



Averting an Economic Meltdown in the Kurdistan Region of Iraq

Aligning Political Objectives with Economic Necessities

Athanasios Manis
July 2016

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Middle East Research Institute

1186 Dream City

Erbil, Kurdistan Region of Iraq

T: +964 (0)662649690

E: info@meri-k.org

www.meri-k.org

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Athanasios Manis
Research Fellow
Middle East Research Institute



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About the Author

Athanasios Manis is a research fellow of the International Politics and National Security Programme at the Middle East Research Institute. He holds a PhD from the London School of Economics. His research interests include EU and MENA affairs, foreign policy analysis, theories of international relations and political psychology. He has research and teaching experience in European politics and theories of democratisation.

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Contents

Executive Summary	6
1. Introduction.....	7
2. The KRI's Faltering Economy: Causes and Relevance of Possible Solutions.....	10
2.1 Oil Prices.....	10
2.2 The Fight against Corruption	12
2.3 Diversifying the Economy.....	13
2.4 Relations with Baghdad	13
2.5 The War against ISIS	14
3. The KRG's Immediate Response to the Economic Crisis: The Case of Fiscal Consolidation as a Catch- 22 Situation	15
4. Breaking the Vicious Cycle of Economic Downturn: Policy Options on the Table.....	17
5. How the Policy Options Can (or Cannot) Serve Short-Term Economic Necessities	18
5.1 The Case of Independence	18
5.2 The Case of Rapprochement with Baghdad	19
5.3 The Case of Macro-Financial Assistance from International Stakeholders	20
5.3.1 The IMF Factor	21
5.3.2 The EU Factor	22
5.3.3 A Pragmatic Approach by International Stakeholders	24
5.4 The Case of Macro-Financial Assistance from Regional Stakeholders	24
5.4.1 The Turkey Factor.....	25
5.4.2 The Iran Factor.....	26
5.4.3 The Saudi Arabia Factor	26
5.4.4 Syria and Yemen: A Valuable Lesson.....	27
6. Conclusions.....	28
7. Recommendations	29
7.1 To the KRG:.....	29
7.2 To the Iraqi Government:.....	29
7.3 To the International Stakeholders (US and EU):.....	30
Executive Summary and Recommendations in Arabic.....	36
Executive Summary and Recommendations in Kurdish	42

Executive Summary

This report is a contribution to the public debate in the Kurdistan Region of Iraq (KRI) about crucial aspects of the current economic crisis and the Kurdistan Regional Government's (KRG) immediate response. In addition, it looks at the impact four different policy options, such as a.) independence b.) rapprochement with Baghdad c.) macro-financing from International Stakeholders and d.) macro-financial assistance from Regional Stakeholders, may have in averting an economic meltdown in the short-term, on the assumption that the oil prices will remain suppressed for the foreseeable future. This report argues that it is only when the economic meltdown is averted in the short-term that the KRG will be able to proceed with deep structural reforms in the public sector and start working on the diversification of the economy.

After evaluating the pros and cons of the different policy options, the main argument is that the KRG needs to opt for macro-financial assistance from international stakeholders, such as the International Monetary Fund (IMF) in the short-run and the European Union (EU) at a later stage. The main advantages of this option are the following: the KRI could receive conditional preferential loans with low interest rates with the objective of restoring liquidity in the private sector, restarting vital public projects and restoring consumer confidence by paying a higher portion of public employees' salaries. Equally, international stakeholders will be able to monitor the process of stabilisation and provide direction and know-how in fighting corruption and diversifying the economy. The main challenge, however, is that the KRG leadership would have to change course in terms of its political objective of independence in the short-term at least. It appears that neither the United States (US) nor the European Union (EU) might commit such funds to Erbil unless it demonstrated goodwill for rapprochement with Baghdad.

The alternatives seem not to be relevant to the KRI's current economic needs. Independence is a long-term project that would require prior endorsement from international and regional stakeholders. Rapprochement with Baghdad alone is not enough as 17% of the depleted Iraqi budget cannot meet the KRI's financial needs. Finally, macro-financial assistance from regional stakeholders can only be considered as a complimentary solution due to the political, security and economic challenges that it poses.

All things considered, the current debate in the KRI is not sustainable; political and economic debates are carried out in a disconnected manner. The KRG's immediate priorities should be a reflection of a coherent and unified strategy balancing political objectives and economic necessities. Accordingly, the KRG and the political parties in Iraqi Kurdistan need to connect the two in a pragmatic manner. This report is a first attempt - and certainly not exhaustive - to raise governmental and public awareness of the need for a unified and coherent political and economic strategy to avert an economic meltdown in the KRI.

1. Introduction

The KRG currently finds itself in a dire macro-economic and financial situation. It suffices to highlight that its debt is estimated at around 17 billion dollars;¹ its operational budget deficit, meaning its inelastic expenses, stood at around 3.2 billion dollars for 2015 and its projected operational budget deficit for 2016 is calculated at about 1-2 billion dollars.² The negative prediction for the operational budget deficit of 2016 is in spite of the KRG's fiscal consolidation of 37 percent of its Gross Domestic Product (GDP) between 2014 and the first quarter of 2016.³ These estimates do not include the amount of money required to restart around 3,500 projects of public investment that have been frozen for at least one year.⁴ The KRG sought infrastructure loans that amounted to 5 billion dollars in the summer of 2015 with no success.⁵

In addition, the KRG struggled with its payments to international oil companies (IOCs) in 2015 and it remains to be seen if it can manage to make regular payments for 2016.⁶ Different sources report that the KRG owes \$378 million to Genel, \$250 million to Gulf Keystone and between \$500 million to \$1 billion dollars to DNO.⁷ DNO, Genel Energy and Gulf Keystone Petroleum have already announced that they will readjust their budget of investments for 2016 if Erbil cannot pay them consistently.⁸ This can put significant pressure on the level of oil production when the KRG is in critical need of revenues. Furthermore, IOCs' lawsuits against the KRG are hanging over its finances as the 'sword of Damocles'. For example, the London Court of International Arbitration has ruled for the KRG to pay around \$2 billion dollars to Dana Gas consortium.⁹ In addition, the Crescent Petroleum Co. and Dana Gas PJSC have initiated a lawsuit for "overdue payments and contractual issues" against the KRG that is expected to be decided later this year.¹⁰ Their claim is up to \$11 billion which is essentially the KRG's budget for a year.¹¹ Negative developments in the relations between the KRG and IOCs can lead to major disinvestment that can hit current oil production and future projects on gas exploitation, and erode confidence of potential foreign investors in other sectors.

1- The debt to GDP ratio is estimated at around 75.5%, while the arrears, i.e. the overdue debt, are calculated at around 36.4%. The debt almost doubled between 2014 and 2015. In 2014, it was up to \$9 billion. See more in World Bank and International Finance Corporation, *Reforming the Economy for Shared Prosperity and Protecting the Vulnerable*, June 2016, pp. 10-11, available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2016/06/06/090224b084397ae7/1_0/Rendered/PDF/Main0report.pdf, accessed 28 June 2016.

2- A big part of the loans was taken in 2014 when Baghdad froze the KRG's budget. Most of the debt is owed to domestic banks. This has put further pressure on the private sector of the Kurdistan Region. Interview with KRG officials, 31/03/2016, Erbil, Kurdistan Region of Iraq.

3- More about the policy of fiscal consolidation of the KRG in The World Bank and International Finance Corporation, *Kurdistan Region of Iraq, Reforming the Economy for Shared Prosperity and Protecting the Vulnerable*, June 2016, p. 14, available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2016/06/06/090224b084397ae7/1_0/Rendered/PDF/Main0report.pdf, accessed 28 June 2016.

It should be noted that as part of this policy the government introduced in January 2016 cuts between 15%-75% in the salaries and pensions of around 1.4 million current and former public employees depending on previous salary levels.

4- Interview with KRG officials, 31/03/2016, Erbil, Kurdistan Region of Iraq.

In addition, the KRG owes five months of salaries to state employees and payments to pensioners. The cost can be estimated at around \$2 billion.

5- The Kurdistan Parliament, *The Law of Obtaining Capital via Borrowing was approved*, 2 June 2015, available at <http://www.perlemanikurdistan.com/Default.aspx?page=article&id=22505&l=3>, accessed 16 April 2016.

6- See more in Christopher Adams, Michael Kavanagh and Erika Solomon, *Kurdistan cash squeeze tests western oil groups*, Financial Times, 28 July 2015, available at <https://next.ft.com/content/0cc26014-1674-11e5-b07f-00144feabdc0>, accessed 29 June 2016 and Stratfor, *Why Iraqi Kurdistan is struggling to pay its bills*, 28 January 2016.

7- Ibid.

8- Genel expects to produce 60,000-70,000 bpd for 2016 instead of 84,000 bpd that it produced in 2015. See more in Stratfor, *Why Iraqi Kurdistan is struggling to pay its bills*, 28 January 2016.

9- Ibid.

10- More in Anthony Dipaola, *Crescent sees \$11 Billion Kurd Gas claim decided this year*, Bloomberg, available at <http://www.bloomberg.com/news/articles/2016-06-26/crescent-sees-11-billion-kurdish-gas-claim-resolved-this-year>, accessed 30 June 2016.

11- The senior economic advisor to the KRG, James Parks, has argued that the KRG's annual budget is around \$10 billion. James Parks, *The Financial Sector – Increasing Access to Credit and Building Trust*, MERI Economic Forum, 28 April 2016.

In turn, the private sector, especially construction and real estate, has showed strong signs of dwindling confidence as a result of a rapidly deteriorating economic climate.¹² It has been estimated that household consumption per capita has contracted by 14% in 2014 and 24% in 2015 in the KRI, hitting property values and prices of consumer goods.¹³ On top of that, the KRG's overdue debt is estimated at around \$5-6 billion or 36.7% of its total debt.¹⁴ This has put further pressure on the private sector of the Kurdistan Region because a big part of the overdue debt is owed to private domestic institutions, such as local banks. This translates into greater uncertainty in the business sector of the Kurdistan Region, less private investment and eventually higher unemployment rates that feed back into a precipitously growing distress among consumers.¹⁵ The KRI is gradually falling into a vicious cycle of economic depression with its public and private sectors under severe stress. The possibility of experiencing an economic meltdown, if these circumstances carry on unchecked, is higher than ever.

What form the economic meltdown may take and when it will happen cannot be predicted easily. There are 'known unknowns' that make such an analytical exercise particularly difficult. For example, in addition to the lack of verifiable data about growth and unemployment rates in the KRI for 2015, there is a lack of data on the informal economy in the Kurdistan Region; its size, and most importantly, its capacity to keep consumption at levels that can sustain the private economy, especially construction and services, are unknown. In addition, the amount of cash households still retain from the boom years is unknown. In this context, predictions and estimations can be valuable as descriptions of possible economic trends. Transparency and up-to-date data collection by the KRG and independent statistical institutions can help to develop nuanced predictions.

What form the economic meltdown may take and when it will happen cannot be predicted easily. There are 'known unknowns' that make such an analytical exercise particularly difficult.

However, as mentioned above, there are certain macro-economic and financial indicators that cannot be dismissed, for they constitute a strong warning for the KRI's economic survivability in the short-run. All in all, in the next few months, the KRI might experience significant disinvestment in the private sector as a result of:

- precipitously falling consumer confidence that is fed by the general state of the economy and also by the extremely high levels of fiscal consolidation;
- the KRG's inability to serve its overdue debts owed mainly to the domestic private sector;
- and its failure to pay international oil companies regularly and in full.

12- Indicative of the economic climate is that of the over 100 Turkish construction companies that were active in the KRI in the last couple of years, only four were still active in 2015. Private correspondence with a business insider, Erbil, Kurdistan Region of Iraq, March 2015.

13- In addition, the latest World Bank and International Finance Corporation report confirms that as public and private consumption fell rapidly since 2014, property values and sales of cars and consumer goods have also followed significantly. See more in World Bank and International Finance Corporation, *Reforming the Economy for Shared Prosperity and Protecting the Vulnerable*, June 2016, pp. 4-9, available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2016/06/06/090224b084397ae7/1_0/Rendered/PDF/Main0report.pdf, accessed 28 June 2016.

14- More details on page 1 and footnote 1 of this report.

15- The KRG lacks data over growth and unemployment for 2015. This makes it even more difficult to have an accurate up-to-date evaluation of the macro-economic conditions. Correspondence with KRG officials at the Kurdistan Region's Statistical Office (KRISO), Erbil, April 2016. The latest data on unemployment is from 2014. It was estimated that the average unemployment rate among men and women of all ages was about 13%. See more in World Bank and International Finance Corporation, *Reforming the Economy for Shared Prosperity and Protecting the Vulnerable*, June 2016, p. 102, available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2016/06/06/090224b084397ae7/1_0/Rendered/PDF/Main0report.pdf, accessed 28 June 2016.

However, Frank Gunter has argued that currently the KRI's unemployment rate is possibly around 20%. The region has a very young population and therefore it needs to produce 70,000 jobs a year to keep the unemployment rate under control. Frank Gunter, *Making Kurdistan Competitive Again – Away from Rentier State*, MERI Economic Forum, 27 April 2016.

These developments can paralyse the economy as strikes in the public sector might continue or grow, while the private sector might not be able to continue importing expertise, technology as well as goods and materials that are necessary for its operation. If economic meltdown occurs, the rate of unemployment will sky rocket, the disposable income of consumers will be squeezed and the ability of the KRG to fund basic state functions will be enormously undermined. This could lead to major social unrest and deepen divisions among the political parties in Iraqi Kurdistan with unpredictable consequences for the unity of the KRI itself as well as Iraq.

