

This report represents the variety of opinions expressed by participants over the course of the five months during which this second round of the dialogue took place. Participants represent different nationalities, backgrounds, experiences, and professional opinions. While they have reached a great deal of agreement on the best path forward for Iraq, individual participants may or may not agree with all of this report’s concepts and recommendations. Moreover, the views of individual participants do not necessarily represent those of the organizations with which they are affiliated.

Iraq is a sovereign state with a democratically elected government whose role is to judge what is in the best interest of Iraq and the Iraqi people. No recommendations made in this report seek to undermine that role or to cede Iraq’s sovereignty to any external power. The authors’ hope is that the recommendations will inform the Iraqi government’s own efforts and facilitate development of their own courses of action. They also acknowledge the concerted efforts the government has made to meet the challenges facing Iraq. These are clearly articulated in the 2020 White Paper. The primary author of this paper, Dr. Ali Allawi, was a participant in the Track II Dialogue before joining the Iraqi government in May 2020.
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The Challenges Facing Iraq in Late 2020

Iraq faces a range of complex and interrelated challenges across the political, socioeconomic, and security sectors. No one problem suggests a singular, digestible solution. Iraqi leaders often find themselves in a vicious circle in which declines in one sector generally undermine improvements in others. For example, a poor security situation equates to less opportunity for economic growth because businesses cannot operate without freedom of movement and sufficient confidence to stimulate investment. Lowered incomes resulting from a lack of business activity and employment decrease family resources. Poverty forces individuals to rely on broader family, clan, and tribal networks for basic needs, including security. Moreover, these conditions place women, as well as ethnic and religious minorities, at a disadvantage. Local self-reliance in the face of hardship reinforces informal bonds, but erodes government legitimacy. Lack of government legitimacy undermines security and business activities. Low oil prices and the pandemic compound all of these problems.

Untangling Iraq’s challenges required an iterative workshop approach, alternating between breakout groups and plenary discussions. The dialogue’s three working groups—political, socioeconomic, and security—identified the most pressing issues within their purviews. Several plenary sessions and writing groups brought these perspectives and proposals together to build the holistic approach represented in this report.

POLITICAL CHALLENGES

Iraq’s political problems are largely structural, which many felt resulted from the 2006 election that solidified the muhassassa (ethno-sectarian political apportionment) system and the sectarian division of power it reinforces. Several participants recognized that while the muhassassa system may have been necessary to gain the participation of Iraq’s various constituencies, it has outlived its purpose. Having said that, others felt that inclusion and representation of Iraq’s ethno-sectarian diversity requires constitutional and other systemic guarantees, and that some kind of apportionment can be maintained without corrupt, partisan exploitation.

Replacing the muhassassa system will be difficult. Government structure reinforces the power of the Parliament—a body saddled with ethno-sectarian division—at the expense of the executive branch. As a result, Iraq’s government is more majoritarian than democratic. Party leaders invested in gaining advantage for their constituencies through the muhassassa system find it difficult to cross political divides and build unity. Put simply, the interests of Parliament do not always overlap with those of the government and the Iraqi people. Consequently, the prime minister (PM) and president are weakened, and often do not have the resources or backing to implement necessary reforms.

Parliament’s power relative to the executive undermines the kinds of programs outlined in the 2020 White Paper and other government initiatives. Parliament can impose requirements on the government, and can prevent it from providing services or undertaking reforms that do not suit its interests. This situation makes Parliament essentially unaccountable. Those checks and balances that exist are ineffectual, and politicians routinely disregard them. Only Parliament can dissolve Parliament, which it has little incentive to do. Addressing Parliament’s relationship with the rest of the Iraqi government and reforming its roles and responsibilities will be an essential part of any reform plan. Making matters worse, dissolution of provincial councils (PCs) has further set back Iraq’s democracy. Elimination of the PCs removed another check on central-government—and, primarily, parliamentary—power. This move limited citizen participation in government and denied Iraqis a space to develop responsible, experienced political leadership.

While the protests that began in October of 2020 represented the best hope to motivate meaningful change, the number of people in the street has been decreasing, as the protests achieved only a few core demands, including forcing former Prime Minister Adil Abdul-Mahdi to resign. Even if the government were willing and able to respond to protestors’ immediate demands, these responses might not be sufficient to reform Iraq’s structural problems. Changes to Iraq’s constitution need to include structural changes to the muhassassa system; otherwise, constitutional reform will likely be ineffective. Residual parallel decision-making structures will continue to undermine the government’s ability to act and hold corrupt and violent actors accountable.

Addressing disenfranchisement in Iraq is a critical condition for political and communal progress. While reducing disenfranchisement among Iraq’s ethno-sectarian minorities remains an elusive goal, it would be wrong to say there has not been improvement. A 2019 National Democracy Institute poll found that 63 percent of Iraqis say the effects of ethno-sectarianism are lessening, suggesting that Iraqi national identity is gaining strength. However, 64 percent of Iraqis in the same poll said that the country is more divided, though now over political allegiances and support for external parties.
such as Iran and the United States, rather than religious or ethnic identity.

