



IRAQ ECONOMIC REVIEW

IRAQ'S INDUSTRIAL SECTOR | GREEN BUILDING | UKRAINE WAR

VOL 2, ISSUE 2

In this issue:

Basima Abdulrahman – Green Building

Rania Baker – Modern-Era Industrial Progress in Iraq

Ahmed Tabaqchali – Food and Energy Prices, the Ukraine War, and Iraq



ABOUT IRIS

The Institute of Regional and International Studies (IRIS) is an Iraq-based research center committed to producing independent and empirically rigorous political analysis of Iraq and the broader Middle East region. Housed at the American University of Iraq, Sulaimani (AUIS), the Institute partners with academic institutions and funding agencies from across the world that share IRIS' mission of grounding the policy conversation on Iraq in rigorous research and local expertise. IRIS convenes events throughout the year, including the annual Sulaimani Forum, in order to disseminate research findings and to promote dialogue among a broad range of stakeholders on the most complex policy challenges facing Iraq and the region. Finally, IRIS builds the skills and capacity of young researchers, policymakers, and leaders towards the aim of leveraging policy research into political and social change.

ABOUT THE AUTHORS

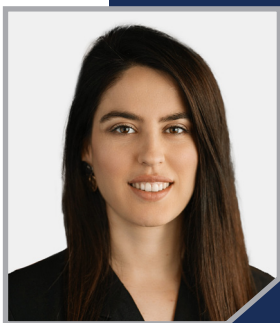


Rania Baker is a Research Fellow at IRIS and the Country Manager for Viamo – Iraq, she is an Iraqi entrepreneurship and innovation professional with a master's degree in Innovation Management and Entrepreneurship from Bournemouth University. She is a bronze award winner in the category of Urban Sustainability in UNLEASH in Denmark, and a fellow and coach of the United Nations Institute for Training and Research in Japan. She tweets @RaniaBaker92



Ahmed Tabaqchali is Senior Fellow at IRIS and the Chief Strategist of the AFC Iraq Fund. He formerly served as the Executive Director of NBK Capital, the investment banking arm of the National Bank of Kuwait, and Managing Director and Head of International Institutional Sales at WR Hambrecht + Co. In addition to his research at IRIS, Tabaqchali writes regularly on the Iraqi economy for the LSE Middle East Centre. He tweets @AMTabaqchali.

INTERVIEW WITH



Basima Abdulrahman is a green tech entrepreneur. She is the Founder and CEO of the first company established to synergize green solutions and cloud-computing technologies in Iraq, called KESK. She aims to make sure that current development should not harm the interests of future generations. Her vision is to make smart green solutions trustable, accessible, and profitable. Basima is a World Economic Forum Foundation Board Member and Cultural Leader, TEDx speaker, and Cartier Women's Initiative laureate of the MENA Region. She was a co-chair of the 2019 WEF Annual Meeting in Davos. Featured in TIME's magazine, Inhabitat, Forbes, WEF Agenda, and the National among other platforms. Basima holds a bachelor's degree in Civil Engineering and a master's degree in Structural Engineering.

CONTENTS

Page 5

Interview with *Basima
Abdulrahman* on Green Building

Page 9

Modern-Era Industrial Progress in Iraq
by Rania Baker

Page 14

Food and Energy Prices, the Ukraine War, and Iraq
by Ahmed Tabaqchali

Section I

Interview with *Basima Abdulrahman* on Green Building

KESK (“green” in Kurdish) is an Iraqi company that aims to change how urban communities are built and sustained. The Erbil-headquartered enterprise has offered the public strategies to enhance the collective environmental performance of local communities and, eventually, the country as a whole. Iraq Economic Review editorial staff conducted an interview with KESK Founder and CEO, Basima Abdulrahman, who has quickly become an internationally-acclaimed leader in the green building space.

Q: How long has KESK been in operation, and how has the company evolved?

A: I realized that I needed to do something around green buildings, whether through my professional career or in any way possible. This is when the idea of KESK started developing; [it] was established in 2018 as a green building consulting company and it grew into a green solutions company in 2020. We’re now a green tech company that synergizes renewable energy and environmental technologies to create alternative revenues.

Q: What was your motivation to become an entrepreneur and start KESK?

A: It was purely personal. It’s more than a passion. It’s something I wanted to achieve professionally because even though I can achieve a lot of things that I’m passionate about under a humanitarian or development sector umbrella, I would still be under the control of others. If I wanted to create specific changes and impact, I would still have to adhere to the rules of others. I’ve tried different sectors from UN

organizations, to the private sector, to academia. None of these contexts helped me to see the real results that I aspired to. I did not have any awareness around startups and at that time, it wasn’t even a culture here. But I wanted to do it nonetheless, [here] in my home region, a place I wanted to see...change happening.

Q: What were some of the challenges and barriers that KESK faced as a company and that you faced as an individual?