It this context, the next few sections of the report will highlight the causes of the economic crisis in the Kurdistan Region. Moreover, the report will evaluate the extent to which the KRG has the capacity to address these causes in a short period of time and if so, what the positive effects of the solutions offered can be on the economy. The main conclusion is that either the KRG does not have the capacity to deliver solutions, such as influencing oil prices, or it cannot address long-standing particularly complex problems in a short period of time, including corruption, inefficiency and lack of economic diversification in the KRI in order to avert an economic meltdown.

If an economic meltdown occurs, the rate of unemployment will sky rocket, the disposable income of consumers will be squeezed and the ability of the KRG to fund basic state functions will be enormously undermined.

Subsequently, the report examines one of the KRG's immediate responses to the economic crisis, such as fiscal consolidation, and it highlights that extreme austerity can be utterly counterproductive for the economy, and especially for the private sector. This argument has been supported by previous studies conducted by the IMF. Therefore, it is argued that the KRG cannot find an escape from this crisis because of mutually conflicting conditions.

Accordingly, the report examines four different policy options that could potentially help the KRG to break the vicious circle of economic depression:

- a. independence,
- b. rapprochement with Baghdad,
- c. macro-financial assistance from international stakeholders,
- d. and macro-financial assistance from regional stakeholders.

Each of these choices has its pros and cons depending on whether the economic necessities are short or long-term. However, the analysis focuses specifically on how these policy options address the KRI's short-term economic necessities. Some of these options are mutually exclusive, but others are complimentary to each other.

2. The KRI's Faltering Economy: Causes and Relevance of Possible Solutions

The dire macro-economic and financial conditions the KRI finds itself in are only some of the symptoms of a faltering economy. However, the main causes of this economic crisis can be traced to:

- the collapse of oil prices in the last one year,
- the level of corruption and inefficiency in the KRI,
- the lack of economic diversification, with almost a sole reliance on the export of natural resources,
- the deeply problematic relationship with Baghdad,
- the war against the Islamic State of Iraq and Syria (ISIS).

All these developments have had a direct or indirect negative impact on the KRI's economic performance. The overall lack of data does not help in studying the exact effects of these identified causes on different sectors of the economy. At the same time, it can be assumed that addressing each of these causes sufficiently, and in tandem, can create an extremely positive economic environment for the KRI.

However, there are two main questions that determine the relevance of addressing each cause to the current acute economic crisis. The first is whether the KRG itself has the capacity to find solutions and the second is if these solutions can have immediate positive effects on a rapidly deteriorating economy.

2.1 Oil Prices

For all intents and purposes, oil prices are determined by global demand and supply and the KRI's share in the global oil market is minor compared to Saudi Arabia, Russia, Qatar or Iran. In addition, despite the increase of oil prices from 30 dollars a barrel to 50 dollars a barrel within two months in early 2016,¹⁶ there is good reason to believe that the upward trend will not continue or that oil prices will recede to lower levels due to developments in the demand and supply side of oil pricing.

Regarding the demand side, analysts raise concerns about how the global economy will perform in the coming months, if not years.¹⁷ The Brexit vote of 52% against UK's EU membership was a big blow to the global markets with prices of stocks and goods, such as oil, in retreat. Brexit has now put the EU's economic prospects and political stability into question, with wider implications for the global economy. As Kenneth Rogoff, Harvard Professor of Public Policy and Economics, argues, "The biggest economic risk from the Brexit vote is that it turns out to be the start of a vicious cycle of low growth and populist policies that lead to still lower growth and even more populist policies across the west".¹⁸

Oil prices are determined by global demand and supply and the KRI's share in the global oil market is minor compared to Saudi Arabia, Russia, Qatar or Iran.

16- There is no official data on the price of Kurdish oil, but it is expected to be below market price mostly due to legal challenges.

17- Kenneth Rogoff, *The economic risks of an outbreak of Brexit-style votes*, Financial Times, 1 July 2016, available at <https://next.ft.com/content/e14a5b68-3ec6-11e6-8716-a4a71e8140b0>, accessed 2 July 2016 and Nouriel Roubini, *The Global Economy's New Abnormal*, Project Syndicate, 4 February 2016, available at <https://goo.gl/4kiouH>, accessed 12 April 2016.

18- Kenneth Rogoff, *The economic risks of an outbreak of Brexit-style votes*, Financial Times, 1 July 2016, available at <https://next.ft.com/content/e14a5b68-3ec6-11e6-8716-a4a71e8140b0>, accessed 2 July 2016

It has to be noted that the EU is the world's second largest economy and the world's largest importer of energy, consuming one fifth of the world's energy.¹⁹ Furthermore, the political and economic stability of the EU will depend on the economic performance of struggling Eurozone countries, such as Greece, Portugal, Ireland, Spain and Italy.

In addition, there are concerns about how the US economy will perform as its central bank (the Fed) is gradually raising interest rates, making it more expensive for businesses in the country to borrow money. At the same time, the International Monetary Fund (IMF) has warned that "the picture for emerging market and developing economies is diverse but in many cases challenging".²⁰ More specifically, growth in China is expected to slow to 6.3% in 2016 and 6% in 2017.²¹ Rogoff argues, "The debt-laden Chinese economic machine is sputtering, with recent large credit injections producing only tepid growth".²² Despite the gradual improvement of growth rates for Brazil, Russia and some countries in the Middle East, the IMF warns that economic or political shocks might disrupt it. In its revised forecasts, the IMF notes that "overall, forecasts for global growth have been revised downward by 0.2 percentage point for both 2016 and 2017".²³ Therefore, there is strong possibility that the global demand for oil will not catch up with the increasing levels of oil production.

From an oil supply point of view, a mutual agreement on freezing oil production – let alone reducing it – between major oil producers, such as Russia, Saudi Arabia and Iran, seems to be a Herculean task, if not impossible, due to diverging interests and the lack of trust between them. Despite a provisional agreement between Saudi Arabia, Russia, Qatar and Venezuela back in February 2016 to freeze oil production at January levels, the talks in Doha in April failed to deliver any tangible results since Saudi Arabia decided to insist on making Iran's participation in the oil freeze mandatory.²⁴ Iran's insistence to increase its oil production to the pre-sanctions level effectively killed the plan.²⁵ The main explanation for the lack of agreement on freezing oil output is the zero-sum game between Saudi Arabia and Iran in the Middle East.²⁶ Saudi Arabia would not forgo part of its oil market share for the sake of Iran. If Saudi Arabia were to freeze its oil production, Iran would cover any increase in global demand. As a result, this would enhance its position in the market. One can imagine that oil reduction would be even harder for Saudi Arabia to accept given that this would precipitate Iran's stronger participation in the global oil market.

In addition, even if Saudi Arabia had agreed to commit itself to freezing its oil production, despite Iran's refusal to follow suit, it would still have limited effects on the oil price. Oil prices will continue to be suppressed for as long as aggregate oil supply surpasses aggregate oil demand on a global scale.

Potentially, the KRG could increase its oil production in order to substitute for the lower revenues it receives due to lower oil prices. However, there are two main issues. The first relates to the international oil companies' willingness to invest fresh

19- European Commission, *The European Union Explained: Energy, European Union*, July 2012, p. 3 available at <https://ec.europa.eu/energy/sites/ener/files/documents/energy.pdf>, accessed 2 July 2016.

20- International Monetary Fund, *Subdued Demand, Diminished Prospects*, January 2016, available at <http://www.imf.org/external/pubs/ft/weo/2016/update/01/>, accessed 9 June 2016.

21- Ibid.

22- Kenneth Rogoff, *The economic risks of an outbreak of Brexit-style votes*, Financial Times, 1 July 2016, available at <https://next.ft.com/content/e14a5b68-3ec6-11e6-8716-a4a71e8140b0>, accessed 2 July 2016

23- International Monetary Fund, *Subdued Demand, Diminished Prospects*, January 2016, available at <http://www.imf.org/external/pubs/ft/weo/2016/update/01/>, accessed 9 June 2016.

24- Anjali Raval and David Sheppard, *Oil price tumbles on Doha deal stalemate*, Financial Times, 18 April 2016, available at <https://goo.gl/omG2as>, accessed 24 April 2016.

25- At the moment, Iran produces 3.4 million barrels per day and it plans to increase its production up to 4 million barrels per day. Mark Shenk, *Oil Falls from Three-Month High as Iran refuses to Join Freeze*, Bloomberg, 14 March 2016, available at <http://goo.gl/0uT70G>, accessed 24 April 2016.

26- There are also economic considerations as to why Saudi Arabia refuses to freeze its oil production at its current levels. Accordingly, Saudi Arabia can afford to continue producing and exporting at an increased level for a considerable amount of time until the suppressed oil prices make it uncompetitive for oil producers to continue fracking. The expectation for Saudi Arabia is that they would cease their operations. These arguments go hand-in-hand with the geopolitical arguments about the Iran-Saudi Arabia strife in the Middle East. John Kemp, *Is Saudi Arabia winning the war against shale?*, Reuters, 18 February 2016, available at <http://www.reuters.com/article/us-oil-shale-kemp-idUSKCN0VR2AB>, accessed 12 May 2016.

capital to develop new oil fields in a period of suppressed prices, low profitability and economic uncertainty.²⁷ The second is that the KRG's attempt to increase its oil production substantially in order to ease its economic pain would be politically and economically counterproductive. Without agreement among oil exporting countries on freezing or even reducing output levels, the prices might not rise anytime soon to levels that can easily sustain a fiscal surplus. This is particularly critical for the KRG due to its overall debt and its budget deficit in 2015 and 2016.²⁸ Subsequently, no one can guarantee at this stage that the KRG's oil revenues will meet its budgetary needs for the next couple of months or even years.

2.2 The Fight against Corruption

Fighting corruption is another potential source of income for the KRG. However, in the absence of transparency and confidence in public policy and data, analysts and the public cannot be certain how much money is squandered. Transparency International acknowledges that "there is limited information regarding the extent of corruption in the KRI", let alone the cost of corruption for the Region's citizens.²⁹ Furthermore, it is questionable how quickly anti-corruption policies put forward by the KRG could potentially yield positive results.³⁰ As it has been argued in previous studies, anti-corruption policies in countries plagued by rampant corruption can fail due to the collective action problem. The main argument is that "actors engage in corrupt behaviour not because they morally approve of it or do not understand the negative consequences for society at large, but because as long as they expect everyone else to play foul, they perceive the short-term benefits of engaging in corrupt behaviour to be greater than the costs".³¹ In other words, actors would not engage with anti-corruption on the assumption that others would continue to benefit from corruption instead of fighting it along them. In the case of the KRI there has to be political consensus among parties and the government to fight corruption and deliver transparency on issues, such as oil production, oil prices, revenues and public procurements. In any other case, anti-corruption efforts would not bring the necessary results. For corruption is primarily a political matter. This explains why fighting corruption efficiently will take time and it cannot be considered an effective, immediate response to the KRI's current economic crisis.

Anti-corruption policies in countries plagued by rampant corruption can fail due to the collective action problem.

27- Companies such as Gulf Keystone have been hit hard by the low oil prices and the inability of the KRG to pay regularly. The company is still owed 168 million dollars. More in Kiran Stacey and David Sheppard, *Gulf Keystone raises fears for its future*, Financial Times, 18 March 2016, available at <https://goo.gl/FMVXfK>, accessed 3 May 2016. At the same time, Genel announced that its main producing oilfield in Taq Taq has around half of the oil reserves previously thought. This could potentially affect the financing of the Miran gasfield, a major project for Genel and the KRG. More in Kiran Stacey and David Sheppard, *Genel shares plunge after oilfield downgrade*, Financial Times, 29 February 2016, available at <https://goo.gl/TkdtPS>, accessed 3 May 2016.

28- See page 7 of this report.

29- More in Transparency International, Anti-Corruption Resource Centre and CHR. Michelsen Institute, *Kurdistan Region of Iraq: Overview of Corruption and Anti-Corruption*, March 2015, available at <http://goo.gl/iHJ8BB>, accessed 15 April 2016.

30- The KRG has been trying to engage international partners in audits and seek technical advice on how to fight corruption. However, it should be noted that technical advice cannot tackle the issue without political determination by all political parties and the government, for corruption is primarily a political issue not a technical one.

31- Persson, Anna, Rothstein, Bo, Teorell, Jan, *Why Anticorruption Reforms Fail – Systemic Corruption as a Collective Action Problem*, Governance, 2013, Vol. 26(3), p. 457.

2.3 Diversifying the Economy

The question of diversification touches upon the challenge of increasing non-oil revenues and strengthening economic activity in different areas of the private sector, including tourism and agriculture. The non-oil revenues can potentially be drawn from a comprehensive tax code, including corporate, income and real estate taxes. However, the culture of taxation is underdeveloped in the KRI and the unpopularity of heavy taxation in a faltering economy would render the political costs extremely high for any government. In addition, full and equal implementation of a tax system by the administration cannot be guaranteed. Similar bills were debated in the past by the Parliament with no particular success.³² In addition, it is not certain that the KRG has the capacity to implement a fiscal reform package of that scale in a short period of time. Instead, the KRG could follow a step-by-step approach by introducing some new small taxes, such as setting a tax on property assets that exceed a certain value or enforcing the collection of utility fees that could gradually change the taxation culture.³³ For the time being, non-oil revenues cannot cover the KRG's funding needs to a sufficient level.

Relatively successful cases of diversification and export-led growth, such as Malaysia and Chile, had enough revenues stemming from natural resources and a well-defined government strategy.