As national unity gains strength, some communities are becoming more internally divided. A stark illustration of this dynamic was the collapse of already fragile Kurdish unity in the wake of the 2017 independence referendum. This collapse not only fractured relations between major parties in the Iraqi Kurdish regions, but also within the parties themselves.

Baghdad-Erbil disputes remain a formidable challenge for Iraq. There are, of course, many pretexts for disagreement between the federal government and the Kurdistan Regional Government (KRG), including revenue sharing, boundary disputes, budgetary allocations, representation, and security arrangements, to name only a few. The genesis of these disagreements, however, is the lack of trust and the perceived misalignment of interests between Baghdad and Erbil. From the Iraqi government’s perspective, current Kurdish leadership will eventually move again toward independence, as it did in 2017. Thus, it makes little sense to grant concessions or invest in the region if doing so facilitates such a move.

The Kurdish community is, of course, not the only one fracturing in today’s dire circumstances. Sunni and Shia Arab communities are divided, as are many of the less-represented minority groups in Iraq. Of course, it matters why communities split. When it is over things that undermine Iraq’s recovery, such as malign external influences or eliminating corrupt practices, such fracturing may be necessary to break the status quo. However, these divisions must be addressed. Otherwise, they also create more space for malign external influences, making it harder to control subnational militias, as well as for Parliament to move forward with needed reforms.

Iraqi perceptions of external assistance are jaded by two decades of international inconsistency, a perceived connection between assistance and foreign meddling, and by Iraqis overlooking the distinctions, in value and purpose, between military and civil aid. Uneven distribution of international support across Iraq has exacerbated perceptions of unfairness. Skepticism of US and European roles in Iraq—along with latent and now-growing distrust of Iran—has created a sense of isolation among Iraqis, and generally unfavorable attitudes toward any external actors. Many Iraqis, including growing numbers of Shia Arabs,
consider Iranian influence malign. However, the animosity that Iranian influence engenders is also directed at other external actors, including Iraq’s Western partners and its neighbors in the Arab world. Iraq’s partners need to expand upon, and better differentiate, the kind of support they provide in order for current efforts to be effective.

**SOCIOECONOMIC CHALLENGES**

Socioeconomic barriers to Iraqi growth are considerable and, as of early 2021, worsening. Investment regulations and procedures are muddled, corrupt, and inefficient. As a result, foreign investors have little confidence in the Iraqi system. Investors have little incentive to invest in the development of Iraq’s infrastructure, businesses, or emerging markets. In effect, Iraq is leaving money on the table due to its administrative failures and bureaucratic barriers to investment.

Oil prices are likely to remain relatively low compared to Iraqi budget-planning assumptions. At $50 a barrel, the Iraqi government can barely cover salaries and pensions, much less fund new economic initiatives. Making matters worse, there is a great deal of government waste, largely due to corruption and inefficiency.

Oil subsidies drain government effectiveness and capacity to adapt. Currently, the government subsidizes seven hundred thousand barrels daily for internal use. This costs the government about $7.5 billion annually. Iraq’s inability to collect payments on electricity bills represents another $10-billion loss.

Universities are unevenly staffed, and too often fail to uphold academic standards that might benefit their students. In turn, young Iraqis who receive university educations find very few opportunities to employ their degrees. Public-sector opportunities for university graduates are inadequate. Approximately seven hundred thousand youth enter the job market each year, including 180,000 university graduates, while estimates place the youth unemployment rate at around 36 percent.

High rates of unemployment and underemployment will persist without government legislation and other efforts to build a private sector. Currently, there are approximately 4.5 million people employed in the public sector, excluding those employed by the KRG. With the data from the KRG included, the number of persons employed by the government is closer to 7.5 million. This is widely recognized as unsustainable. Even for government workers, salary payments can be inconsistent. In some cases, and particularly in the security services, officials sometimes pay salaries out of their own pockets. This situation creates a vacuum that other groups, including those sponsored by external actors, can exploit.

These conditions explain, in no small part, why Iraqis refuse to pay taxes, electricity bills, or other fees that might help alleviate Iraq’s ballooning debt. The average Iraqi does not see benefits from taxes. The government has divested bill collecting to private companies, while maintaining responsibility for providing electricity. However, the private collectors cannot collect taxes, which only compounds the government’s existing failure to provide consistent electricity.

Limited government programs dedicated to reconciliation—a term that has now taken on considerable baggage and is perhaps no longer useful in Iraq—have not assuaged perceptions of political, social, or economic disenfranchisement across Iraq’s heterogenous polity. Continuing failure to address perceptions of disenfranchisement is likely to fuel continual periods of instability and slow any progress toward government legitimacy.