A: The challenges that we were facing at the beginning are different from the challenges that we face today. Access to finance would be the main challenge [at the start]. The second challenge is the legal structure, how slow the processes can be, and how startups are treated as any other sized company. This year, we witnessed different changes when it comes to company renewals. They don’t rely on old systems anymore, [and they are] attempting to become fairer to [new] companies. But still, there is no categorization of early-stage companies, mature companies, small- to medium-sized companies; they treat all the companies the same way. Additionally, we are bringing disruptive ideas and solutions, and we are trying to create new types of jobs, develop new skills in the market, and culture can also be a barrier. When society doesn’t understand the kind of services you are providing, it takes more time for them to believe in what you are doing. In our case, we relied completely on what we call “the believers”, those who did not question our services and products. They were like, “You know what? Let’s do it with you.”

Q: You're starting a new market in the region, which must come with a lot of interest from the government and the private sector. Have you faced any challenges with that?

A: We definitely have. Most startups have limited resources and are trying to prove themselves and position themselves in the market. However, some people and potential clients try to take more from you rather than give [to] you, asking you to do services voluntarily, and making promises of things they would offer in return. So, we're now focusing...on business-to-business (B2B). This is where we've found success. We wouldn't have reached that decision unless we had to go through that experience of facing challenges with other sectors. I believe that we have been able to [strategically] position ourselves now in the market.

Q: KESK provides hardware solutions, too. Do you manufacture your parts in Iraq? How does the supply chain look for you?

A: We supply and implement solar energy systems and solar air-conditioners which are smart products. We manufacture our split-unit air-conditioner in China, where this device is designed and manufactured especially for us. We're already developing a new model for the next shipment which will provide us with helpful data. Our air conditioning units have IoT (internet of things), a smart application, and an AC Limiter. Our device can work all-day without worrying about electricity. There is no other comparable product in the Iraqi market today. We tried to explore different ways to locally resource components that would be of the same price (or cheaper), rather than getting them from abroad. But it's really hard to compete with

Chinese manufacturers, as they are very responsive when it comes to our requests, whether we're making hardware or software changes. So, for now, there is no way we can do this in Iraq.

Q: What would be your purposed solution to address all the challenges mentioned?

A: We need to bring solutions that are going to help not only the clients, but also help businesses grow in a way that's economic and environmentally aware. I



I realized that I needed to do something around green buildings, whether through my professional career or in any way possible

wouldn't be comfortable selling a product that I knew the client wouldn't be able to use, because electricity is a big problem. We already know that it is a crisis. So, if I'm going to propose a solution, it has to be a solution that addresses that crisis, not one that adds burden to it. In an ideal world, I would want everybody to think that way. Also, for me competition is a good thing. I want competitors. I want other brands to come up with better solutions. [Competition] would also promote our solutions because it's difficult to be the

only person talking about a specific solution. If the public doesn't hear it from other brands or other companies, they will start questioning the validity of it. I believe that the [Kurdistan Regional] Government is doing a good job in terms of providing the smart solutions for houses and businesses. This is going to help people be more considerate when it comes to energy consumption. It would help to see more governmental-led initiatives when it comes to incentivizing green solutions. One of the things that I would say is that we were not happy with the implementation of the Federal Government's decision to reduce taxation on renewable energy products by 99%, and they opposed it on all borders of Iraq north and south. Unfortunately, we got our equipment through the KRG border, and the decision did not apply.





Q: What's the vision for your company in the next decade?

A: We still want to promote renewable energy and green energy solutions, but we want to be innovative in helping people be more interested in green solutions. Not because it is the right or responsible thing to do [for the environment], but because of it is economically smart for them to adopt green solutions. Also, we are building a new tool...where people will make money by adopting these solutions.

In summary, it is not only inspiring to see young people implement and develop new markets with their business, but it is also encouraging for others to start thinking of various sectors where they can excel, and challenge or disrupt the market. In turn, this motivates decision-makers to adapt to their needs to help enhance the ecosystem, the status quo, and the country.

Section II

Modern-Era Industrial Progress in

Iraq

Rania Baker

INTRODUCTION

From natural gas, phosphate, and sulphur, to agricultural produce such as dates, Iraq is rich in natural resources that could support diverse streams of income.¹ Yet oil proceeds comprise more than 99% of exports, 85% of the country's budget, and 42% of GDP.² Iraq's heavy reliance on oil, combined with government mismanagement and corruption, has repeatedly driven the country to macroeconomic volatility, exacerbating unemployment rates, and leading to a lack of flexibility in times of global adversity such as the COVID-19 pandemic and falling oil prices.³ Iraq's business and civil society sectors have long called for diversifying the country's revenue sources. Microbusinesses and startups are gradually securing development aid with the support of the Iraqi government, whose own economic policies are also beginning to favor startups.⁴ Despite Iraq having a substantial consumer market with its population

of 40 million,⁵ major non-oil sectors in Iraq are still underperforming when it comes to meeting the demand of its population. This missed opportunity is most evident in the context of Iraq's industrial sector.