In addition, relatively successful cases of diversification and export-led growth, such as Malaysia and Chile, had enough revenues stemming from natural resources and a well-defined government strategy.³⁴ It would be difficult to imagine how the KRI could successfully embark on diversification by supporting and investing in agriculture and tourism when both the public and private sectors are in severe economic distress. For agriculture to flourish, irrigation planning, know-how and technology are needed. Similarly, tourism needs more investments on key infrastructure, such as new roads, healthcare and transportation systems.³⁵

2.4 Relations with Baghdad

Fixing relations with Baghdad and resuming the payment of the 17% of the Iraqi budget is another possible way to mitigate the effects of the economic crisis. One should not forget that when Baghdad cut the fiscal transfers in 2014, Erbil experienced a significant deceleration of its GDP from 8% in 2013 to 3% in 2014.³⁶ However, as will be discussed in more detail further below, in the presence of low oil prices rapprochement with Baghdad alone cannot make up for the current economic and financial challenges that the KRI is facing. More specifically, Baghdad's economy is also hit hard by the low oil prices and political paralysis has now engulfed the government and the parliament. Therefore, it would be difficult to imagine how 17% of the current Iraqi budget – if there was to be any solid agreement over the issue between the two parties – could help to revive the KRI's economy. Nevertheless, it is the political and diplomatic benefits of a constructive stance on the part of the KRG that can be used for requesting direct or indirect macro-financial assistance from international stakeholders, including the US and the EU.

32- Roger Guiu, *In the Best of Times and the Worst of Times: Addressing Structural Weaknesses of the Kurdistan Region's Economy*, MERI, January 2016, p. 35, available at <http://www.meri-k.org/wp-content/uploads/2016/01/MERI-Economic-Report-January-2016.pdf>, accessed 18 May 2016.

33- Ibid.

34- For the case of Malaysia see more in Zainal Aznam Yusof, *Economic Diversification: The Case of Malaysia*, Revenue Watch Institute, available at http://www.resourcegovernance.org/sites/default/files/RWI_Econ_Diversification_Malaysia.pdf, accessed 7 June 2016. For the case of Chile see more in Maria Elena Varas, *Economic Diversification: The Case of Chile*, Revenue Watch Institute, available at http://www.resourcegovernance.org/sites/default/files/RWI_Econ_Diversification_Chile.pdf, accessed 7 June 2016.

35- James Rasaiah, *The Future of Tourism in Iraqi Kurdistan: Opportunities and Challenges*, MERI, April 2015, available at <http://www.meri-k.org/publication/the-future-of-tourism-in-iraqi-kurdistan-opportunities-and-challenges/>, accessed 12 June 2016.

36- More about the impact of the budget freeze in Kulaksiz, Sibel, *Iraq - Assessing the economic and social impact of the Syrian conflict and ISIS*, World Bank Group, Washington, DC, 2015, p. 37, available at <http://goo.gl/eJl66u>, accessed 13 June 2016.

2.5 The War against ISIS

Finally, the emergence of ISIS in Iraq and Syria and the ensuing war against it have severely damaged Iraqi Kurdistan's economy. To name but a few consequences, around 3.5 million Iraqi citizens are internally displaced with 1 million living in the KRI today.³⁷ In addition, 250,000 refugees from Syria have been residing in Iraqi Kurdistan.³⁸ The KRI has to deal with enormous social and humanitarian pressures. According to World Bank's most recent report on the economic and social impact of the ISIS conflict on the KRI, the Region's infrastructure, including water, solid waste management, electricity, and transport sectors, is under severe stress.³⁹ The poverty rate has more than doubled, namely from 3.5% to 8.1%.⁴⁰ Furthermore, it was estimated that the stabilisation cost for 2015 is at \$1.4 billion.⁴¹

Despite the lack of conclusive data, one can also refer to the drop of foreign direct investment (FDI) in the Kurdistan Region. The general feeling of insecurity that ISIS has brought upon Iraq, including Iraqi Kurdistan, has tarnished internationally its image as a country of opportunity because of its oil reserves. Therefore, it would not be unfounded to assume that FDI has decreased compared to what used to be in the previous years.⁴² Thus, defeating ISIS and stabilising Iraq is of paramount importance for the KRI's economy.

However, the developments on the ground show that the situation will get worse before it gets better. For example, the operation to liberate Mosul, a city of 2 million people, predominantly Arab Sunnis, raises concerns of the impact the war will have on the local population and infrastructure. The expectation is that it will create new waves of IDPs that will naturally affect Iraqi Kurdistan, putting more pressure on its resources and economy. In addition, there are many known unknowns about the power struggle in Baghdad and how it can affect the coordination between forces that fight ISIS on the ground and by extension their operational capacity and effectiveness. Finally, the Syrian front against ISIS is characterised by many unknown unknowns as to how the end game of ISIS will come to fruition.

It cannot be argued that winning the war against ISIS is an option for strengthening the KRI's economy in the short-term. On the contrary, this is an arduous war demanding human and financial capital, political consensus among the Iraqi elements and parallel positive developments on the Syrian front.

All in all, it cannot be argued that winning the war against ISIS is an option for strengthening the KRI's economy in the short-term. On the contrary, this is an arduous war demanding human and financial capital, political consensus among the Iraqi elements and parallel positive developments on the Syrian front.

37- International Organization for Migration, Displacement Tracking Matrix, DTM Round 46, May 2016.

38- UNHCR, Syria Regional Refugee Response - Iraq, Inter-agency Information Sharing Portal, available at <http://data.unhcr.org/syrianrefugees/country.php?id=103>, accessed 12 June 2016.

39- Kulaksiz, Sibel, Iraq - *Assessing the economic and social impact of the Syrian conflict and ISIS*. Washington, DC, 2015, World Bank Group, pp. 7-12, available at <http://goo.gl/eJl66u>, accessed 13 June 2016.

40- The World Bank, *The Kurdistan Region of Iraq needs an estimated \$1.4 billion this year to stabilise the economy*, February 2015, available at <http://www.worldbank.org/en/news/press-release/2015/02/12/kurdistan-region-iraq-stabilize-economy>, accessed 14 June 2016.

41- Ibid.

42- FDI in Iraqi Kurdistan back in 2014 was up to \$5.5 billion dollars. Alexandra Di Stefano Pironti, *Foreign Investment in Kurdistan at \$5.5 billion; UAE among Top Investors*, Rudaw, January 2014, available at <http://rudaw.net/english/business/22012014>, accessed 14 June 2016.

3. The KRG's Immediate Response to the Economic Crisis: The Case of Fiscal Consolidation as a Catch- 22 Situation

So far, the government has been trying to implement measures of fiscal consolidation/adjustment in order to reduce its budget deficit and control its growing debt. The policy of fiscal consolidation through cuts in the public sector is built on the KRG's stated intention to manage public expenses in a financially sustainable and prudent manner. The KRG's senior economic advisor, James Parks, has argued that one of the main structural problems in the KRI's economy is "the extent to which the KRG spends oil rents, not for investment, but for consumption".⁴³ He stipulated that the level of KRG "subsidies for consumption" through salary payments and electricity subsidies are "the largest numbers you would find anywhere". The amount is up around 10 billion dollars a year. According to the senior economist, this is equal to the KRG's budget or to 40% of the KRI's GDP.⁴⁴ His suggestion – currently not endorsed by the KRG – is that the government needs to run budget surpluses, which would translate into deeper cuts.

The government has put forward ambitious plans of cutting spending by reducing the KRG's monthly budget by around 25%.⁴⁵ This translates into cuts of 250 million dollars a month. It is estimated that in less than three years the KRG has carried out fiscal consolidation equivalent to 37 percent of GDP.⁴⁶ Putting things into perspective, this is the highest percentage of fiscal consolidation that has been implemented in the last few years in the world. It suffices to say that Greece and Portugal, who have had serious macro-economic problems and had to resort to the EU and the IMF, implemented a total consolidation of 16.7% and 12.3% respectively for years 2009-2013.⁴⁷

Without saying that fiscal consolidation or tightening is unnecessary for the KRI, the way it is carried out will eventually determine if it is actually part of the solution or if it becomes part of the problem. Extreme austerity can be utterly counterproductive for the economy, and especially for the private sector. This argument has been supported by studies conducted by the IMF.

In a nutshell, the IMF conducted a study of 28 economies that carried out austerity measures and it found that the effects of austerity on real output were higher than was initially estimated.⁴⁸ More specifically, the fiscal multipliers were initially estimated between 0.4 and 1.2, whereas the Fund found that they vary between 0.9 and 1.7.⁴⁹ This means that for public spending cut of 1 per cent of GDP, the real GDP would be reduced between 0.9 and 1.7 per cent. In other words, the cost of fiscal consolidation can be higher than its benefits.

As there are no figures of the KRI's GDP growth for 2015, this is a red flag for the government to speed up the process of gathering data and conducting research on the effects of its austerity programme. The latest report prepared by the World Bank and the International Finance Corporation at the KRG's request, *Reforming the Economy for Shared Prosperity and Protecting the Vulnerable*, lacks any sort of data on the fiscal multipliers, although it states, "this report proposes reform options for fiscal adjustment and for the diversification of the economy in addition to social mitigation measures to

43- James Parks, *The Financial Sector – Increasing Access to Credit and Building Trust*, MERI Economic Forum, 28 April 2016.

44- Ibid.

45- Interview with KRG officials, 31/03/2016. This has been achieved mainly through public employees' salary cuts. The cuts that were introduced by the KRG on 27 January range from 15% to 75% depending on the salary level.

46- The report does not stipulate if the fiscal adjustment of 37% comes from cutting spending or increasing revenues but it can be assumed that the KRG has been focusing more on cutting salaries because taxation has not been developed thus far. See more in The World Bank and International Finance Corporation, *Kurdistan Region of Iraq, Reforming the Economy for Shared Prosperity and Protecting the Vulnerable*, June 2016, p. 14, available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDS/IB/2016/06/06/090224b084397ae7/1_0/Rendered/PDF/Main0report.pdf, accessed 28 June 2016.

47- OECD, *OECD Economic Surveys: United Kingdom 2013*, OECD Publishing, Paris, p. 18.

48- International Monetary Fund, *Coping with High Debt and Sluggish Growth, World Economic Outlook*, October 2012, available at <http://goo.gl/WI9pn>, accessed 9 May 2016. Gavyn Davies, *High fiscal multipliers undermine austerity programmes*, Financial Times, 21 October 2012, available at <http://goo.gl/XwWmi>, accessed 9 May 2016.

49- "The fiscal multiplier is used to measure the effect of government spending (fiscal policy) on the subsequent income level of that country". Investopedia, *Fiscal Multiplier*, available at <http://goo.gl/UCBvm8>, accessed 10 May 2016.

protect the vulnerable from impacts of the external shocks”.⁵⁰ Therefore, the main question that arises is how the authoring organisations can propose plausible reform options for fiscal adjustment without at the same time estimating the effects of public spending cuts on the real economy?

It is plausible to argue that cuts in the salaries and pensions of around 1.4 million current public employees between 15 and 75 per cent are having a negative knock-on effect on the real economy of the Kurdistan Region, including the private sector.⁵¹ For example, a significant decrease in public employees’ disposable income will lead to less spending on goods and services in the KRI. Subsequently, some businesses will have to halt investments or even cease operations, affecting negatively Iraqi Kurdistan’s gross domestic product and unemployment rates, and contributing further to an ever - growing negative economic climate with higher levels of unemployment. It remains to be seen how the government estimates fiscal multipliers and what measures it takes to ameliorate the negative effects on the real economy. Hence, the focus should be at the same time on how to grow the economy.

KRG’s fiscal consolidation is equivalent to 37% of its GDP. In relative terms, it is the highest percentage in the world if one considers that Greece and Portugal implemented a total consolidation of 16.7% and 12.3% of their respective GDP.

The issue of fiscal consolidation illustrates clearly a catch-22 situation for the KRG. On the one hand, the government needs to save money, so that it can serve its debt and embark on reforms, such as diversification of the economy in the long run, but on the other hand, it must avoid creating conditions that could lead to an economic meltdown. The fiscal consolidation, as it is being carried out at the moment, can harm more the real economy than it can benefit it.

50- The World Bank and International Finance Corporation, *Kurdistan Region of Iraq, Reforming the Economy for Shared Prosperity and Protecting the Vulnerable*, June 2016, p. xi, available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDS/IB/2016/06/06/090224b084397ae7/1_0/Rendered/PDF/Main0report.pdf, accessed 28 June 2016.

51- The public sector’s employment as a percentage of the total labour force is estimated to be up to 53%. This is a very high percentage considering that in Turkey it is 12% and in Jordan it is 26%. This illustrates that the KRG is the largest employer in the KRI. Hence, it is plausible to argue that cuts in the public sector will negatively affect aggregate demand due to its large size. *Ibid.*, p. 7.

4. Breaking the Vicious Cycle of Economic Downturn: Policy Options on the Table

As discussed above, the crucial question for the KRG in the short run is how it will achieve a balanced budget, serve its debt, reinvigorate the private sector and diversify its economy, given that oil prices remain low suppressing the KRG's revenues for the foreseeable future. The Kurdistan Region of Iraq is in dire need of breaking the vicious cycle of its economic downturn. In this context, it is important that the KRG takes steps that can potentially restore confidence among current domestic and international investors as well as consumers. To name but a few:

- starting paying any outstanding loans owed to the private sector,
- serving fully and on time its contracts with IOCs,
- restarting a number of public projects that have been currently frozen, and
- paying a significantly higher percentage of individual salaries and pensions in the public sector on a regular basis and guaranteeing regular payments of salaries for the security forces in the long-run.⁵²

For the time being, the only way for the KRG to fund these activities in the short-term is to seek external funding through international institutions or states. Accordingly, Kurdish leaders have four main possible policy choices at their disposal to boost their chances of averting an economic meltdown in the short-term: a. Independence b. Rapprochement with Baghdad c. US and EU macro-financial support d. Regional stakeholders' financial support, such as Turkey, Saudi Arabia or Iran.