Slow and inefficient judicial processes harm perceptions of government legitimacy. It takes months, or even years, to have a case heard and resolved in an Iraqi court. This undermines faith in the legal system and in the government, and it stalls both civil and business development. A sluggish and sometimes corrupt judiciary undermines confidence in the Iraqi system, and contributes to the fears of prospective capital investors.

Millions of internally displaced persons (IDP) wish to return to their homes. But, in many cases, their homes and neighborhoods have been destroyed in the fight against the Islamic State of Iraq and al-Sham (ISIS). Reconstruction efforts have been uneven, and are generally underfunded. The government does not appear to have an agreed-upon,
holistic plan to address the interconnected social integration that affects IDP and return or urban reconstruction.

Iraq also has a youth-bulge problem: approximately 60 percent of Iraq’s population is under the age of twenty-five. Many of these young Iraqis are unemployed, or at least underengaged, meaning that they are often impoverished, bored, and resentful. Many have been traumatized by nearly constant warfare. Years of conflict have significantly diminished educational opportunities, making many Iraqis unemployable even in trades, due to their lack of skills. There are likely not enough skilled Iraqis to take on technical jobs, should the need for these jobs increase.

SECURITY CHALLENGES

While Iraq’s security forces have made great progress against ISIS, the terrorist group continues to operate and destabilize parts of the country. Armed Iran-backed militias also contribute to the unstable security situation, by engaging in criminal activities and attacking US troops housed on Iraqi bases. Some of these groups practice extortion and blackmail, and they periodically attack people and communities whom they feel oppose them. Iraqi government actions and external military assistance have, so far, been inadequate to fully resolve these concerns.

Iranian meddling and Iraqi partisanship, coupled with poor communication capabilities on the part of the United States and its partners, have muddled the status of International Coalition Forces (ICF). Debate about the status of these forces is heavily politicized, preventing an open, honest, and transparent public discussion on the role of international security support. On one hand, pro-ICF narratives hold that its only mission is to support Iraqi forces in countering the Islamic State. The counter-narrative does not trust that the ICF mission is limited and, thus, demands a full withdrawal. A full withdrawal raises concerns that it would lead to a much-emboldened ISIS, as well as an expansion of Iranian and Iran-backed militia operations directed against perceived opponents in Iraq. This unclear, politicized debate diverts focus from improving the capabilities of the security forces.

This environment has made discussion about steps to improve Iraqi Security Force (ISF) capabilities political, rather than practical. The long-term presence of foreign security forces has not been sufficiently justified to Iraqi Parliament, which makes the issue of military assistance more provocative than it needs to be.

The convergence of interests between corrupt military leaders and politicians creates additional obstacles to improvement. Such obstacles include multiple chains of command, confused roles and responsibilities, lack of cooperation between security services, and groups that are nominally part of the security establishment but do not report to the prime minister. As a result, security-sector reform cannot be too hasty or driven by external parties, as that could create a backlash. Change needs to be gradual and realistic.

SOME PROGRESS AND THE SEEDS OF HOPE

In the face of all these challenges, Iraqi leaders have still made some progress. The ISF drove ISIS from territory it seized in 2014. Iraq’s economy was improving, albeit at a modest and fragile pace, just prior to the dramatic oil-price reduction amid the COVID-19 pandemic. Iraq’s relations with neighbors, including Saudi Arabia and Kuwait, have improved significantly. Despite low turnout and reported irregularities, Iraq’s 2018 elections witnessed some political parties emphasizing their ability and willingness to transcend ethno-sectarianism. In fact, Iraqi society as a whole seems to be moving toward a nationalist mood that deemphasizes ethno-sectarian identity and emphasizes equal citizenship.
Experts in the dialogue’s security, socioeconomic, and political working groups identified a number of measures that could be enacted to catalyze positive change.

POLITICAL IMPROVEMENTS

Successful elections. Achieving successful, peaceful elections is probably the most important short-term measure relative to Iraq’s recovery. As the protests have indicated, Iraqis are ready for change. Election results will tell them whether they have the power to achieve change. However, elections will not be effective without an improved elections law, which should finalize the structure of the high elections commission and the completion of a quorum of the Supreme Court. These measures are needed to certify election results. International monitoring will also be essential to establishing the elections’ legitimacy.

Constitutional reform. Resolving Iraq’s governance issues will be difficult and heavily dependent on concurrent economic and security improvements. Political reform—in particular, constitutional reform—is necessary to facilitate progress in these other sectors. Reform, however, will not work without combined international pressure, as well as pressure from Iraqi leaders who are inclined toward reform as the nation plunges deeper into crisis. This seems to be a moment in Iraq that needs to be capitalized upon.