Before the US-led invasion in 2003, Iraq's industrial income amounted to 23% of GDP.⁶ Iraq's Central Statistical Organization (CSO), the government agency charged with maintaining statistical information to inform policy and scientific research, reported that industrial proceeds dropped to 2.03% of GDP in 2021.⁷ Experts attribute the reduction of industrial outcomes to government mismanagement and the lack of coordination between the public and private sectors to revive the industrial sector.⁸ Political instability and insecurity have dampened private-sector willingness to make the long-term, large-scale investments required to operate factories.⁹

1 "Iraq facts and figures," Organization of the Petroleum Exporting Countries (OPEC) 2018. https://www.opec.org/opec_web/en/about_us/164.htm.

2 World Bank, "Overview: The World Bank In Iraq," November 1, 2021. <https://www.worldbank.org/en/country/iraq/overview#1>.

3 "The impact of Coronavirus (COVID-19) and the global oil price shock on the fiscal position of oil-exporting developing countries," Organisation for Economic Co-operation and Development (OECD), September 30, 2020, <https://bit.ly/3wR9hQk>.

4 Essam Munir, Reem Halim, and Mohammed Jamal, "Iraqi Startups' Ecosystem Monitor V2.0," KAPITA Business Hub, September 25, 2021, 14. <https://kapita.iq/storage/app/media/Research/Ecosystem%202.pdf>.

5 USAID, "Iraq Market Spotlight," June 2, 2021. [usaid.gov/sites/default/files/documents/Iraq_MarketSpotlight_final_060221.pdf](https://www.usaid.gov/sites/default/files/documents/Iraq_MarketSpotlight_final_060221.pdf).

6 Ali Kareem Ethaheeb, "More than [a] third of Iraq's factories are non-functional. Would privatization bring them back to life?" Al Jazeera, October 23, 2021. <https://bit.ly/3vrWtRo>.

7 "The preliminary estimates of GDP for H1 in Iraq," Central Statistical Organization (CSO), October, 2021. <https://bit.ly/3aalVRP>.

8 Ethaheeb, "More than [a] third of Iraq's factories."

9 "The White Paper for Economic Reform: Vision and Key Objectives" [Arabic], Emergency Cell for Financial Reform, Government



Old concrete batch plant in Erbil, Iraq. August 13, 2016. Shutterstock

With the fates of Iraq's economy and its industrial sector entwined,¹⁰ there is an urgent need to bolster industrial sector growth. Industry has the potential not only to redeem the country's income streams but also to support the growth of other sectors such as agriculture, technology, and construction in Iraq.

Modern-Era Industrial Progress in Iraq, an Overview

In the 1980s, the Government of Iraq (GoI) heavily subsidized manufacturing to service its military goals during the Iran-Iraq War. Many petrochemical,

iron, and steel factories were built during this period but beginning in 1990, productivity precipitously dropped under UN sanctions. Coupled with a lack of raw materials, import and exports bans led to widespread industrial-sector failure and to large-scale unemployment. Post-1997 saw the implementation of the UN's Oil-for-Food Programme¹¹ and industry recovered slightly in the public and private sectors as credit and spare parts became more readily available.¹²

The industrial sector saw further improvement after 2003, but it also faced new challenges such as

of Iraq, October 22, 2020. <https://gds.gov.iq/ar/iraqs-white-paper-for-economic-reforms-vision-and-key-objectives/>.

10 Justin Yifu Lin and Volker Treichel, "Making industrial policy work for growth, jobs and development," *Transforming Economies: Making industrial policy work for growth, jobs and development*, eds. José Manuel Salazar-Xirinachs, Irmgard Nübler, and Richard Kozul-Wright (Geneva: ILO Publications, 2014), 65-78. http://ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_242878.pdf.

11 "Resolution 986: Authorization to Permit the Import of Petroleum..." United Nations Security Council Resolutions (UNSCR), April 14, 1995. <http://unscr.com/en/resolutions/986>.

12 Gerald Henry Blake, et al., "Iraq: Economy," *Encyclopedia Britannica*, January 11, 2022. <https://www.britannica.com/place/Iraq>.

widespread political insecurity and lack of governing policies.¹³ Data from the CSO in recent years indicate an increase in the number of industrial establishments in Iraq (public, private, and jointly-owned operations). A total of 198 medium-sized establishments, and 627 large institutions were reported in 2018,¹⁴ with a sizable uptick to 670 medium-sized and 719 large institutions in 2019 and 2022 respectively and 25,747 small institutions reported to date.¹⁵ Such growth appears promising, but more information is needed on revenue and job creation before drawing firm conclusions on industrial sector recovery.

Today, the food and beverage industry leads the industrial sector in terms of number of facilities and market share, followed by the metal processing industry, and furniture manufacturers. On the other end of the spectrum, motor vehicles, mining, and paper manufacturers have struggled to gain market share.¹⁶ The GoI has recently publicized its intent to build five large industrial zones to attract foreign technology and investment as part of its strategy to diversify Iraq's oil-leveraged economy.¹⁷ It remains to be seen whether such an ambitious agenda will be realized.