Each of these choices has its pros and cons depending on whether the economic necessities are short or long-term. However, the analysis will be focusing on how these policy options address the KRI's short-term economic necessities. Some of these options are mutually exclusive, but others are complimentary to each other.

52- The US has already pledged \$415 million to the Peshmerga forces. Zhelwan Z. Wali, *Peshmerga salaries to be paid from US \$415m financial assistance*, April 2016, available at <http://rudaw.net/english/kurdistan/180420166>, accessed 3 May 2016. It is not certain at all if the KRG would be able to foot the bill of this war in the long-run without the support of the US and the EU countries.

5. How the Policy Options Can (or Cannot) Serve Short-Term Economic Necessities

5.1 The Case of Independence

Increasingly, KRG officials are debating the issue of organising a referendum for Kurdistan's independence.⁵³ In theory, there are three main advantages for this policy option. The first is that international recognition means that Iraqi Kurdistan could directly request financial assistance from international institutions, such as the IMF. The second is that it can develop its own monetary policy, which currently lies under the control of the Central Bank of Iraq. Monetary policies "determine the size and rate of growth of the money supply," which means that central banks can control important aspects of an economy such as interest rates, inflation and growth.⁵⁴ A Kurdish central bank could work more closely with local businesses for better results. At the moment, monetary policies are shaped by Baghdad's economic and political objectives. The third is that it will be able to export oil without the threat of lawsuits in national courts of countries which are willing to import Kurdish oil.⁵⁵ The effect of unrestricted access to the oil markets would mean higher prices for the Kurdish oil.

However, equally, there are some important aspects of this policy option that can offset its advantages or even render them as irrelevant to the KRI's case. The first is that KRG would have to first convince the international community and specifically the US, the EU, Russia and China to endorse such a prospect beforehand. In any other case, a referendum or the declaration of independence itself would not mean that Iraqi Kurdistan would be able to engage in direct discussions with international financial institutions, or even sell oil to any country around the world, without the threat of diplomatic sanctions or lawsuits by Baghdad.

For independence to be relevant in any attempt to secure external financial assistance and establish trade links with the international community, agreed prior endorsement by international and regional stakeholders is key.

Even if the US and some EU member states endorse an independent Kurdistan, the case of Kosovo illustrates that full acceptance by the international community is not a given.⁵⁶ Despite US support and that of the majority of EU member states, Kosovo has not yet achieved UN membership and is still not recognised by a number of EU countries.⁵⁷ Hence, one can extrapolate from that example that recognition in the case of the KRI can be even more difficult and complicated because the US and the EU are strong supporters of Iraq's unity. Regional stakeholders, such as Iran are also likely to oppose the idea of an independent Kurdistan, while Turkey has an ambiguous position over the issue.

Thus, for independence to be relevant in any attempt to secure external financial assistance and establish trade links with the international community, agreed prior endorsement by international and regional stakeholders is key, but far from the current reality. A declaration of independence without prior support would be a highly risky endeavour with potentially severe ramifications for the economic prosperity of the KRI and its people.

53- Rudaw, *Kurdish national security chief says region determined to hold referendum*, available at <http://rudaw.net/english/kurdistan/10022016>, accessed 14 April 2016.

54- Investopedia, *Monetary Policy*, available at <http://goo.gl/JtIgrj>, accessed 14 April 2016.

55- Laurel Brubaker Calkins, *Iraqi Kurds Dealt Setback by U.S. Court Ruling on Oil Sale*, available at <http://goo.gl/XWPazc>, accessed 12 April 2016.

56- BBC, *Kosovo Profile*, available at <http://www.bbc.com/news/world-europe-18328859>, accessed 12 April 2016.

57- Georgi Gotev, *Serbia fears EU will pressure Greece to recognise Kosovo*, EurActiv, 17 August 2015, available at <https://goo.gl/wbfWV4>, accessed 13 April 2016.

5.2 The Case of Rapprochement with Baghdad

Rapprochement with Baghdad offers economic advantages to the extent that it becomes possible for Kurdistan to legally export its oil and gas globally through the State Organisation for Marketing of Oil (SOMO) in exchange for 17% of the Iraqi budget. In addition, Kurdistan could avoid the risk of lawsuits that hinders it from exporting to any market at the moment. This would also mean that Kurdistan's oil can be sold through SOMO at a slightly better price than it is actually sold for now. There is an additional factor at the moment that makes this option attractive; the rising insecurity in the Kurdish areas of Turkey can, and has at times, seriously disrupted the flow of Kurdish oil to the Ceyhan port – currently the KRI's only mode of export,⁵⁸ with big losses for the Kurdish economy.⁵⁹ A potential connection to Baghdad's pipelines can serve as an alternative route.

However, there are two strong counterarguments. The first relates to the feasibility of an Erbil-Baghdad agreement given the political paralysis in both capitals. Currently, Baghdad does not have an effective government and there are deep political divisions in the Shia community.⁶⁰ Iraqi Prime Minister Haidar Al-Abadi has been weakened after failing to get the approval of the parliament for his cabinet's reshuffle opening a Pandora's Box about his political future. At the same time, extra-governmental political figures, such as Muqtada Al Sadr, have become increasingly stronger through their popularity in parts of the Shia community, further diffusing political power and adding to the divisions among different Shia groups that vie for influence and power. Decision-making in Baghdad is becoming increasingly tortuous, affecting negatively the possibility for a Baghdad-Erbil agreement. At the same time, the Kurdish politics is more fragmented than ever since the end of the civil war in the 1990s.

An additional point is how sustainable an agreement would be when there is lack of trust between the two parties over a number of issues, including the final status of Kirkuk and other disputed areas. In the past, there were serious disagreements as to how much oil Iraqi Kurdistan would deliver to SOMO and how much revenue it would then receive from Baghdad.

Even if there was an agreement between the two parties, it is not clear how rapprochement would address the financial needs of Kurdistan. The three-fold drop in the oil prices in the last year and a half means that Iraqi Kurdistan would receive three times less revenue from Baghdad than what it received in 2013. Even if Kurdistan were to export oil without the risk of lawsuits and was able to get a slightly better price per barrel, as per an optimal scenario of independence, this would not match the 10 billion dollars that Kurdistan received from Baghdad as oil revenues in 2013. Furthermore, Baghdad itself is facing severe economic problems with a GDP contraction of 2.1 percent and a current account deficit of 5.1 percent of GDP (\$13 billions) for 2015.⁶¹ It is, therefore, questionable whether Baghdad would deliver the 17% of the Iraqi budget to the KRI unless the US and the EU use their leverage to ensure it. In any case, a rapprochement with Baghdad cannot be the main answer to the Kurdistan Region's economic plight due to the low oil prices that have hampered Iraqi oil revenues overall.

Baghdad-Erbil rapprochement can have an added value if combined with Iraqi Kurdistan's endeavour to secure loans from the US and EU. It would be extra leverage, other than the fight against ISIS, if the KRG was willing to use it as a negotiating card.

58- Reuters, *Turkey starts repairs on Iraqi Kurdish oil pipeline as violence flares*, available at <http://in.reuters.com/article/turkey-iraq-kurds-oil-idINL8N1660D6>, accessed 24 March 2016.

59- NRT, *KRG says loss from Ceyhan pipeline stoppage now over 200 million dollars*, March 2016, available at <http://www.nrttv.com/EN/Details.aspx?Jimare=5621>, accessed 13 April 2016.

60- More about Shia divisions in Iraq in Ranj Alaaldin, *Saving Iraq, What Ayatollah Sistani Can Do*, Foreign Affairs, 9 May 2016, available at <https://www.foreignaffairs.com/articles/iraq/2016-05-09/saving-iraq>, accessed 16 June 2016.

61- International Monetary Fund, *IMF Staff Completes Mission for a Staff-Monitored Program Review and a Stand-By Arrangement Discussion with Iraq*, 29 March 2016, <https://www.imf.org/external/np/sec/pr/2016/pr16142.htm>, accessed 12 April 2016. This is a major drop for Iraq's GDP if one considers that its economy grew by 12.6% in 2012 and by 4.2% in 2013. The World Bank, DATA: Iraq, available at <http://data.worldbank.org/country/iraq>, accessed 12 April 2016.

However, a Baghdad-Erbil rapprochement can have an added value if combined with Iraqi Kurdistan's endeavour to secure loans from the US and EU. It would be extra leverage, other than the fight against ISIS, if the KRG was willing to use it as a negotiating card. Both the US and EU are proponents of the current legal status quo in Iraq. It is characteristic that the EU Ambassador to Iraq, Patrick Simonnet, has stated:

The EU firmly supports Iraqi efforts to preserve the unity, sovereignty and integrity of the country and to achieve peace and security through lasting and inclusive political governance, national reconciliation, and to make progress towards a better future for all Iraqis. The EU underlines the importance of preserving the multi-ethnic, multi-religious and multi-confessional character of Iraqi society.⁶²

Therefore, there are strong indications that rapprochement with Baghdad (or a goodwill attempt at rapprochement) could help the KRG to build up its political capital with international stakeholders. This political capital can then be used to negotiate substantive macro-financial assistance. As will be discussed in the next section, the US and EU have the capacity and tools for macro-financing but they would only provide it under strict political and economic conditions. Rapprochement with Baghdad is one of the main political conditions that they would push for.

5.3 The Case of Macro-Financial Assistance from International Stakeholders

Financial assistance from international stakeholders is possible, but comes with strict economic and political conditionality attached to it. International stakeholders, such as the US and EU, have the capacity for, and interest in, providing macro-financing to the Kurdistan Region to survive the current economic crisis. Kurdistan's major contribution to the war against ISIS in Iraq and its key role in Iraqi and regional affairs are well known to the US and EU.⁶³ The prospect of an economic collapse in the KRI, but also in the rest of Iraq, aggravates further Erbil-Baghdad relations over oil exports and the Kirkuk issue, which at the moment is under KRG's de facto administration. This could, in turn, undermine the war efforts against ISIS and in particular the liberation of Mosul. Furthermore, the KRI's economic meltdown would put at risk health and welfare services that are used not only by the local population, but also by thousands of refugees and IDPs in the KRI.

The US and EU have the capacity and tools for macro-financing but they would only provide it under strict political and economic conditions. Rapprochement with Baghdad is one of the main political conditions that they would push for.

Given the current economic circumstances, macro-financing can have two main advantages for the KRI. It can offer extended maturity and low interest rates. In the case of Kurdistan, it can replace previous short term, high interest rate loans. It can also fund the budget deficit and provide much-needed liquidity for resuming investment projects and financing the overdue debt owed to the domestic private sector.

62- *Delegation of the European Union to the Republic of Iraq, Welcome*, available at http://eeas.europa.eu/delegations/iraq/about_us/welcome/index_en.htm, accessed 16 April 2016.

63- John Hannah, *If the Kurds go Broke, It's Lights Out for Obama's War on the Islamic State*, Foreign Policy, 2 March 2016, available at <http://goo.gl/euatuN>, accessed 14 April 2016. European Council of the European Union, Council Conclusions on the EU regional strategy for Syria and Iraq as well as the ISIL/Da'esh threat, 16 March 2015, available at <http://goo.gl/RUhrer>, accessed 14 April 2016.

5.3.1 The IMF Factor

The Iraqi government has already taken important steps to secure macro-financial assistance from the IMF. Baghdad agreed to a Staff-Monitored Programme (SMP) back in November 2015,⁶⁴ and on March 29, 2016 the IMF announced that “the Iraqi authorities and IMF staff have made good progress towards reaching an understanding on a program of economic and financial policies that could be supported by financing”.⁶⁵ On 19 May 2016, the IMF announced the end of its mission in Iraq. The result was a staff-level agreement on a request to the IMF Board of Governors for a 36-month Stand-By Arrangement (SBA) of around 5.4 billion US dollars for this year.⁶⁶ The SBA is the flagship of IMF’s lending instrument for middle-income and advanced member countries.⁶⁷ They are highly monitored and conditioned.

In the next few months the Iraqi government may well be receiving financial assistance if the IMF Board of Governors agrees with the preliminary findings of its mission to Iraq. This means that the US, EU member states, China and Japan – the most influential players in the IMF – would have to give the green light for financial assistance to Iraq.⁶⁸ Hence, this period is crucial for the KRG to make a good case as to why the KRI should be part of the deal. However, all these countries have in principle been in favour of Iraq’s unity and therefore it would be necessary for the KRG to show goodwill for a

In the next few months the Iraqi government may well be receiving financial assistance if the IMF Board of Governors agrees with the preliminary findings of its mission to Iraq.

rapprochement with Baghdad. If Baghdad is the intransigent part and the KRG is the constructive player, this might well mean that international stakeholders will by-pass Baghdad and provide direct macro-financial assistance to the KRG. This is already the case with the US direct financial assistance to the Peshmerga forces.⁶⁹

An IMF programme for Iraq, and by extension for the KRI – in case it becomes part of the deal – can potentially open the door to further emergency macro-financial assistance for both Iraq and the KRI directly from the European Union at a later stage.⁷⁰ However, Baghdad and Erbil would have to mend fences and work together on fighting corruption and implementing transparency measures. It is indicative that in the review of the EU’s regional strategy for Syria and Iraq on 23 May 2016, the EU Foreign Ministers for the first time left a window open for helping both, Baghdad and Erbil, to recover from the financial crisis in close cooperation with the IMF and the World Bank (WB). More specifically, they stated that:

Given the financial and budgetary difficulties facing Iraq, the EU will explore further means to help the Iraqi Federal Government and the KRG to recover economic and financial health, in close coordination with the IMF and WB, in particular through support to the reform of public finance and macroeconomic management systems. The Council encourages the EIB to consider viable investment projects in Iraq once the Operational Framework Agreement is in place. In this context, the EU urges the Government of Iraq and the Kurdish Regional Government to set aside their differences, ensure the transparent and equitable distribution of oil and gas resources, and to step up their efforts to fight corruption.⁷¹

64- International Monetary Fund, *IMF Mission Reaches Agreement on Staff-Monitored Program with Iraq*, 10 November 2015, available at <https://www.imf.org/external/np/sec/pr/2015/pr15509.htm>, accessed 23 March 2016.