International support for a grand bargain. However, even given the pressure protests have created, political parties alone cannot accomplish this reform. Rather, Iraq needs a “grand bargain” between its various stakeholders. This grand bargain should center around constitutional reform and establish a more effective system of accountability, checks and balances, and distribution of resources. It should also put in place processes aimed at addressing major barriers to recovery, including many of the concerns raised elsewhere in this report. Such a bargain is likely not possible, however, without positive action from the international community. This means the international community needs to engage the political class and the Iraqi people, directly, not just the prime minister. Positive messaging for safe and fair elections, for constitutional reform, and for general improvements in governance from the international community are sorely needed.

Leveraging the Presidential Commission. The Presidential Commission could be an important resource for facilitating that grand bargain because it can create ideas and options to begin a national dialogue, which is a necessary condition for any meaningful constitutional reform. This dialogue should occur on a number of levels. The commission should present options to Parliament, involve civil-society organizations and professional groups, and include representatives of the provincial governments.

Youth engagement. Iraqi youth need to play a prominent role in achieving the grand bargain. It has been one year since the youth revolution, and little has changed in terms of Iraqi youth’s economic and political involvement. To involve the youth, the political system must first be reorganized. A path to introduce the youth to politics can be recommended, but the youth cannot be thrust into the current system without disruption and disappointment.

Balancing authorities. Iraqi leaders need to reexamine the balance of authorities between the central and provincial governments. There is significant disagreement on where that balance lies, and where it should lie. Some favor greater decentralization. In this view, local reforms could be enacted more effectively and efficiently than national-level reforms. Provincial and local governments, however, are just as prone to inefficiency and corruption as the federal government. There are just as few means to hold provincial governments accountable as there are the central government. Both levels need to undergo reforms in tandem. Reform should take precedence over any initiatives to further decentralize or centralize Iraq’s government. Many participants also felt that security is a prerequisite for successful decentralization or rebalancing.

Reducing disenfranchisement. The protests of October 2019 changed the nature of Iraqi politics. They discredited the old order of sectarian politics and, to a great extent, replaced it with an Iraqi nationalist discourse. For the first time since 2003, the focus has shifted from ethno-sectarian rhetoric to serious debate over national unity and “communal peace.” The concept of communal peace is taking hold in territories recaptured from ISIS, and is facilitating the repair of local communities’ torn social fabric. Thus, the government should not view protests as a threat, but leverage them to increase

A Road Map for Stability and Prosperity in Iraq
attention on national unity, build Iraqi nationalism, and reduce perceptions of disenfranchisement in both minority and ineffectually represented majority groups.

**International partners.** While external actors have a mixed record regarding support for Iraq's recovery, it is important to find a constructive role for all of Iraq’s international partners. There is considerable appetite in Europe to provide expertise on governance and constitutional development. This increased appetite should be leveraged through new programs and resources to address the various governance challenges. Iraq’s Western partners need to make room for non-Western assistance.

**Capitalizing on China’s role in Iraq.** China will be in a position to impose its own projects and processes that could further isolate Iraq from the West, as well as reinforce authoritarian trends in Iraqi politics. While the group sees no reason to discourage Chinese investment, Europe and the United States need to provide alternatives to political and economic development that integrates better with a regional cooperation framework, lessening dependence on the Chinese.

**SPECIFIC POLITICAL MEASURES**

- **Election monitoring.** At the invitation of the Iraqi government, international partners should provide formal election monitoring throughout the full electoral process. While this monitoring should be accomplished in cooperation with the Iraqi government, it should be independent of the government and political parties. In providing this monitoring, international partners should be mindful that it could facilitate the status quo by legitimizing the current system, which reinforces sectarianism. The Iraqi government will need to ensure security at the polling sites if the monitoring is to be successful. Moreover, this monitoring needs to be done in a way to reinforce Ayatollah Ali al-Sistani’s imperative, issued in January 2020, that a new Council of Representatives that better reflects the will of the Iraqi people is necessary for reform.

- **Constitutional reform.** Although Parliament has the legal authority to introduce amendments, President Barham Salih’s commission examining constitutional reform is useful from an advisory perspective. Dialogue members recommend that the Presidential Commission foster a national dialogue on constitutional reform and determine incremental options Parliament can approve to facilitate that reform. Moreover, the stakeholders, especially those in Iraq, should encourage upward pressure from civil-society organizations on the grassroots level to engage in political reform. The United Nations Assistance Mission-Iraq (UNAMI) and US and European diplomats may have ideas on how to encourage this pressure effectively, to include the use of social media to urge reforms without further destabilizing the country. Part of this pressure needs to address political will in Parliament to facilitate these reforms.

- **Promoting youth-related issues.** The Iraqi government, with the support of international partners, should find ways to promote youth-related issues, especially during the election cycle. Simply involving young Iraqis in political institutions through appointments will not be adequate without some reorganizing of the political system. Elites and parties in power will need to endorse specific steps to improve education, address unemployment, and formally and practically address other issues of concern to Iraq's youth.