Government Authority and Industry

Government responsibility for the expansion of industry rests with the General Directorate of Industrial Development (GDID). The GDID is charged with building a foundation for industry in Iraq, considering all areas of safety and adequate service provision, and providing consultation to ensure the sustainability of the projects.¹⁸

The GDID reports that industry is growing, and that it has processed 1,865 new business licenses, 255 complete establishment certifications (indicating "ready for business"), and 846 land allocations in 2021 alone.¹⁹ While these numbers suggest trends in the right direction, little data exists on the outputs of these new businesses (e.g., revenue generation, job creation, etc.), and it is therefore unclear whether such growth has yet contributed meaningfully to overall industrial sector strength.

The GDID has identified several challenges facing the private industrial sector, including: access to finance; competition with imported goods; the levying of taxes and customs fees (despite the fact that the Industrial Investment Law No. 20 technically offers exemption);²⁰

13 M. D. Abdallah Najim Abdallah Al-Shaw, and Amer Ahmed Mohamed, "The state's role in supporting the industrial sector in Iraq: An Empirical Study," *Journal of Administration and Economics*, no. 89 (2011): 1-13. <https://www.iasj.net/iasj/article/26646>.

14 Central Statistical Organization, "Large and medium industrial facilities," إحصاء المنشآت الصناعية الصغيرة للقطاع الخاص 2018. إحصاء المنشآت الصناعية الكبيرة السنوي 2018. Baghdad, 2018, <http://cosit.gov.iq/ar/industrial/industrial-larg-mid>

15 Central Statistical Organization, "Large and medium industrial facilities," إحصاء المنشآت الصناعية الكبيرة السنوي 2019, <http://cosit.gov.iq/ar/industrial/industrial-larg-mid>

16 Kapita, "Report: Iraqi Industrial Sector Overview". 2020. <https://kapita.iq/storage/app/media/Research/Industrial-Sector-in-Iraq-KAPITA.pdf>.

17 Nadim Kawach, "Projects: Iraq builds 5 industrial zones," ZAWYA, June 6, 2021. <https://www.zawya.com/en/projects/projects-iraq-builds-5-industrial-zones-hzdnly3d>.

18 Ministry of Industry and Minerals, General Directorate of Industrial Development (GDID), 2018. <https://gdid.gov.iq/index.php?name=Pages&op=page&pid=74>

19 Republic of Iraq, General Directorate for Industrial Development (GDID), Media and Public Relations Department, Baghdad 2022.

20 "Law No. 20 of 1998 - Industrial Investment for the Private and Mixed Sectors," IRAQLD, 2015. <https://bit.ly/3GfN5Ut>.

and lack of coordination among relevant government institutions such as the municipalities and consumer protection agencies. The GDID calls for reforms such as further tax and customs exemptions, and allocations of land for industrial zones in each province. GDID General Director Aziz Nadhum identified challenges to industrial sector growth:

Iraq faced a substantial change in [economic] systems in 2003, which created many disruptions for all sectors. The industrial sector is not spared from these changes. Before 2003, Iraq's population was a mere 50% the size of the current one, with less income per capita, so it was easier to meet the [population's economic] needs through local manufacturers. The public may not notice while purchasing items...but many licenses and brands that used to be imports have now been granted to Iraqi factories and production.²¹

Again, it is difficult to assess the government's claims about the growth in the industrial sector without an assessment of outputs, but the perception among consumers, business owners and entrepreneurs is that the sector is growing far too slowly relative to demand. The government's own explanations for slow growth (e.g., the instability of the post-2003 era,²² the COVID-19 pandemic,²³ etc.) overlook the fact that Iraq now has better access to technological advancements and major industrial markets in the US, Asia, and Europe, all of which can improve the sector's overall chances of recovery with lessons learned and with improved manufacturing machinery.

While the GDID strives for industrial growth through stimulus measures such as tax reduction, facilitation of imports and exports, and financial loans, the effects of these policies so far remain negligible in contributing to Iraq's GDP. The government could redouble its efforts to invest in human capital via



Brick factory in Nahrawan near Baghdad, Iraq, March. 8, 2022. Reuters

vocational training and by equipping people with the tools needed in the private sector to navigate stimulus measures. Moreover, the government could more clearly and frequently communicate the content and implications of its stimulus measures to the public through traditional media and social media. Further studies are needed to collect data on industrial sector growth and outputs, and to make recommendations. Finally, private sector industry could be strengthened by spotting opportunities in bridging the gaps of the industrial sector and building industrial organizations to demand tangible government reforms more effectively.

21 Aziz Nadhum, interview by author, Baghdad, April 17, 2022.

22 "Iraq Timeline: Since the 2003 War," United States Institute of Peace, May 29, 2020. <https://www.usip.org/iraq-timeline-2003-war#textonly>.

23 "Impact Of Covid-19 on the Iraqi Economy," United Nations Development Programme (UNDP), October 6, 2020. <https://www.ig.undp.org/content/iraq/en/home/library/Stabilization/impact-of-covid-19-on-the-iraqi-economy.html>.