65- International Monetary Fund, *IMF Staff Completes Mission for a Staff-Monitored Program Review and a Stand-By Arrangement Discussion with Iraq*, 29 March 2016, available at <https://www.imf.org/external/np/sec/pr/2016/pr16142.htm>, accessed 25 April 2016.

66- International Monetary Fund, *IMF Mission Reaches Staff-Level Agreement on Financial Assistance under Three-Year Stand-By Arrangement with Iraq*, 19 May 2016, available at <http://www.imf.org/external/np/sec/pr/2016/pr16231.htm>, accessed 5 June 2016.

67- International Monetary Fund, *Factsheet: IMF Stand-By Arrangement*, 23 March 2016, available at <https://www.imf.org/external/np/exr/facts/sba.htm>, accessed 25 April 2016.

68- International Monetary Fund, *IMF Executive Directors and Voting Power*, 12 May 2016, available at <https://www.imf.org/external/np/sec/memdir/eds.aspx>, accessed 12 May 2016.

69- See more in Dylan O’Driscoll, *US Policy in Iraq – Four Steps Back, Two Steps Forward*, MERI, 19 May 2016, available at <http://www.meri-k.org/us-policy-in-iraq-four-steps-back-two-steps-forward/>, accessed 19 May 2016.

70- The European Union has offered Erbil to fund infrastructure projects through its European Investment Bank (EIB). Erbil has prepared very well documented proposals relative to Baghdad. However, the EU has informed Erbil that the process has to go through Baghdad. Interview with EU official, 27.06.2016.

71- Council of the European Union, *Council Conclusions on the EU Regional Strategy for Syria and Iraq as well as the Da’esh threat*, 23 May 2016, available at <http://data.consilium.europa.eu/doc/document/ST-9105-2016-INIT/en/pdf>, accessed 5 July 2016.

5.3.2 The EU Factor

The EU can explore further means for assisting Baghdad and Erbil to avoid an economic meltdown. Specifically, the EU has developed the Macro-Financial Assistance scheme for non-EU countries (MFA) that funds, on a case-by-case basis, countries that deal with serious balance-of-payments difficulties. Countries such as Ukraine, Jordan, Tunisia, Kyrgyzstan, Armenia, Moldova and Georgia have previously received these funds.⁷² The level of MFA differs from country to country. Thus, for example, the EU has pledged 4 billion Euros of assistance to Ukraine⁷³ in the form of low-interest loans, whereas in the case of Jordan⁷⁴ it has pledged 180 million Euros. The great advantage of this assistance is that it takes the form of medium/long term loans, while the recipient countries pay a market interest rate that is only provided to well performing European economies.⁷⁵

It should be noted that Ukraine and Jordan are part of the European Neighbourhood Policy (ENP), but this does not mean that Baghdad and Erbil cannot make a strong case for substantial financial assistance given the EU's proclaimed interest in Iraqi and Iraqi Kurdish affairs. On 16 March 2015, the EU Council adopted an ambitious regional strategy for Syria and Iraq as well as the ISIS threat. Among other issues, the European Union pledged to help Baghdad and Erbil to resolve the issue of disputed territories and the transfer of oil revenues. It further declared its support for reforms in a number of sectors including judiciary, security, regional and local administration. It also advocates economic development and taking a strong stance against corruption, and supports peace building, national reconciliation and transitional justice.

Before the adoption of a regional strategy, the EU and Iraq worked together to complete the negotiations over the Partnership and Cooperation Agreement that provided a general framework of cooperation on a number of issues, including rule of law and human rights, political dialogue and economic issues such as macroeconomic stability, debt sustainability, and public expenditure effectiveness.⁷⁶ Parts of it are already being applied on a provisional basis.⁷⁷ The two parties have also signed a Memorandum of Understanding for a Strategic Partnership in Energy describing Iraq as a potential "energy-bridge linking the Middle East, the Mediterranean and the EU". The EU has also been the second-largest humanitarian donor in Iraq, providing 163 million Euros in 2014⁷⁸ and another 76 million Euros in 2015.⁷⁹ All this activity on the part of the EU makes a good case for why the EU may respond positively to the Iraqi government's and the KRG's request for financial aid on the basis of a broader European plan to stabilise the macroeconomic environment in Iraq and the KRI.

Any agreement for macro-financial assistance to the KRG would necessitate rapprochement with Baghdad. The EU would not be willing, for the time being, to fund a federal unit of Iraq that considers secession as its primary political goal in short or medium term.

72- European Commission, *Macro-Financial Assistance to non-EU countries*, 16 June 2015, available at http://ec.europa.eu/economy_finance/eu_borrower/macro-financial_assistance/index_en.htm, accessed 25 April 2016.

73- More in European Commission, *Ukraine*, 03 May 2016, available at http://ec.europa.eu/economy_finance/international/neighbourhood_policy/ukraine_en.htm, accessed 5 May 2016.

74- European Commission, *Jordan*, 10 August 2015, available at http://ec.europa.eu/economy_finance/international/neighbourhood_policy/jordan_en.htm, accessed 5 May 2016

75- The EU borrows the funds for macro-financing from capital markets and lends them to recipient countries under the same financial terms the EU obtained them in the first place, such as same interest rate and same repayment schedule. More in European Commission, *Macro-Financial Assistance to non-EU Countries*, 16 June 2015, available at http://ec.europa.eu/economy_finance/eu_borrower/macro-financial_assistance/index_en.htm, accessed 25 April 2016.

76- European Union External Action, *Cooperation Between the European Union and Iraq Joint Strategy Paper 2011-2013*, available at http://eeas.europa.eu/iraq/docs/2011_2013_jsp_nip_en.pdf, accessed 4 April 2016.

77- Council of the European Union, *Council conclusions on the EU Regional Strategy for Syria and Iraq as well as the ISIL/Da'esh threat*, 16 March 2015, p. 27 (Document).

78- Council of the European Union, *Council conclusions on the EU Regional Strategy for Syria and Iraq as well as the ISIL/Da'esh threat*, 16 March 2015, available at <http://goo.gl/RUhRer>, accessed 14 April 2016

79- ECHO, *Humanitarian Implementation Plan, Iraq Crisis*, available at http://ec.europa.eu/echo/files/funding/decisions/2015/HIPs/iraq_en.pdf, accessed 14 April 2016.

However, there are four interrelated major challenges in terms of EU macro-financing to the Kurdistan Region. The first is that the EU is a staunch supporter of “Iraq’s unity, sovereignty and territorial integrity”.⁸⁰ This means that any agreement for macro-financial assistance to the KRG would necessitate rapprochement between Erbil and Baghdad. The EU would not be willing, for the time being, to fund a federal unit of Iraq that considers secession as its primary political goal in short or medium term. Hence, KRG leadership would have to put its plans for Kurdistan’s declaration of independence on hold.

Furthermore, MFA decisions fall under the ordinary legislative procedure of the EU, meaning that the European Commission has the legislative initiative but the European Parliament and the EU Council have to make a joint decision. This raises questions as to how quickly, under what conditions and at what level of funding would the different EU institutions agree to provide financial assistance. The challenge is that the EU could end up taking a suboptimal decision as a result of cumbersome internal negotiations that may serve only the lowest common denominator among the different EU institutions.

The third challenge is that granting an MFA depends on “the respect of human rights and effective democratic mechanisms, including a multi-party parliamentary system and the rule of law.”⁸¹ MFA is also conditional upon the existence of a non-precautionary credit arrangement with the IMF and a satisfactory track-record of implementing IMF programme reforms”. In other words, Iraq and the Kurdistan Region would have to first agree on an IMF loan.

Then, they would have to be scrutinised by EU institutions for their performance in economic reforms and their adherence to democratic credentials over time as part of a strong economic and political conditionality that is applied by the EU.

Finally, the implementation of one-size-fits-all economic and political conditionality in Iraq and the Kurdistan Region by the IMF, US or EU might prove to be less productive. Despite similarities in terms of the rentier nature of both Erbil’s and Baghdad’s economies, the two sides have their own internal political dynamics that are not necessarily directly connected to relations between the two, such as the Presidential issue in the Kurdistan Region and its non-functioning parliament. In addition, Baghdad and Erbil have been performing differently in a number of policy areas. Indicatively, the Economist Intelligence Unit Report of 2014, *Benchmarking the Kurdistan Region*, highlighted deep differences between Baghdad and Erbil in terms of global peace, security and stability, political environment, business environment and quality of life and human development. All in all, the Kurdistan Region performed better than Baghdad in all benchmarking indexes particularly in security, stability and quality of life.

International stakeholders, such as the US and EU, have the capacity and tools to provide long-term loans to the KRG with low interest rates. They can also monitor the whole process of stabilisation.

80- Council of the European Union, *Council conclusions on the EU Regional Strategy for Syria and Iraq as well as the ISIL/Da’esh threat*, 16 March 2015, p. 10 (Document).

81- European Commission, *Macro-Financial Assistance to non-EU countries*, 16 June 2015, available at http://ec.europa.eu/economy_finance/eu_borrower/macro-financial_assistance/index_en.htm, accessed 25 April 2016

5.3.3 A Pragmatic Approach by International Stakeholders

A pragmatic approach on the part of the US, the EU and international financial institutions would necessitate a differentiated and flexible approach to financial assistance for Erbil and Baghdad and the political and economic conditionality that would need to be implemented. Accordingly, Erbil should be actively engaged with current and future negotiations of financial assistance from international stakeholders, as propping up the economy of Baghdad without any parallel assistance to Erbil will have major implications for the unity of the country and the stability of the wider region.

To summarise, international stakeholders, such as the US and EU, have the capacity and tools to provide long-term loans to the KRG with low interest rates. They can also monitor the whole process of stabilisation. The main challenge for the KRG is to successfully comply with strict political and economic conditionality that will include – among other requirements – rapprochement with Baghdad, deepening democratisation, ensuring rule of law, fighting corruption, implementing transparency in public finances and diversifying the economy. For the international stakeholders, in turn, providing adequate financial assistance to Erbil and attaching relevant political and economic conditionality necessitates the implementation of a diversified approach to Erbil's and Baghdad's current political, economic and social problems.

A pragmatic approach on the part of the US, the EU and international financial institutions would necessitate a differentiated and flexible approach to financial assistance for Erbil and Baghdad.

5.4 The Case of Macro-Financial Assistance from Regional Stakeholders

Another option for the KRG is to request macro-financial assistance from regional stakeholders, such as Turkey, Iran or Saudi Arabia. The three countries that are vying for political and economic influence in the Middle East could be willing to provide some sort of financial assistance to the KRG with the conviction that this would serve their particularistic political and economic interests in the region.

However, this option leaves questions such as to what extent these particularistic political and economic interests converge with the Kurdistan Region's interests in the Middle East, and what the economic and political stakes can be for the Region. Furthermore, would any of these countries be willing and capable to provide the level of financial assistance that the KRG needs to cover its account deficit in the short and medium term? Lastly, are any of these stakeholders capable of providing the level of technical support that is needed to build an efficient and transparent economy and state apparatus? All these are pertinent questions whose answer determines the extent to which this type of financial support can be beneficial for the KRG.

5.4.1 The Turkey Factor

Engaging actively with the main regional players on a number of issues, including security and economy is not new for the KRG. By and large, the KRG has attempted to circumvent Baghdad by building strong ties with Turkey. The result is that Turkey is the biggest trading partner for the Kurdistan Region.⁸² The Region is currently exporting almost all of its oil, around 600.000 bpd, via the Turkish port of Ceyhan and the KRI ranks third as Turkey's export destination.⁸³ In addition, in 2013, approximately 1,500 Turkish companies were operating in the Region, which translated into 65% of all foreign business operating in Kurdistan.⁸⁴

In the security sector, Turkey has been collaborating with the KRG on training Kurdish Peshmerga and Sunni Arab forces for the liberation of Mosul.⁸⁵ Towards that end, a number of Turkish troops are stationed in Bashiqa camp, in the Ninawa plains, with the KRG's consent.⁸⁶ In addition, the AKP government and the KRG, in particular the KDP, want to minimise the role of the PKK in the region, although there are differences in terms of the means that are employed and the final political objectives.⁸⁷

Greater economic dependency of the KRG on Turkey raises questions about the extent to which it could push the KRG to adopt the Turkish government's policies in Syria or engage in anti-PKK efforts.