- **Expanding the role of youth in elections.** Establish or expand the current electoral commission to include youth voices, or at least youth interests, independent of dominant political parties. Train youth in managing elections to encourage youth political participation as well as continuity of expertise.

- **Pursuing thoughtful balance between central and provincial power.** The central Iraqi government and the provincial governments need to find the right balance of authorities, especially regarding budgeting and provision of public services. Whatever additional support, resources, or authorities are given must include measures to prevent or mitigate any corrupt or inefficient practices, as well as set up a system of accountability in which both local and national governments can provide checks and balances for each other.

- **Reduce disenfranchisement.** The conditions described above suggest three measures Iraq and its partners can take to reduce ethno-sectarian and geographic disenfranchisement, and to help all Iraqis benefit from their government. First, Iraq’s partners should consider bolstering programs and messaging to continue to build Iraqi national identity. In doing so, these programs should recognize the complexity of ethno-sectarian frictions at the national and local levels, especially in areas recently liberated from ISIS. Second, Iraq’s European partners should build ties within fractured communities, most notably Kurdish and Sunni, to find ways to re-establish a workable unity under the government of Iraq. The United States should also seek...
opportunities to promote this internal unity. However, given its sometimes polarizing effect, the United States should intervene with caution. Finally, due to the growing complexity associated with building national unity, the Berlin Dialogue should consider a separate program focused on ways to build the kind of unity necessary for political, and consequently economic, development and a more stable security situation.

- **Non-military support.** The United States should increase support, and thus visibility, for non-military projects and development.

- **Positive development models.** The international community should provide a positive model of development that fits Iraqi culture, political and social conditions, and a regional cooperation framework. In doing so, it should avoid exclusively “Western” or Chinese models that may either be unattainable or trade efficiency and effectiveness for political reform. Engage the range of political actors in an inclusive effort to build support for this model of development. Most importantly, avoid models that place Iraq in the middle of global-power competition over a rule-based international order.

**SOCIOECONOMIC IMPROVEMENTS**

**Focus on the White Paper.** There is a general confluence of challenges, interest, and potential for financial and economic assistance at the ministerial level, which is where it is likely needed the most. The 2020 White Paper on economic reform is an excellent focal point for an interconnected set of reforms and investments that will help Iraq address its varied and complex socioeconomic challenges. Iraq’s government will need considerable assistance in translating the White Paper into an actionable agenda, and support in enlisting international aid to achieve that agenda.

**Integrated investments.** Iraq needs to implement a comprehensive socioeconomic reform program directed at: improving youth training and sharply reducing youth unemployment; both immediate and long-term incentivization of international and Iraqi investment; and infrastructure and reconstruction development. A thoughtful approach can knock out three birds with a single stone. If the prime minister can outline a plan that builds sufficient international confidence and has sufficient backing from Iraqi constituencies, he can obtain a combination of public and private investment to create a general startup/equity fund. At the same time, he can direct Iraq’s remaining capital toward a focused infrastructure-development plan.

**Youth training and infrastructure.** Youth training can be linked directly to the skills necessary to address the PM’s infrastructure plan. For example, if the plan calls for building thousands of new residential homes, trade programs can be built to engage young Iraqis and to train them in the skills necessary for residential construction. In the near term, it is important to positively engage young Iraqis who are both unemployed and dissatisfied with the government.

**Small-business investments.** Training and capital investment will be difficult to align in the absence of a low-level investment plan to build local, Iraqi-owned small businesses that can directly support the infrastructure program. For example, construction companies based in neighboring states could consume a large portion of the available requests for proposals. This gap should be addressed with grants and loans from a startup or equity fund, with priority given to Iraqi businesses that will directly support the PM’s initiatives.

**Reduce barriers to investment.** At the same time, the plan should sharply reduce barriers to investment and development in Iraq, while increasing the flexibility to shape agendas at the local level. Given the historic lack of effectiveness and efficiency at the provincial level, this can be accomplished with two mutually reinforcing actions.

**Streamline the bureaucracy.** The federal government can act to streamline the federal request-for-proposal and contracting processes. Bureaucratic barriers have all but crippled Iraq’s private sector since 2003. This action—one that aligns with and may already be integral to the creation of the PM’s procurement and investment boards—would start with a PM-level review of all procedures and requirements tied to business regulations in Iraq. It would conclude with a significant reduction in legal and regulatory barriers to investment. Some participants also argued that streamlining the visa process would also be necessary to stimulate international investment.

**Improve regulations for economic zones.** Long-term economic growth in Iraq requires establishing economic zones. Several countries in Asia used economic zones to effectively and safely reduce tight control from the center and make room for new forms of private capital and foreign investment. Building robust economic zones within Iraq requires altering regulatory frameworks and instituting tax incentives and tax holidays. A successful economic-zone program will provide considerable incentives to attract foreign investment and private capital.