An employee works on an Abaya (cloak) for men, a traditional Arabic handmade dress, at a small factory in Najaf, Iraq. August 6, 2021. Reuters

PERSPECTIVES: IRAQI YOUTH TALK ABOUT INDUSTRY

The topic of industry and manufacturing was debated during a focus group discussion with a group of university-level Iraqi business students from a variety of provinces. The following themes emerged:

- Imported goods have penetrated the market, resulting in a change in consumer expectations: *"Before 2003, we used to have Iraqi dairy products and snacks distributed at our schools. Now, due to globalization, there are international options, and this has changed our consumer behavior."*
- Students suggested that Iraqi manufacturing quality might not be satisfactory for their personal taste: *"I don't think that I would buy a product from the Iraqi general company for leather products as opposed to what we already have in the market."*
- Lack of reliable electricity presents a major challenge for students thinking about investing in the industrial sector: *"The main problem stopping us from starting our own factories is the lack of stable electricity. A private generator would be costly to purchase and would increase the price of our products."*
- Students expressed confidence in Iraqi agricultural products: *"With [local] agriculture, we do not face the same problem of trust and quality. We believe our goods are better. The industrial sector ought to support agriculture with better branding, packaging, and irrigation."*
- Students believed that government support of existing factories is crucial: *"In the Kurdistan region, we have factories producing dairy, aluminum, tobacco, and building materials. Yet none of these can compete with foreign products due to lack of government support and adequate marketing strategies."*

Section III

Food and Energy Prices, the Ukraine War, and Iraq

Ahmed Tabaqchali

Sharply increasing oil and food prices over the last 18 months – as a consequence of the rebound in the world economy as it emerged from the severe decline brought by COVID-19 – have accelerated following the invasion of Ukraine, with significant implications for world economic growth and the demand for oil. The International Monetary Fund (IMF) in its latest *World Economic Outlook* has lowered its projections for world economic growth for 2022 to an increase of 3.6% (following an estimated increase of 6.1% in 2021); and to an increase of 3.6% in 2023.¹ These were the third successive downward revisions made by the IMF in the last six months, as a result of the growth-inhibiting effects of high oil and food prices. Downward revisions for world economic growth would typically lead to downward revisions for global

oil demand and, consequently, to lower oil prices which in turn will have major implications for Iraq's economy given its extreme leverage to oil prices.

Impact of the Ukraine War on Energy Prices

The changing world order following the invasion of Ukraine, and the extent of and likely extended duration of the sanctions imposed on Russia, will alter the dynamics governing the relationship between world economic growth and global oil demand. In the short and medium terms, Western governments' need to lessen dependence on Russian oil, and to ensure their energy security, would mitigate the negative effects on global oil demand from weaker



Drilling Rig in Basra, South of Iraq, 2019. Shutterstock

¹ "War Sets Back the Global Recovery," *World Economic Outlook*, International Monetary Fund (IMF), April, 2022. <https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022>.

world economic growth. This can be seen from the expectations for future oil prices that are still high, even though they declined from the levels reached immediately following the first imposition of sanctions on Russia (Figure 1).

over government formation. Brent oil prices² of USD 100 per barrel in 2022 and USD 90 per barrel in 2023 would translate to estimated Iraqi oil export revenues of IQD 170 trillion (USD 117 billion) in 2022 and IQD 160 trillion (USD 110 billion) in 2023³ – a significant increase compared to IQD 110 trillion