Reflecting on the multifaceted relationship between Turkey and the KRG, the KRG Prime Minister, Nerchivan Barzani, stated that "our relationship with Turkey has reached a strategic level, and it is mutually beneficial".⁸⁸ Similarly, the Turkish Prime Minister, Ahmet Davutoglu, described the relationship "as strategic and most significant".⁸⁹

In the context of the KRI's economic crisis, Turkey has provided the KRG with around 700 million dollars in emergency loans since February 2015.⁹⁰ As discussed previously, the financial needs of the KRI supersede this amount by far.⁹¹ And as the economic crisis persists and deepens, the KRG will need even more money to stabilise its macro-economic environment.

In addition, it is not at all certain that Turkey has the capacity to foot the bill of macro-financing in full and provide technical support, despite its economic and security interests in the KRI. Furthermore, greater economic dependency of the KRG on Turkey raises questions about the extent to which it could push the KRG to adopt the Turkish government's policies in Syria or engage in anti-PKK efforts.

82- Denise Natali, *Turkey's Kurdish Client State*, Al Monitor, 14 November 2014, available at <http://www.al-monitor.com/pulse/originals/2014/11/turkey-krk-client-state.html>, accessed 28 April 2016.

83- Soner Cagaptay, Christina Bache Fidan, Ege Cansu Sacikara, *Turkey and the KRG, Signs of Booming Economic Ties*, 25 February 2015, available at <http://goo.gl/PHn4sS>, accessed 28 April 2016.

84- Invest in Group, *Determined to Grow: Economy*, October 2013, available at <http://investingroup.org/review/236/determined-to-grow-economy-kurdistan/>, accessed 28 April 2016.

85- Fehim Tastekin, *Turkey's Joint front with Sunni Arabs, Kurds*, Al-Monitor, 14 December 2015, available at <http://goo.gl/s4xTSf>, accessed 28 April 2016.

86- Baghdad seems to have approved Turkish presence in Bashika initially, but refused the deployment of new Turkish forces. Stephen Kalin and Orhan Coskun, *Turkey to stop sending soldiers to Iraq after protests*, available at <http://www.reuters.com/article/us-mideast-crisis-iraq-turkey-idUSKBN0TP0LC20151206>, accessed 28 April 2016.

87- Al Arabiya, *Iraqi Kurdistan leadership: PKK should leave*, 1 August 2015, available at <http://goo.gl/ko9WN1>, accessed 28 April 2016.

88- MERI Forum, *Sharing Visions for the Future of the Middle East*, Erbil, 3-5 November 2015, p. 24, available at <http://www.meri-k.org/wp-content/uploads/2016/02/MERI-Forum-2015-Summary-Report-English.pdf>, accessed 28 April 2016.

89- Kurdistan Regional Government, *Prime Minister Barzani and Turkish Prime Minister discuss bilateral relations*, 27 December 2015, available at <http://cabinet.gov.krd/a/d.aspx?s=040000&l=12&a=54081>, accessed 28 April 2016.

90- The KRG received 500 million dollars in February 2015 and another 200 million dollars in March 2016. See more in Daily Sabah, *Turkey gives loan to Kurdistan Regional Government*, 25 February 2015, available at <http://goo.gl/LbV1nI>, accessed 4 May 2016 and Rudaw, *Turkey provides Kurdistan Region with 200 million emergency fund*, 11 March 2016, available at <http://rudaw.net/english/business/11032016>, accessed 4 May 2016.

91- More details on pp. 7-9.

5.4.2 The Iran Factor

Relations with Iran have developed, particularly after ISIS attacked Erbil in August 2014. More specifically, Iran provided the Kurdistan Region with weapons and equipment, especially in the early days of the ISIS attacks.⁹² However, given the rivalry between Baghdad and Erbil over the disputed territories and the close relations between Iran and Baghdad, it is questionable how far this cooperation can go, especially after ISIS has been eradicated in Iraq.

However, the energy and trade sectors show great potential for close cooperation. Both sides have shown strong and continuous enthusiasm in deepening their cooperation in these sectors.⁹³ In April 2014, Erbil and Tehran agreed that the KRG would receive around 3 to 4 million litres of refined fuel oil and natural gas in return for Kurdish crude oil exports to Iran.⁹⁴ Furthermore, KRG officials have expressed interest in enhancing its cooperation with Iran in the agriculture sector and particularly in “water resources management”, while Iranian officials have stated their readiness to export agricultural products, equipment and technology to the KRI.⁹⁵

Despite a promising trade and energy relationship, Iran does not have the capacity to provide macro-financial assistance to cover the KRG's needs. Iran is currently trying to overcome its own financial problems as a result of the past international sanctions over its nuclear programme. In addition, its focus is on supporting the Assad regime in Syria and Baghdad's war against ISIS. Therefore, it would be hard to imagine that it could provide any meaningful financial assistance to the KRG for the time being. If it did prioritise financial assistance to the KRG, then the question would concern motivation. This could include a combination of reasons behind it, such as ensuring the continued hegemony of Shias over Sunnis in Baghdad with the help of Iraqi Kurdistan and pre-empting Turkey's and Saudi Arabia's influence in the region. Subsequently, how do these potential considerations on the part of Iran serve the KRI's interests?

5.4.3 The Saudi Arabia Factor

Saudi Arabia, in turn, has not yet developed any significant trade or energy relations with the KRG. However, the visit of KRG President Massoud Barzani to Riyadh in December 2015, gave impetus to the relationship. Two months later, on 23 February 2016, Saudi Arabia opened its consulate in Erbil marking a closer relationship between Erbil and Riyadh.⁹⁶ Saudi Arabia has around 200 billion dollars in its sovereign wealth fund and, despite the low oil prices and the war in Yemen, it still has the capacity to provide macro-financial assistance to the KRG at any level it wants.⁹⁷ However, as with Iran or Turkey, the main question in this case would be why Saudi Arabia would be willing to prioritise financial assistance to the Kurdistan Region other than balancing out Iran's influence in Iraqi affairs. Would this work in favour of the KRI's interests?

92- Al-Arabiya, *Barzani: Iran gave weapons to Iraq's Kurds*, 26 August 2014, available at <http://goo.gl/AqrOSS>, accessed 5 May 2016.

93- Rudaw, *Tehran-Erbil talks to resume after Newroz*, 28 March 2016, available at <http://rudaw.net/english/kurdistan/280320162>, accessed 5 May 2016.

94- Shana, *Iran Inks Oil, Gas Deal with Iraqi Kurdistan*, 2 May 2014, available at <http://www.shana.ir/en/newsagency/216236/Iran-Inks-Oil-Gas-Deal-with-Iraqi-Kurdistan>, accessed 9 May 2016.

95- FARS News Agency, *VP: Iran Ready to Export Agricultural Products, Technology to Iraqi Kurdistan*, 3 February 2015, available at <http://en.farsnews.com/newstext.aspx?nn=13931114001754>, accessed 9 May 2016.

96- Rudaw, *Saudi Arabia opens Erbil consulate*, 23 February 2016, available at <http://rudaw.net/english/kurdistan/230220168>, accessed 9 May 2016.

97- Javier Blas, *Shrinking Sovereign Wealth Funds are Ducking Davos*, Bloomberg, 20 January 2016, available at <http://goo.gl/cQ11eO>, accessed 9 May 2016.

5.4.4 Syria and Yemen: A Valuable Lesson

Funding from regional stakeholders cannot be rejected in principle, but the trade-off between financial assistance and political conditions should be well analysed. If the cost for the Kurdistan Region is to become part of a wider Middle East security conundrum, then the potential losses outweigh the potential gains. In other words, if the KRG were to pick sides and become a proxy of any regional country in order to secure funds, it would not serve the KRI's medium to long term internal stability and its regional position in the Middle East.

The examples of Syria and Yemen are strong reminders of how competing regional players, such as Saudi Arabia, Iran and Turkey, can play zero-sum games and encourage proxy wars in countries that appear to be fragmented.⁹⁸ In that case, the competing powers will do everything in their capacity to not let the country fall under the sphere of influence or direct control of their competitor. They will act in a similar way if they feel that they have a chance to reverse a status quo that has not been serving their regional interests. The end result can be destructive and prolonged proxy wars for the countries that are caught in these dynamics. The KRG has to avoid this possibility by making sure that it will not become part of the regional conundrum or that it will not be forced to become part of it. The latter implies that even if financial assistance from regional stakeholders might not have any political conditions attached to it, the hazard lies with greater economic dependency on regional stakeholders that could dominate the KRG's decision-making on foreign policy and political matters.

Funding from regional stakeholders cannot be rejected in principle, but the trade-off between financial assistance and political conditions should be well analysed.

Resultantly, partial financial assistance from regional stakeholders can serve the KRG's financial interests in the case that it meets certain objectives. The financial assistance should be a transparent macro-financing scheme without political conditions attached to it and without subjecting vital sectors of the KRI's economy to external control. Therefore, it should only be considered complementarily with international stakeholders' macro-financial assistance. In any other case, the political and economic costs can offset the gains.

98- For the case of Yemen see Athanasios Manis, The Yemeni Crisis: The Prisoner's Dilemma for Saudi Arabia and Iran, 31 May 2015, available at <http://goo.gl/ILZw8W>, accessed 12 May 2016.

6. Conclusions

The bottom-line is that the KRG is facing a very serious economic crisis that has the potential to develop into an economic meltdown. In order to reverse this trend, the KRG needs to start serving its current debt, which seems to be primarily owned by domestic banks, and which negatively affects the liquidity of the private sector. It also needs to balance its budget, but at the same time guarantee higher, regular payments for the public sector and restart the numerous, vital public projects that are on hold. This can then infuse more confidence on the demand side of the economy. It is only when the economic meltdown is averted in the short-term that the KRG will be able to proceed with deep structural reforms in the public sector and start guiding the diversification of its economy.

In this context, this report examined pros and cons of four different policy options; a. independence b. rapprochement with Baghdad c. macro-financial assistance from International Stakeholders and d. macro-financial assistance from Regional Stakeholders.

The best option from a short-term economic perspective is the macro-financial assistance from international stakeholders, such as the IMF and the EU. There are two main advantages: they have the capacity and the tools to provide low interest long-term loans, and at the same time monitor the process of stabilisation.

However, the main challenge for KRG leadership is to accept that independence cannot be part of its immediate policy objectives. On the contrary, it has to show goodwill for rapprochement with Baghdad as part of the political conditionality that the EU and US will impose on it.

The alternatives are independence and/or macro-financing from regional stakeholders. With regards to independence, it is highly unlikely that it can address the current economic problems without prior international and regional endorsement. For independence to become an efficient way to revive the economy, it is not declaration that is important, but international recognition.

Equally, financial assistance from regional stakeholders raises questions as to the capacity they have to provide the necessary loans and stabilisation assistance, and the political and economic conditions they will impose. Given the region's polarisation and fragmentation, this option appears to be highly risky for the KRI.

7. Recommendations

7.1 To the KRG

- ▶ The KRG needs to integrate the political and economic debates and priorities into a coherent, unified strategy. The debate for independence cannot disregard economic fundamentals and vice versa. This is something that needs to be conveyed to the public as well.
- ▶ The KRG needs to develop a comprehensive economic plan that will avert a possible meltdown. Balancing the budget is a small part of the equation. More needs to be said and done on how to revitalise the private sector, encourage growth and finally reduce unemployment.
- ▶ Macro-financing from international stakeholders, such as the IMF and the EU, should become the main strategy for the KRG at this point. In this context, it will have to participate in the Baghdad-IMF negotiations and pursue EU macro-financial assistance together with Baghdad at a later stage. Alternatively, it could negotiate its own plan with the international stakeholders, despite the urgency of the matter and the lack of time.
- ▶ Some form of macro-financing from regional stakeholders can be considered, but only as a complimentary solution. The KRG needs to be cautious of the political and economic conditionality attached to it by regional players and the impact this might have on the KRI's politics, security and economy.
- ▶ The KRG needs to pursue rapprochement with Baghdad in good faith irrespective of its long-term plans for independence. It is not certain that international stakeholders will commit to macro-financial assistance if Iraq is on the brink of falling apart.
- ▶ The KRG and the Kurdish political parties should commence meaningful public dialogue about adopting measures against corruption and promoting economic diversification. Fiscal consolidation is an incomplete fix that can have negative unintended consequences on the economy if pursued for a long period of time without public and private investments that promote growth. Towards that end, activation of the parliament is essential. Furthermore, the implementation of reforms requires political stability and reconciliation between the parties.

7.2 To the Iraqi Government

- ▶ The Iraqi Government and Iraqi parties need to consider their political differences in light of financial necessities. Acute political instability in Baghdad will hinder Iraq from receiving the necessary external financial assistance for stabilising its economy.
- ▶ The Iraqi Government should pursue rapprochement with Erbil in good faith. Both face an economic meltdown and require financial assistance from international stakeholders. Economic recovery will be almost impossible without political stability in Iraq. The KRI is the most stable part of the country with good links to the international community and regional players, and a strong partner in the fight against ISIS. The Iraqi Government needs to include the KRG in the IMF negotiations.
- ▶ The Iraqi Government should lead further attempts for macro-financing from other institutions, such as the European Union, with the KRG's participation.
- ▶ The Iraqi Government and the Iraqi parties should commence public dialogue about adopting measures against corruption and promoting economic diversification. Political stability and unity is a necessary condition for a successful initiative.

7.3 To the International Stakeholders (US and EU)

- ▶ Iraq's economic recovery depends by and large on how Baghdad's relations with Erbil will evolve. There is a high risk that an economic meltdown in the KRI will become the final blow to Iraq's unity. Hence, the US and EU need to engage more with the economic problems of Baghdad and Erbil. Political, security and economic considerations cannot be separated. Political and security discussions with the Iraqi government and the KRG need to be enriched with economic discussions.
- ▶ The US and the EU need to provide conditional macro-financing assistance to both Baghdad and Erbil and extend their expertise and experience on how to fight corruption and guide economic diversification. Assisting only one of the two capitals can become a divisive factor and a potential driver of further escalation in the relations between Baghdad and Erbil. This is something the EU and the US should avoid by all means.
- ▶ The US and the EU should be cautious with the conditions placed on Baghdad and Erbil, as there are significant political, economic and societal differences between them. They should be flexible and implement a diversified conditionality strategy for each party.