**Expand economic zones.** The federal government should create additional semi-independent economic zones in areas
prioritized for infrastructure development under the PM’s plan. This can be a gradual, progressive effort with testbed sites in key areas like Mosul, Ramadi, Dhi Qar, and Baghdad. Economic-zone councils would be independent from provincial governments and overseen by a federal board. They would have the authority to speed trade, investment, and development within their zones. These zones will both facilitate the PM’s plan and lead to long-term economic growth. If they are successful, they can be expanded across Iraq and, in the very long term, integrated into what might someday be functional provincial bureaucracies.¹

Reform of banking institutions. Iraq will need to expand its work with international regulators and experts to pursue transparency through the conduct of audits to help eliminate corruption. Renewed focus on transparency will enable banks to more effectively finance construction and enable startups. Making bank financing available to Iraq’s young entrepreneurs would send an important message of hope and provide the small-scale capital availability necessary to help jumpstart the economy.

Diversify sources of revenue. While an income tax is likely necessary for a sustainable recovery, it is not clear that one can be implemented now. Income-tax implementation will be particularly difficult given the high percentage of government employment and the government’s poor track record of paying its employees. Oil revenue is unreliable, and clearly insufficient to sustain the government and the Iraqi economy. The government of Iraq must diversify its sources of revenue.

SPECIFIC SOCIOECONOMIC MEASURES

- **Central planning, purchasing, and reconstruction boards.** Support the prime minister’s plan to develop central planning, purchasing, and reconstruction boards. If successful, these boards could reduce corruption and inefficiency, and also help to build trust in government. They could also help ease Iraq’s budget crunch. These boards should prioritize transparency, as well as develop audit programs for Iraq’s government agencies. Boards should prioritize reform of the food-distribution system, followed closely by tariffs, oil, and electricity, as the current programs are inadequate.

- **Economic zones.** Create regional economic zones within Iraq, perhaps 4–5 in the initial tranche, to help build capacity and business at the provincial level. Ideal areas would be in Basra, in Kurdistan, along the Iraqi-Jordanian border, and in the areas just south of Baghdad. New economic zones could help accelerate economic activity and improve Iraq’s overall economy, even as national-level reforms evolved at a slower pace.

- **Pursue customs duties.** The government of Iraq should apply more rigor to collecting customs duties, as an estimated $8–12 billion is lost annually. Applying that rigor will require an agreement with the Kurdish region regarding zones and entry points.

- **Investment-regulation and financial-sector reform.** Improve and streamline the Iraqi investment regulations and procedures to promote investment and financial-sector reform. In conjunction with this step, address youth unemployment by improving educational opportunities related to trade skills, so young Iraqis will be able to take advantage of jobs that these investments bring. The government of Iraq should reach out to the international financial institutions for support of its efforts. Even if there is no reasonable expectation of near-term additional funding from these institutions, their continuing political support for regulatory and financial-sector reform will be helpful.

- **Reconstruction, IDP return, and refugee return.** Whether the government chooses to centralize or decentralize efforts to return to a semblance of pre-ISIS normalcy, there are many opportunities to combine reconstruction and the return of displaced citizens to their homes. If the government can successfully channel under-engaged youth in the construction sector, improve private investment in urban development, and obtain international support for reconstruction, then it will be able to provide safe and suitable homes for the millions of Iraqis who were displaced by the counter-ISIS war. Success in relocation depends heavily on success in energizing the construction sector through lowered investment barriers and youth engagement.

SECURITY IMPROVEMENTS

Security-sector reform (SSR). SSR is a political problem, not a security problem. It requires a flexible approach and improvements in political stability. To set positive political conditions, Iraq needs to strengthen “connective tissues” across all state actors who have a stake in SSR. This must be an all-inclusive policy that seeks to bring fringe actors back to the center. For any SSR process to work, the prime minister needs to build an island of support among the security sector and political establishment that will enable him to engage in

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¹ Iraq is making progress regarding many of the recommendations here on economic reform. Parliament is expected to pass the Planning Board Law this year. One economic zone has already been approved in southeast Baghdad. Reduced oil prices will continue to limit the Iraqi government’s ability to improve the economy, underscoring the importance of diversifying Iraq’s economy. In the long term, Iraq needs to transition to a system in which private-sector financing and investment fuel economic growth.
the process and push back against rogue groups in a strategic manner. International partners need to help isolate and neutralize the international impact on this process.

**National identity and national service.** Reform of the security services can support the political process. While many Iraqis joined the security services when under threat of ISIS attack, there is an insufficient sense of national identity to unify the services or serve as a foundation for them to unify the country. In fact, many service members use the security services as a means to serve other organizations and ends, and few people were recruited for a national cause. Transforming Iraqi security-service culture to one that serves the people as a whole is a necessary condition for improving the number and quality of recruits. It is also a necessary condition for establishing a professional army capable of protecting all of Iraq, not just one part. With the victory against ISIS, there is now a moment upon which the army can capitalize to promote such a perception.