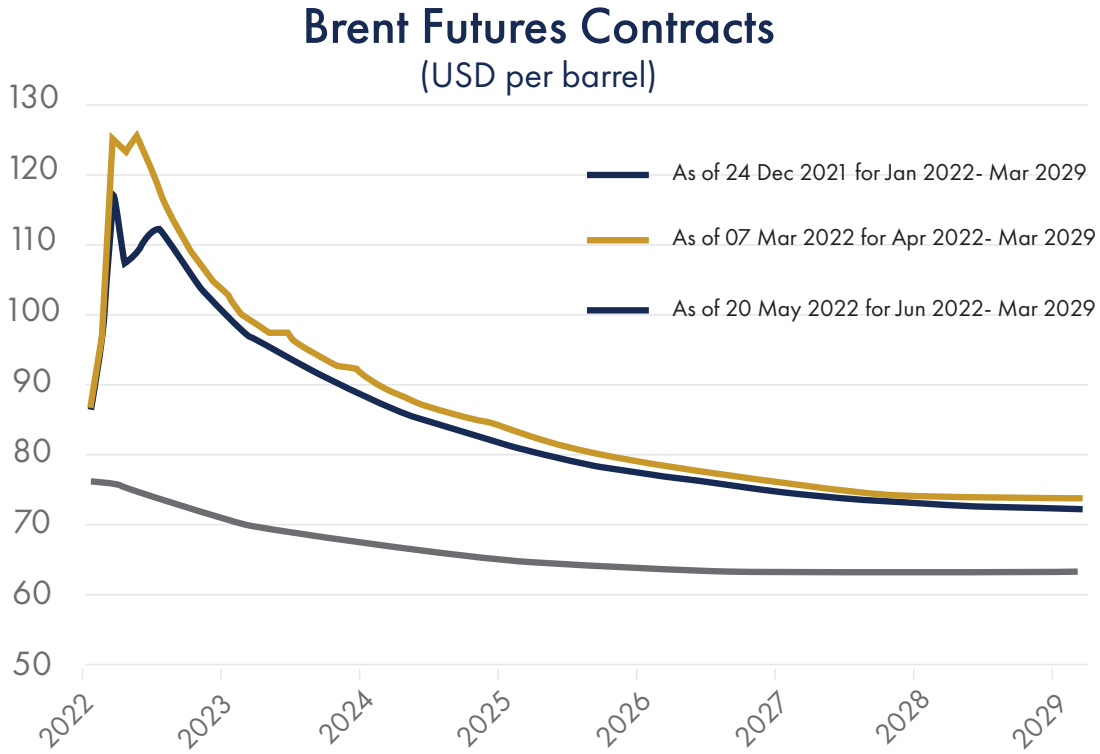


Figure 1: Brent Futures Contracts \$/bbl. Source: Investing.com, data as of May 20, 2022.

High expectations for oil prices in 2022-2023 will greatly affect Iraq's near-term economic outlook, future government budgets, and the current impasse

(USD 76 billion) in 2021, and IQD 51 trillion (USD 42 billion) in 2020.⁴ Expenditures for 2021 were IQD 103 trillion (USD 71 billion),⁵ and the expected

2 All figures are rounded.

3 These figures are for federal oil exports only (i.e., not including those of the Kurdistan Region of Iraq), and reflect oil export sales as made by the State Oil Marketing Organization (SOMO), and not actual oil export revenues as received by the Ministry of Finance (MoF). This is because a lag time exists – of up to three months – between oil export sales and payments received for those sales. Moreover, oil revenues include transfers of profits from oil-related public enterprises and taxes on oil companies.

4 Using official IQD/USD exchange rate of USD 1 = IQD 1.182 for Jan-Nov 2020, USD = 1.450 IQD for Dec 2020, 2021-2023.

5 These figures are according to the cash accounting standards as used by the MoF. As such, actual expenditures, using accrued accounting standards, are likely higher than IQD 110 trillion. For a review of the difference between the two standards, as applied to Iraq, see Ahmed Tabaqchali, "[Gone with the Muhasasa: Iraq's static budget process, and the loss of financial control.](https://www.atlanticcouncil.org/in-depth-research-reports/report/gone-with-the-muhasasa-iraqs-static-budget-process-and-the-loss-of-financial-control/)" The Atlantic Council, January 6, 2021. <https://www.atlanticcouncil.org/in-depth-research-reports/report/gone-with-the-muhasasa-iraqs-static-budget-process-and-the-loss-of-financial-control/>.

increase in revenues will allow future governments to pursue ever-expansionary budgets.⁶

Implications for Short-term Economic Policy

The expected surplus for the first six-months of 2022⁷ would allow the current care-taker government to minimize the impact of sharply higher food prices on a vulnerable population with the proposed IQD 25 trillion (USD 17 billion) "Emergency Food Security Support" bill⁸, under review by the Council of Representatives' (CoR) Finance Committee.⁹ The bill would act as a supplementary budget to the 2021 budget which is still in effect; the resulting combination would be in lieu of a 2022 budget.¹⁰ This arrangement would likely prolong the current impasse over government

formation, as it would allow the government to protect consumers from higher food prices, and to continue operating until year-end. Crucially, this arrangement would preserve the *Muhasasa Ta'ifia's* status quo,¹¹ whereby all ethno-sectarian parties would maintain their share of the state's resources achieved in the 2018 elections, and in its inclusive governments of 2018 and 2020.

The proposed bill has support in the CoR, where there is recognition of the need to respond to widespread uproar over escalating food prices over the last 18 months, and the 23% devaluation of the IQD against the USD in December 2020 which followed the unveiling of the government's "White Paper" in October 2020.¹² Public opinion, spurred by populist rhetoric, blamed the IQD's devaluation for the price

6 Ahmed Tabaqchali, "[Economic Roundup: What the Pandemic Tells us about Future Growth and Volatility](https://auis.edu.krd/iris/sites/default/files/iris_iraqeconomicreview_vol2issue1_english.pdf)," *The Iraq Economic Review: The Business of Education*, Institute of Regional and International Studies (IRIS), February, 2022. https://auis.edu.krd/iris/sites/default/files/iris_iraqeconomicreview_vol2issue1_english.pdf.

7 The MoF can accurately estimate oil revenues for the first six months of the year, as oil export sales for October-December are received in January-March, and export sales for January-March are received in April-June (see Footnote 4). Since the MoF is constrained by the same spending levels for 2021, using the "1/12th Rule" (see Footnote 10), a surplus can be accurately assessed.