الى الجهات الدولية المعنية (الولايات المتحدة والاتحاد الأوروبي)

- إن انتعاش الاقتصاد العراقي يعتمد إلى حد كبير على الشكل الذي سوف تتطور فيه العلاقة بين بغداد وأربيل. هناك خطر كبير من أن الانهيار الاقتصادي في إقليم كردستان سيُصبح الضربة القاضية على وحدة العراق. وبالتالي، تحتاج الولايات المتحدة والاتحاد الأوروبي إلى الانخراط بشكلٍ أكثر مع المشاكل الاقتصادية بين بغداد وأربيل. فالاعتبارات الاقتصادية السياسية والأمنية لا يُمكن فصلها. فالطرفان يحتاجان للمزيد من المناقشات الاقتصادية والسياسية والأمنية الثرية مع الحكومة العراقية وحكومة إقليم كردستان.
- الولايات المتحدة والاتحاد الأوروبي بحاجة إلى تقديم مساعدات من التمويل الكلي المشروط، إلى كلٍ من بغداد وأربيل، وتوسيع خبرتهما وتجاربهما حول كيفية مكافحة الفساد وتوجيه التنويع الاقتصادي. إن إمكانية مساعدة واحدة من العاصمتين فقط، سيصبح عامل انقسام مُحتمل، لمزيدٍ من التصعيد في العلاقات بين بغداد وأربيل. هذا شيء الذي يجب على الاتحاد الأوروبي والولايات المتحدة تجنبه بكل الوسائل.
- الولايات المتحدة والاتحاد الأوروبي يجب أن تكون حذرة في الشروط المفروضة على بغداد وأربيل، لأنه ثمة خلافات سياسية واقتصادية واجتماعية كبيرة بينهما. لذا يجب أن يكون ثمة مرونة في تنفيذ "استراتيجية الشروط" المتنوعة على كل طرف.

التوصيات

لحكومة إقليم كردستان

- حكومة إقليم كردستان بحاجة إلى دمج المناقشات والأولويات السياسية والاقتصادية، وتحويلها إلى استراتيجية موحدة ومُتماسكة. فالنقاش من أجل الاستقلال لا يُمكن أن يتجاهل الأسس الاقتصادية، والعكس صحيح. هذا أمر يحتاج إلى أن يُنقل للجمهور العام أيضاً.
- حكومة إقليم كردستان بحاجة إلى تطوير خطة اقتصادية شاملة من شأنها أن تُجنب الإقليم انهياراً اقتصادياً مُحتملاً. فالتوازن في الميزانية هو جزء صغير من المعادلة، ولا بد من الإشارة لكيفية والقيام بما يُنشيط القطاع الخاص، وتشجيع النمو، للحد من البطالة.
- أن التمويل العام من الجهات الدولية، مثل صندوق النقد الدولي والاتحاد الأوروبي، ينبغي أن يتحول لاستراتيجية رئيسية لحكومة إقليم كردستان في هذه المرحلة. في هذا السياق، فإنه سيكون لها مشاركة في المفاوضات بين بغداد وصندوق النقد الدولي، وهو ما سيواصل حصولها على المساعدات المالية الكُلية المُتأتية من الاتحاد الأوروبي، جنباً إلى جنب مع بغداد، في مرحلة لاحقة. بدلاً من ذلك، يُمكنها أن تفاوض على خطتها الخاصة مع الجهات الدولية، على الرُغم من إلحاح هذه المسألة، وعدم وجود الوقت.
- بعض أشكال التمويل الكلي من قِبل ذوي المصلحة الإقليميين يُمكن أن تُعتبر كـ“حلٍ مجاني”. لكن حكومة إقليم كردستان يجب أن تكون حذرة من الشروط السياسية والاقتصادية المرتبطة بذلك، من قبل اللاعبين الإقليميين، وما قد يكون لها من تأثير على السياسة والأمن والاقتصاد في إقليم كردستان العراق.
- حكومة إقليم كردستان تحتاج لمُتابعة “التقارب مع بغداد” بحُسن نية، بغض النظر عن الخطط طويلة الأجل من أجل الاستقلال. إذ ليس من المؤكد أن الجهات الدولية سوف تلتزم بالمساعدة المالية الكُلية، فيما لو كان العراق على شفا الانهيار.
- حكومة إقليم كردستان والأحزاب السياسية الكردية، يجب أن تبدأ حواراً عاماً ذات مغزى، حول اتخاذ تدابير ضد الفساد وتعزيز التنوع الاقتصادي. فضبط الأوضاع المالية العامة هو الإصلاح المنقوص، الذي يُمكن أن يكون له عواقب سلبية غير مقصودة على الاقتصاد، إذا ما اتبعت لفترة طويلة من الزمن، دون استثمارات عامة وخاصة تعزز النمو. تحقيقاً لهذه الغاية، فأن تفعيل البرلمان أمر ضروري. وعلاوة على ذلك، فأن تنفيذ الإصلاحات، يتطلب الاستقرار السياسي والمُصالحة بين الطرفين.

إلى الحكومة العراقية

- تحتاج الحكومة العراقية والأطراف العراقية للنظر في خلافاتها السياسية، في ضوء الحاجات المالية. فأن عدم الاستقرار السياسي الحاد في بغداد، هو ما يعيق حصول العراق على المساعدات المالية الخارجية اللازمة، لتحقيق الاستقرار في اقتصادها.
- ينبغي للحكومة العراقية أن تواصل التقارب مع اربيل بحسن نية. فكلاهما يواجهان “الانهيار الاقتصادي” ويحتاجان إلى مساعدة مالية من الجهات الدولية. فالانتعاش الاقتصادي سيكون من المستحيل تقريباً دون الاستقرار السياسي في العراق. حيث إقليم كردستان هو الجزء الأكثر استقراراً من البلاد، وعلى علاقة جيدة مع المجتمع الدولي واللاعبين الإقليميين، وهو شريكٌ قوي في الحرب ضد داعش. فتهحتاج الحكومة العراقية لتشمل إقليم كردستان في مفاوضات صندوق النقد الدولي.
- الحكومة العراقية يجب أن تؤدي محاولات أخرى للحصول على التمويل من مؤسسات أخرى، مثل الاتحاد الأوروبي، بمشاركة حكومة إقليم كردستان.
- يجب على الحكومة العراقية، وعلى جميع الأطراف العراقيين، أن يبدأوا حواراً عاماً حول اتخاذ تدابير ضد الفساد وتعزيز التنوع الاقتصادي. فالاستقرار السياسي والوحدة هما الشرطان الضروريان لأية مُبادرة ناجحة.

المُلخَص التنفيذي

أن هذا التقرير هو مساهمة ضمن النقاش العام في إقليم كردستان العراق، عن الجوانب الحاسمة من الأزمة الاقتصادية الحالية، والاستجابة السريعة لحكومة إقليم كردستان. بالإضافة إلى ذلك، فإنه يبحث في تأثير أربعة خيارات سياسية مختلفة: (أ) الاستقلال، (ب) التقارب مع بغداد، (ج) التمويل والاعتماد العام على جهات دولية، (د) المساعدة المالية العامة من ذوي العلاقة الإقليمية. قد يكون ثمة فرصة لتجنب الانهيار الاقتصادي في المدى القصير، على افتراض أن أسعار النفط ستبقى مهبوبة في المستقبل المنظور. ويرى هذا التقرير أنه فقط عندما يتم تفادي الانهيار الاقتصادي على المدى القصير، فأن حكومة إقليم كردستان سوف تكون قادرة على المضي قُدماً في الإصلاحات الهيكلية العميقة في القطاع العام، وبدء العمل على تنويع الاقتصاد.

بعد تقييم إيجابيات وسلبيات خيارات السياسات المختلفة، حيث الحجة الرئيسية هي: أن حكومة إقليم كردستان بحاجة إلى اختيار كيفية الحصول على المساعدة المالية العامة من الجهات الدولية، مثل صندوق النقد الدولي، في المدى القصير، ومن الاتحاد الأوروبي في مرحلة لاحقة. المزايا الرئيسية لهذا الخيار هي التالية: يُمكن لإقليم كردستان العراق الحصول على قروض تفضيلية مشروطة، مع انخفاض أسعار الفائدة، بهدف استعادة السيولة في القطاع الخاص، وإعادة تشغيل المشاريع العامة الحيوية واستعادة ثقة المستهلك؛ من خلال دفع الجزء الأكبر من رواتب موظفي الحكومة .

على قدم المساواة، فأن أصحاب العلاقة الدوليين سيكونون قادرين على مراقبة عملية تحقق الاستقرار، وتوفير التوجيه والدراية في مجال مكافحة الفساد، وتنويع الاقتصاد. مع ذلك، يتمثل التحدي الرئيسي، في أن قيادة إقليم كردستان لن تغير المسار من حيث الهدف السياسي من الاستقلال، في المدى القصير على الأقل. إذ يبدو أن لا الولايات المتحدة أو الاتحاد الأوروبي قد يبذلون تلك الأموال لأربيل، إن لم يُثبتت حُسن النوايا للتقارب مع بغداد.

يبدو أن البدائل لن تكون مناسبة لاحتياجات إقليم كردستان العراق الاقتصادية الحالية. فالاستقلال هو مشروع طويل الأمد، يتطلب (عدم مُمانعة) مُسبقة من الجهات الدولية والإقليمية. والتقارب مع بغداد وحده ليس كافياً، فإن 17% من الميزانية العراقية، التي تنضب بالتقادم، لا يُمكن أن تُلبي الاحتياجات المالية لإقليم كردستان العراق. أخيراً، لا يُمكن اعتبار المساعدات المالية العامة من ذوي العلاقة الإقليميين كـ“حل مجاني”، نظراً للتحديات السياسية والأمنية المطروحة.

كل الأمور مأخوذة في الاعتبار، والنقاش الدائر حالياً في إقليم كردستان العراق ليس مُستداماً. حيث تُجرى المناقشات السياسية والمناقشات الاقتصادية بطريقة منفصلة عن بعضهما. حيث ينبغي أن تكون الأولويات العاجلة لحكومة إقليم كردستان انعكاساً لاستراتيجية متماسكة وموحدة، توازن الأهداف السياسية والضرورات الاقتصادية. وفقاً لذلك، فأن حكومة إقليم كردستان والأحزاب السياسية في الإقليم، تحتاج لربط المسألتين بطريقة براغماتية. أن هذا التقرير هو محاولة أولى - وبالتأكيد ليست الوحيدة - لرفع الوعي الحكومي والعام بضرورة وجود استراتيجية سياسية واقتصادية موحدة ومتماسكة، لتفادي الانهيار الاقتصادي في إقليم كردستان العراق.

تجنب الانهيار الاقتصادي في إقليم كردستان العراق
موائمة الأهداف السياسية مع الضرورات الاقتصادية

- پښوېسته حكومه تى عىراق به به شدارى حكومه تى هه رېم هه ولى زياتر بدات بو به ده سته پنانى يارمه تى دارايى له دامه زراوه نيو ده وله تيبه كانى وه ك يه كيتى نه وروپا.
- پښوېسته حكومه تى عىراق و لايه نه سياسيه عىراقه كان ووتووېژى گشتگر ده سته پيكه ن له باره ي له خوگرتنى كو مه ليك ياسا و پىكارى به نگار بوونه وه ي گنده لى و پهره پيدان به فره يكردى نابوورى. سه قامگيرى و يه كبوونى سياسى مهرجى سه ره كين بو سه ركه وتنى نه و ده سته پيشخه ريبه.

بو لايه نه نيوده وله تيبه كان (يه كيتى نه وروپا و نه وريكا)

- پښوېسته بوژانده وه ي نابوورى عىراق به شيوه كى سه ره كى ده وه سته سه ره كه نه وه ي كه چو ن په يوه نديه كانى نيوان به غدا و هه ولير گوړانكاريان به سه رداديت. مه ترسى گه وره له وه دا يه كه دارمانى نابوورى له هه ريم بيت به كوتا هو كار بو له يه كترازانى عىراق. له م ساه دا پښوېسته و لايه ته يه كگرتووه كانى نه وريكا و يه كيتى نه وروپا زياتر به كيشه نابوور يه كانى نيوان هه ريم و به غدا سه رقال بن. ناكريت بواره نابوورى و سياسى و نه ونيه كان ليك جيا بگرينه وه. گفتوگو سياسى و نه ونيه كان له گه ل حكومه تى هه ريم و عىراق ده وله مهنه بگرين و رېكبخرين و هاوسه نگ بگرين له گه ل گفتوگو نابوور يه كان.
- پښوېسته نه وريكا و يه كيتى نه وروپا يارمه تيبه دارايه كانيان بو عىراق و هه ريم مهر جدار بكنه و پسپورى و شاهه زايى يان پيشكه ش بكنه سه باره ت به چاره سه ركردى گنده لى و پښه ريك بو فره چه شنكردى نابوورى، يارمه تيدانى ته نها يه كيك له و دوو پا يته خته له وان يه بيته هو كار يكى برياره دهر و پالنه ريكى سه ره كى بو زياتر ليكترازانى نيوان به غدا و هه ولير، له بهر نه وه باشتره يه كيتى نه وروپا و نه وريكا به هه ر شيوه ليك بيت نه و رېگه يه نه گرنه بهر.
- پښوېسته نه وريكا و يه كيتى نه وروپا هه ستيارانه مامه له له گه ل دارشتن و چه سپاندى نه و مهر جانه بكنه كه به يارمه تيبه دارايه كانه وه بو هه ولير و به غدا به نديان ده كهن، چونكه جياوازيه كى زورى سياسى، نابوورى و كو مه لايه تى هه يه له نيوانياندا. پښوېسته نه رم بن له جبهه جيكردنى ستراتيژيه تيكى مهر جدارى هه مه چه شن بو هه ر لايه نيك له و دوو لايه نه به غداد يان هه ولير.