**Role realignment.** Leveraging the ISF to improve social integration is a good concept, but will be hard to translate into policy. Having said that, the Iraqi Army has improved its image because of the role it played in liberating Iraqi territory from ISIS. Other forces—most prominently, the Counterterrorism Service (CTS)—projected an image of national unity. The Iraqi government can build on issues of national unity to improve popular support for the armed services, and to promote professionalism within the services themselves. Part of improving the image of the ISF is to realign the Popular Mobilization Forces (PMF), Peshmerga, and tribal forces from their perceived roles as protectors of Iraqi political elite to one as protectors of the Iraqi people.

**Nationalizing the force.** Many participants observed that Iraq's government should take advantage of the sense of national attachment that the PMF has created. Iraq can further create a sense of national unity by ensuring Iraqi Security Forces are spread out across the country, so that soldiers
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from one province are positioned in others. It is worth noting here that, prior to 2014, a number of ISF units were made up of personnel not from the area in which they were deployed, which created a sense of alienation between the population and those forces, and accounted, in part, for the ISF’s rapid defeat by ISIS. This dynamic can be mitigated by improving the perception of the ISF among the population, by engaging in activities to protect and secure the population.

Demobilization and reintegrating of militias and non-government security forces. The government, as the symbol of national sovereignty, should engage with nonofficial security groups, privately and incrementally, to win trust and to eventually incentivize cooperation, rather than compel it. The point of this engagement would be to mitigate the effect of parallel or alternate dialogues these groups may have with internal and external entities. In conducting this engagement, it will be important to address grievances these groups have, in order to encourage them to sever ties with entities that work against Iraq’s recovery.

Leadership reform. Leadership reform is closely related to military culture. To promote a positive culture, the Iraqi security services would benefit from running media campaigns around certain figures who exemplify certain values or otherwise positively portray an Iraqi security professional. This has already been done to some extent. There was a promotional campaign involving Lieutenant General Abdul Wahab al-Saidi, who became head of CTS. Campaigns that focus on certain figures and values can set the tone for the entire security establishment. Such campaigns should extend to security forces whose actions reflect well on themselves, such as those that protected demonstrators during protests, in order to promote the law-enforcement culture Iraqis want to create.

Transparency about coalition presence. The international coalition should be more transparent about its activities. Uncertainty about coalition activities fuels conspiracy theories. Some sort of formalization of the coalition presence would help Iraqi leaders sell foreign presence to the population. Western forces should adopt more transparent language following mistakes. NATO needs to take a clearer position when Turkey conducts military operations inside Iraq without permission of the Iraqi government.

Balance foreign-partner engagement. Foreign partners should not frame certain security actors as good or bad, or as proxies. All actors should avoid talking about counterbalancing some security services by strengthening others. Doing so politicizes the discussion and increases resistance to meaningful SSR measures. Policymakers should instead focus on how SSR will benefit security services and coordination between services. The international community needs to pay attention to the effect its assistance efforts have on creating inequalities among the various Iraqi services and their de-professionalizing effects. For example, during the fight against ISIS, many European states provided assistance to Peshmerga forces that had not integrated into the ISF. The effect was to fragment Iraq’s military response.

Reshaping NATO’s image in Iraq. NATO needs to invest in building an image in Iraq that shows it is invested in Iraq’s stability, and is not part of US-Iran confrontation.

SPECIFIC SECURITY MEASURES

- Security-sector reform. SSR should focus on finding specific roles for each actor and establishing effective means for coordinating operations and activities among them. The international community can help by supporting the prime minister’s efforts to build support among the security sector, political parties, and other key actors—as well as isolating external actors who interfere with the SSR process. This would include establishing a set of principles to govern international and regional actors; identifying and addressing transnational connections of subnational units in Iraq; establishing a principled framework for security-sector activities; and establishing red lines for dialogue.

- Engaging militias and other armed subnational groups. While it makes sense for the Iraqi government to prioritize engagement with militias and other subnational groups, it will still be necessary to prepare to deal with defectors. For example, it will be important to be cognizant that Iran might want to participate in a political-level dialogue about regional interests, but, at the same time, to use the covert arms of the military and security services to undermine Iraq’s stability. Thus, all stakeholders need to be prepared to address all groups that Iran’s Quds Force wants to enable, and empowered to undermine any national dialogue of which Tehran does not approve.

- Recruitment and social integration. Change the way security services recruit. Remove the recruitment prerogative from certain agencies and professionalize recruitment within the Iraqi bureaucracy. The desired end goal would be for security forces to reflect society at large. Build on what success the PMF has in creating a sense of national attachment, and create similar efforts with the other services. Also consider rotating forces throughout the country, rather than relying on locally raised units.