8 As the publication was going to print, the CoR has on June 8th, passed the "Emergency Food Security Support" bill along the lines discussed here: "Council of Representatives intends to approve food security in a different form," *Almada Paper*, June 8, 2022 <https://almadapaper.net/view.php?cat=266401>

9 The Government of Iraq (GoI) first proposed using up to IQD 25 trillion (USD 17 billion) from surplus oil export revenues and borrowing up to IQD 10 trillion (USD 7 billion) for a total of IQD 35 trillion (USD 24 billion). However, the CoR is likely to limit that figure to the IQD 25 trillion from surplus oil revenues. Subsequently, the Federal Supreme Court (FSC) ruled that a care-taker government does not have the right to propose laws to the CoR, including the proposed food security law. However, a workaround would have the CoR proposing legislation to the GoI, asking for its approval of the law. Firas Adnan, "Council of Representatives reassures the financial surplus before passing the Food Security Law," *Almada Paper*, April 18, 2022. <https://almadapaper.net/view.php?cat=263159>; "Federal Supreme Court: The caretaker government is 'resigned' and is not subject to the current Council of Representatives," *Almada Paper*, May 16, 2022. <https://almadapaper.net/view.php?cat=264833>; Hussein Hatem, "Council of Representatives intends to approve food security in a different form," *Almada Paper*, May 17, 2022. <https://almadapaper.net/view.php?cat=264911>; Firas Adnan, "Council of Representatives addresses the government on approving the Food Security Law," *Almada Paper*, May 26, 2022. <https://almadapaper.net/view.php?cat=265519>.

10 The current government became care-taker on the eve of the October 2021 elections, and thus lacks legal authority to present a budget to the CoR. Under these conditions, the "1/12th Rule" applies: per month, the government may spend up to one twelfth of the actual appropriations made in 2021.

11 Toby Dodge, "Tracing the Rise of Sectarianism in Iraq after 2003," LSE Middle East Centre, September 18, 2018. <https://blogs.lse.ac.uk/mec/2018/09/13/tracing-the-rise-of-sectarianism-in-iraq-after-2003/>.

12 "[The White Paper for Economic Reform: Vision and Key Objectives](#)" [Arabic], Emergency Cell for Financial Reform, Government

increases.¹³ The CoR hosted the Finance Minister in late-February 2022 to address these concerns,¹⁴ and the meeting culminated in the CoR demanding relief measures for vulnerable populations, which eventually led to the “Emergency Food Security Support” bill currently under consideration.

Comparing Food Prices in Iraq to Global Averages

The bill’s passage should temper the uproar over high food prices; however, since these price

increases are a global phenomenon, Iraq would have experienced them regardless of the value of the IQD – the devaluation would have only led to a one-off 23% increase in prices for USD-traded goods. These dynamics are shown in the changes of the UN Food and Agriculture Organization’s (FAO) Food Price Index (FFPI)¹⁵ versus those of the World Food Programme’s (WFP) Iraq-specific Food Baskets, known as the “Survival Minimum Expenditure Basket (SMEB)” and the “Cash-Based Transfer Basket (CBT)” (Figure 2).¹⁶