راسپاردەکان

بۆ حکومەتی هەریمی کوردستان

- پێویستە حکومەتی هەریم بواره سیاسی و ئابووریەکانی بە شیوەکی ڕێک و لە ژێر سایە ستراژییەتیکی یە کگرتوو ڕێکبخات. لە گفتوگۆ کردن لە سەر سەرەخۆیی ناییت بنه‌ما ئابووریەکان پشتگوێ بخەین و بە پێچەوانەشەوه، وه هەر وه‌ها دەبیت ئەو بابەتە بۆ شەقامی گشتی هەریم بگوازیته‌وه و روونبکریته‌وه.
- پێویستە حکومەتی هەریم پەره بە پلانێکی ئابووری گشتگیر بدات کە ڕێگری لە دارمانی ئابووری بکات چونکە هاوسەنگکردنی بوودجە تەنها بە شێکی بچوکی هاوکێشەگەیه. پێویستە هەول و لێکۆڵینەوهی زیاتر بکریت لەسەر ئەوهی چۆن کەرتی تاییەت ببوژنیتەوه و هانی گەشە ئابووری و لە کۆتاییش دا کە مکردنەوهی بیکاری بدریت.
- پێویستە هەول دەن بۆ وه‌رگرتنی یارمەتی دارایی لە دامەزراره ئێوده‌وله‌تیه‌کانی وه‌ک سندوقی دراوی ئێوده‌وله‌تی و یه‌کیتی ئەوروپا ئەویش بە بەرنامە ی کار و ستراژیی سەرەکی حکومەتی هەریم لەم ساتەدا. لەم چوارچۆیەدا، هەریم دەبیت بە شدار ی بکات لە گفتوگۆکانی نیوان سندوقی ئێوده‌وله‌تی و بەغدا و هەول وه‌رگرتنی یارمەتی دارایی گشتی بە هەماهنگی لە گەل بەغدا بدات لە یه‌کیتی ئەوروپا لە ئاستی گەوره‌تردا. لە لایه‌کی تره‌وه هەریم ده‌توانیت گفتوگۆ له‌سەر پلانی خۆی بکات لە گەل لایه‌نه ئێوده‌وله‌تیه‌کان هەرچه‌نده بابەتە که پێویستی خیرا بیت و کات کەم بیت بۆ جەختکردنەوه لەسەری.
- پەسەندکردنی هەندی شیوازی یارمەتی دارایی لە لایه‌ن و دامەزراره ناوچه‌یه‌کانه‌وه، بەلام تەنها وه‌ک چاره‌سەرێکی یاریده‌ده‌ر. پێویستە حکومەتی هەریم زۆر ووریا بئ و ئاگای لەو مەرجه سیاسی و ئابووریانەوه بیت کە بەند دەکرین بەو یارمەتیه‌ داراییانەوه و ئەو کاریگەرییانە ی کە له‌وانه‌یه له‌سەر باری ئابووری و سیاسی و ئاسایشی هەریم هەیانیت.
- پێویستە حکومەتی هەریم هەولێ نزیکبوونەوه لە بەغداد بە نیه‌تیکی باشه‌وه بدات بەبێ پچاوکردنی پلانی درێژخایه‌نی سەر به‌خۆی. ناتوانریت هیچ گەره‌نتیه‌ک بدریت له‌وهی کە ئایا دامەزراره ئێوده‌وله‌تیه‌کان سوورده‌بن لە سەر ئەوهی یارمەتی دارایی عێراق بدەن ئەگەر بزائن عێراق لە سەر لێواری هەلۆه‌شانه.
- پێویستە حکومەتی هەریم و پارتە سیاسیه‌ کوردیه‌کان دەستبکەن بە گفتوگۆیه‌کی گشتگیر و مانابه‌خش سەبارەت بە گرتنەبه‌ری چەند یاسا و ڕێسایه‌ک بۆ به‌ره‌نگاربوونەوهی گەندەلێ و دەستکردن بە فرەبیکردنی ئابووری. گرتنەبه‌ری ڕێکاری دارایی توند ڕێسایه‌کی زۆر گونجاو نیه و له‌وانه‌یه سەرەنجام کاریگەری نەری و بێمه‌به‌ستی له‌سەر ئابووری هەبیت، بە تاییه‌تی ئەگەر بۆ ماوه‌یه‌کی درێژ جیبه‌جی بکریت بەبێ وه‌به‌ره‌پانان لە کەرتی گشتی و تاییه‌ت بەجۆرێک کە پەره بە گەشە ئابووری بدات. بۆ گەیشتن بەو ئامانجه‌ پەرله‌مان پێویستە کارا بکریته‌وه. پاشتریش جیبه‌جی کردنی ریفۆرم پێویستی بە سەقامگیری سیاسی و ئاشته‌وایی لە نیوان لایه‌نه‌ سیاسیه‌کان هەیه.

بۆ حکومەتی عێراق

- پێویستە حکومەت و پارتە سیاسیه‌ عێراقیه‌کان لە ژێر رۆشنایی پێداویستیه‌ داراییه‌کانیان ناکۆکیه‌ سیاسیه‌کانیان وه‌لاوه‌ بنین. سەرەنجامی ناسەقامگیری سیاسی لە بەغدا هەولەکانی عێراق بۆ بە دەستپێانی یارمەتی دارایی بۆ سەقامگیرکردنی ئابووری پەک دەخات.
- پێویستە حکومەتی عێراق بە نیه‌تچاکیه‌وه هەولێ لایه‌ک نزیکبوونەوه لە هەولێر بدات، هەردوولایان رووبه‌رپرووی مه‌ترسی دارمانی ته‌واویی ئابووری بوونەته‌وه و پێویستیان بە یارمەتی دارایی دەرەکی هەیه. بووژانەوهی ئابووری بەبێ سەقامگیری سیاسی لە عێراق نزیکه‌ مه‌حاله، حکومەتی هەریم سەقامگیرترین به‌شی عێراقه‌ که په‌یوه‌ندیه‌کی باشی لە گەل ناوه‌نده ئێوده‌وله‌تی ناوچه‌یی یه‌کاندا هەیه و هاوکاریکی به‌هیزی شەری دژە داعشه‌. و لەبەر ئەوه پێویستە حکومەتی عێراق بە شداریی بە حکومەتی هەریم بکات لە گفتوگۆکانیدا لە گەل سندوقی دراوی ئێوده‌وله‌تی.

پوخته‌ی راپۆرت

ئەو راپۆرتە بەشێکە لەو دیبەیتە یەکە لە ئیستادا لە هەرێمی کوردستاندا هەیە، سەبارەت بە کاریگەرێکی کانی ئەو قەیرانە ئابووریە هەنووکەییە کە حکومەتی هەرێمی کوردستانی پێیدا تێپەردەبێت و هەروەها پێکارە خێراکانی حکومەتی هەرێم گرتوونێتە بەر بۆ چارەسەرکردنی. وە تیشک دەخاتە سەر کاریگەرێکی کانی چوار بژاردەیی دارپۆرتنی پۆلەسی (سیاسات) کە (ا) سەربەخۆیی، (ب) نزیکبوونەوه لە بەغدا، (ج) یارمەتی دارایی لەلایەن ناوەندە نیۆدەولتەکان، (د) یارمەتی دارایی لەلایەن دەولتە دراوسێکانی هەرێم، کە لەوانەیە رێگە لە دارمانی تەواوی ئابووری هەرێم بگرن، بە تێبەتێ ئەگەر ئەو پێشبینیە راست بێت کە بۆ داھاتوویەکی درێژ نرخی نەوت بەھەمان شێوەی ئیستا دەمێنێتەوه. ئەو راپۆرتە جەخت لەسەر ئەو دەکاتەوه کە حکومەتی هەرێم تەنھا دەتوانێت سەرکەوتوو بێت لە فرەبیکردنی ئابووریەکی و ریفۆرم کردن لە پێکھاتە سەرەکیەکانی کەرتی گشتی، ئەویش ئەگەر بتوانی رێگە چارەیک بەدۆزیتەوه بۆ رێگرتن لە دارمانی ئابووری تەواو لە ماوەی کورت خایەندا.

پاش هەلسەنگاندنی لایەنە بەھێز و لاوازیەکانی ئەو بژاردە پۆلەسیانە، ئەو راپۆرتە دەگاتە ئەو باوەڕی کە پێویستە حکومەتی هەرێم لە ماوەی کورتخایەندا هەولبەدات بۆ بەدەست هێنانی یارمەتی دارایی لە ناوەندە نیۆدەولتەکان، وە ک سندوقی دراوی نیۆدەولتەتی (IMF) و دواتریش بۆ داھاتوو لە یەکێتی ئەوروپا (EU). سوودە سەرەکیەکانی ئەو بژاردەییە بریتین لەوەی کە: حکومەتی هەرێمی کوردستان دەتوانێت قەرزێ خاوازاوی مەرجدار بە رێژەیی سوودبێکی کەم وەرگیری بە ئامانجی بوژاندنەوهی سیولە لە کەرتی تێبەتدا و وەگەرختنەوهی پڕۆژەکانی کەرتی گشتی و بەدەست هێنانەوهی متمانەیی بەکاربەرەکان، ئەویش بەدانەوهی بەشێکی زۆری مووچەیی فەرمانبەرەکان. لە هەمان کاتدا ناوەندە نیۆدەولتەکان دەتوانن چاودێری و ئاراستەیی پڕۆسەیی سەقامگیری ئابووری و ناردنی پەسپۆر و شارەزایان بکەن بۆ یارمەتیدانی هەرێم لە بەرەنگاربوونەوهی گەندەلی و فرەبیکردنی ئابووریەکی. بۆ ئەو تەنھا گرفتێ سەرەکی ئەوێ کە سەرکردایەتی سیاسی هەرێم دەبێت ئامانجە سیاسییەکانیان بگۆڕن، بە تێبەتێ ئەوێ کە پەيوەندیدارە بە سەربەخۆیی و جارێ بۆ ماوەیەکی کاتی هەلپەسێرن، چونکە وادەردەکەوت کە ئەوریکا و ئەوروپا جارێ بە هیچ شێوەیک بە پێدانی وەھا قەرزێک و یارمەتی دارایی رازی نەبن هەتا کۆ حکومەتی هەرێم نیازچاکی لە نزیك بوونەوهی لەگەڵ بەغدا دەرنەبێت.

ئەلتەرناتیفەکانی دیکە پێدەچێت پەيوست نەبن بە باری ئابووری هەنووکەیی هەرێمەوه. سەربەخۆیی پڕۆژەییەکی درێژخایەنە و پێویستی بە دانپێدانانی پێشوختی نیۆدەولتەتی و ناوچەیی هەیە. نزیك بوونەوه لە بەغدا بەتەنیا بەس نیە لە کاتیکدا بودجەیی عێراق بەرەو کەمبوونەوه دەرواوت و بەشە بوودجەیی ۱۷٪ بەشی پێویستییە داراییەکانی هەرێم ناکات. پاشان، یارمەتی دارایی کاراکتەرە نیۆدەولتەتی و هەریمیەکان تەنھا دەتوانن بخریتە قەلبی موحامەلەوه بەھۆی ئەو ئاستەنگە سیاسی و ئاسایشی و ئابووریانەوه دەیسەپێن بەسەر هەرێمدا.

بە لەبەرچاوترنی هەموو فاکتەرەکان، ئەو دیبەیتە ئیستا لە هەرێمی کوردستان لەسەر باری ئابووری و سیاسی دەکریت دروستکەرەنە نیە. پێویستە کارە دەستبەجییە (ئەولەویەتە) کانی حکومەتی هەرێم رەنگدانەوهی ستراتییە گشتگیر و سەرەکیەکانی بۆ راکرتنی پارسەنگی نیوان ئامانجە سیاسیەکان و پێداویستییە ئابووریەکان. لەسەر هەمان رەوت، پێویستە حکومەتی هەرێم و پارتنە سیاسیەکان لە هەرێمی کوردستانی عێراقدا ئەو دوو فاکتەرە (سیاسی و ئابووری) بە بە شێوەیک کرداری بەیکەوه بەستەنەوه. ئەو راپۆرتە یەکەمین هەولە بۆ بەبیرھێنانەوهی حکومەت و خەلک سەبارەت بە پێویستی و بایەخی ستراتییەتیکی سیاسی و ئابووری دروست و هەمچەشن بۆ رێگرتن لە دارمانی ئابووری هەرێمی کوردستانی عێراق.

رێگرتن له دارمانی ئابووری له ههریمی کوردستانی عێراق

هاوسهنگکردنی ئامانجه سیاسیهکان له گهڵ پپووستیه ئابووریهکان



Middle East Research Institute

Erbil - Kurdistan Region - Iraq
info@meri-k.org | +964(0)662649690
[facebook.com/meri.info](https://www.facebook.com/meri.info) | twitter.com/meri_info
www.meri-k.org