- Update the law on military service and retirement. The law on military service and retirement, which dates to 2008, needs to be completed. Specifically, it needs to specify requirements for promotions and
positions that ensure competent personnel occupy leadership positions. This regularization of rank assignments can be reworked in a positive way, so that it sets clear standards regarding time in service, experience, other qualifications, and salary associated with each rank and position. This law should apply to all security services.

- **Pursue transparency and public trust.** Iraq’s leaders should publicly recognize previous abuses by the security services against all elements of Iraqi society, and then mandate transparency across the services—including, to the greatest extent possible, the intelligence services—to rebuild public trust. Promote charismatic, professional figures at the top of the security establishment the public can get behind, and as an example to other officers. Run media campaigns around leaders who have reputations for loyal service or otherwise exemplify values worth promoting within the security establishment.

- **Conduct a security-forces media campaign.** Publicize transparency and anti-corruption efforts, and celebrate the successes of individual security-force members and small units. Personalize the ISF for Iraqis.

- **Clarify roles and responsibilities.** Establish the appropriate roles and responsibilities of the various security agencies. These mandates need to be established prior to determining individual responsibilities.

- **Status of International Coalition Forces.** Treat the presence of ICF as a public policy problem. Have an honest, depoliticized discussion regarding the role of ICF. Whatever that role is, improve transparency in ways that address the security concerns of all stakeholders. Foreign partners should also consider offering training to units engaged in handling demonstrations to improve safety and minimize chances for violence.
Conclusion

This report suggests that, while it will be up to Iraqis to resolve their most difficult challenges, Iraq still needs international assistance. Moreover, this assistance needs to be constructive and avoid inflaming internal and regional rivalries. Even if that assistance is forthcoming, however, political will on all sides will erode without a sense of progress. In the West, a growing sense of futility could undermine the political will necessary to commit funds and people. On the Iraqi side, a sense of abandonment could fuel resentment and increase a willingness to cooperate with Iran, Russia, and China. While Western nations have repeatedly stumbled in Iraq, the Iraqi people will not be better off in the hands of these autocratic regimes.

The measures argued for in this report are not intended to replace current cooperation and assistance. Rather, they are intended to catalyze a continuous process of improvement in Iraq’s relationship with the United States and Europe, and to significantly improve the security and prosperity of the Iraqi people. Continued ICF participation in the fight against ISIS not only increases chances for success—it creates space for the Iraqi military to establish itself as a national, nonsectarian force capable of defending the Iraqi people. These measures, if taken together, can replace Iraq's vicious circle of problems with a virtuous circle of potential solutions. Success depends on building trust in the Iraqi government. As security and governance improve, and as corruption and barriers to investment are reduced, conditions for foreign investment improve as well. Increased investment grows Iraq’s economy by increasing employment opportunities and wages. Higher levels of employment, in turn, reduces opportunities for radical groups to recruit—thus, making Iraq more resilient and, thus, completing the virtuous circle.

As the report suggests, Iraq’s dire conditions may have created a moment in which its rival factions are in a position where cooperation is finally more advantageous than the continued dysfunctional competition and the corruption it entails. Thus, it is certainly time for the Iraqi government, with assistance from its international partners, to bring these factions together in a grand bargain that will provide for better accountability and more effective governance. Much more, of course, needs to be said about what such a bargain should entail and what needs to happen to bring it about. Taking up the complexities associated with such an undertaking should be integrated into the next round of dialogue.
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About the Author

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He served twice in Operation IRAQI FREEDOM, once as the Deputy J2 for a Joint Special Operations Task Force and as the Senior Military Advisor for the Civilian Police Assistance Training Team. He also served as the Senior Intelligence Officer on the Iraq Intelligence Working Group and as a UN observer along the Iraq-Kuwait border. Prior to becoming a FAO, Dr. Pfaff served on the faculty at West Point as an assistant professor of Philosophy. As a company grade Army officer, he deployed to Operation DESERT SHIELD and DESERT STORM with 82nd Airborne Division and participated in Operation ABLE SENTRY with the 1st Armored Division.

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About the Iraq Initiative

The Atlantic Council is leading a long-term initiative on Iraq led by Dr. Abbas Kadhim. The Iraq Initiative seeks to provide US and European policymakers with unique perspectives from within Iraq as well as impartial, pragmatic policy recommendations. The Iraq Initiative addresses the current security challenges Iraq faces as well as identifies policies that will unlock Iraq’s potential to develop the drivers of any successful society: inclusive politics, economic development, and a vibrant civil society. It is critical that international conversation about Iraq moves from being solely focused on security and military engagement to broader policy issues such as attracting investment, improving governance and service delivery, and the country’s unique geopolitical role. The Iraq Initiative also works to develop relationships with Iraqi officials to bring them together with the right US and European policymakers and influencers to discuss how to achieve mutually beneficial outcomes.