WFP Iraq Food Baskets vs. FAO Food Price Index
Rebased to 100 in November 2020

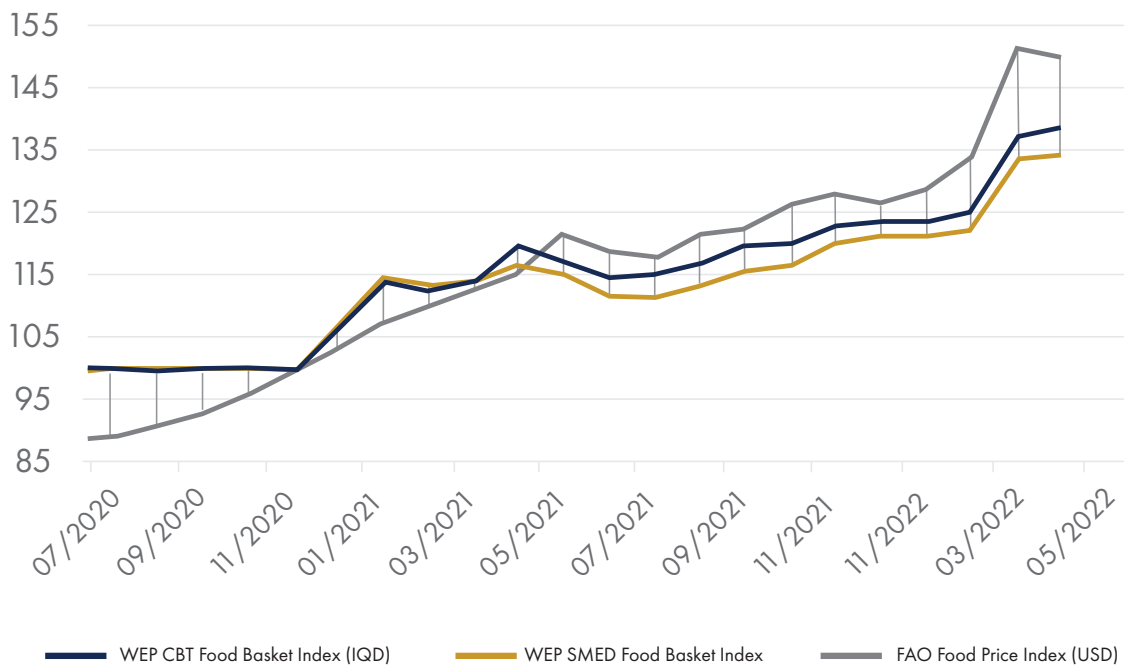


Figure 2: Iraq WFP Food Baskets vs. FAO Food Price Index. Source: WFP and FAO, data as of April 2022.

of Iraq, October 22, 2020. <https://gds.gov.iq/ar/iraqs-white-paper-for-economic-reforms-vision-and-key-objectives/>.

13 Lahib Higel, “Why Iraq cannot afford a stronger dinar,” Amwaj Media, March 11, 2022. <https://amwaj.media/article/devaluation-dinar-iraq-political-elites>.

14 “The Minister of Finance’s presentation to the CoR on February 28, 2022,” Ministry of Finance, March 3, 2022. <http://www.mof.gov.iq/pages/MOFBannerHeadlineDetail.aspx?BannerNewsID=1074>.

15 The FAO Food Price Index (FFPI) is a measure of the monthly change in international prices of a basket of food commodities. It consists of the average of five commodity group price indices, weighted by the average export shares of each of the groups over 2014-2016. “World Food Situation: FAO Food Price Index,” Food and Agriculture Organization of the United Nations. <https://www.fao.org/worldfoodsituation/foodpricesindex/en/>.

16 The SMEB includes seven food items (lentils, vegetable oil, rice, sugar, bulger, salt, and wheat flour) and eight non-food items (laundry detergent, sanitary pads, shampoo, soap, toothbrush, toothpaste, and garbage bags); the CBT Food Basket is

Figure 2 and Figure 3 use November 2020 as a basis for comparison¹⁷ to account for the IQD's devaluation in December 2020, and show that the WFP Iraq Food Baskets (CBT and SMEB) increased in the immediate aftermath of the devaluation in December 2020 to a peak increase of 17-19% by April 2021. They then moderated to an increase of 11-15% by July 2021, reflecting the likely effects of the IQD devaluation on food prices in IQD terms. International food prices, on the rise since Summer 2020, increased much more than the WFP Iraq Food Baskets during the same period. This pattern repeated in the immediate aftermath of the invasion of Ukraine (see Figure 3).

Iraqi vs. Global Food Price Increases

Importantly, the WFP Food Baskets are for retail food prices in Iraq in IQD which include transportation (international and within Iraq), distribution, storage, and other retail costs. Moreover, they include the one-off effect of the 23% IQD devaluation against the USD. The FAO Food Price Index reflects internationally-traded food prices in USD, and does not include any of the costs imbedded within the WFP Food Baskets, which puts the comparison in perspective.

Percentage change	WFP CBT Food Basket Index (IQD)	WFP SMEB Food Basket Index (IQD)	FAO Food Price Index (USD)
Devaluation + Ukraine Feb 2022 - Apr 2022	39%	34%	50%
Ukraine Feb 2022 - Apr 2022	11%	10%	12%

Figure 3: Source: WFP, FAO, data as of April 2022.

more diversified (wheat flour, rice, vegetable oil, lentils, salt, sugar, pasta, chicken, vegetables, and milk). "Iraq Market Monitor Report," World Food Programme, No. 31, March, 2022. <https://docs.wfp.org/api/documents/WFP-0000137684/download/>.

17 This is done by resetting all figures in November 2020 to 100, so all prices, both before and after November 2020, will be reset accordingly.

18 Alexander Hamilton, "The political economy of economic policy in Iraq," Middle East Centre paper series (32), LSE Middle East Centre, London, UK, March, 2020. http://eprints.lse.ac.uk/104086/4/Hamilton_political_economy_of_economic_policy_iraq_published.pdf.

Conclusion

There is considerable social justification for measures to mitigate the effects of high food prices on vulnerable members of the population. However, the expected boon of high oil revenues over the next few years provides Iraq the wherewithal to address its structural imbalances and vulnerabilities as proposed by the "White Paper" and to start the process of rebuilding the country's infrastructure that was destroyed over four decades of conflict. The risk and the likely outcome though, is that the lopsided incentives of the *Muhasasa Ta'ifia*¹⁸ will lead to a continuation of the same policies of the past that led to the economy's structural imbalances that made it so vulnerable to economic shocks.

IRIS

American University of Iraq, Sulaimani
**Institute of Regional &
International Studies**

CONTACT US

iris@uis.edu.krd
+964 773 152 6206

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without the prior written permission of the publisher.

Brick factory in Nahrawan near Baghdad, Iraq, March, 8, 2022. Reuters

