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## Policy Brief

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# Reconstructing Iraq: Where Do We Stand?

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*Iraq reconstruction costs \$88B. Donors pledged \$30B, but little has so far materialised, because the Iraqi government has failed to address its structural and functional weaknesses. The onus is on the Iraqi leaders.*

This month last year, the Kuwaiti government hosted a 'Conference for the Reconstruction of Iraq'. It was attended by the United Nations Secretary General, António Guterres, along with dozens of foreign ministers and large numbers of other government and business representatives. The timing was perfect for Iraq. The country had recently announced the military defeat of the Islamic State (IS) and was enjoying an unprecedented level of optimism and all-round international good will.

Until then, Iraq had for a number of years been suffering from a severe economic crisis, precipitated largely by decades of poor management of state resources, never-ending wars and crises, and the drop in oil prices. Hence, the country needed help and, luckily for the Iraqis, its neighbours were willing to help because failure to address reconstruction needs would add to the country's fragility and chronic instability.

Before the conference, the Iraqi government, with several international partners, including the World Bank and scores of experts, had prepared the Iraq Damage and Needs Assessment (DNA) report on the seven directly affected governorates, including Anbar, Babil, Baghdad, Diyala, Kirkuk, Niniveh and Salah al-Din, as well as several indirectly affected governorates. The DNA, which was rich in both process and products, covered damages, losses, and needs in five key pillars, including governance, national reconciliation and peacebuilding, social and human development, infrastructure, and economic development. It contained 157 construction projects to be carried out over ten years, with

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top priority given to rebuilding and developing hospitals, schools, homes, roads and service infrastructure that are considered key to providing jobs and returning displaced peoples to their hometowns. The DNA also contained new investments to diversify the economy away from oil sales, reform the financial sector and upgrade strategic infrastructures, including water and sewage treatment plants, electricity production, transportation systems, telecommunications, agriculture, urban management, state-owned enterprises and oil-related industry.

The total estimate of the reconstruction programmes was \$US 88.2 billion, including \$23 billion for short-term reconstruction and more than \$65 billion for medium and longer-term projects. An estimated \$17 billion was suggested for rebuilding ISIS-destroyed homes (40,000 in Mosul alone, by United Nations estimates) and another \$7 billion for the repair of Iraq's oil and gas fields.

The amount aimed at by Iraqi officials was by all means overambitious, particularly considering current donor fatigue for poorly led and chronically fragile states, which are otherwise potentially rich. After all, Iraq is a middle-income country with OPEC's second-largest crude oil producer and home to the world's fifth-largest known reserves. Interestingly, neither the Iraqis nor the donor countries believed that Iraq was well prepared for such an ambitious task. Very few among the international partners had confidence in Iraq's ruling élite to manage large donations or reconstruction programmes. These doubts were indeed reflected in the amounts as well as the type of pledges made by the international community. The total amount pledged did not exceed \$30 billion, and was mainly granted in the form of investment loans and guarantees, contingent on investment deals or contracts coming to fruition. The direct aid was minimal and mostly for humanitarian efforts.

The amount pledged was nevertheless considered significant, and Iraq's neighbours seemed to show the greatest interest in its reconstruction. The Kingdom of Saudi Arabia pledged to provide \$1 billion through its Saudi Fund for Development, and \$500 million in export credit. Kuwait earmarked \$1 billion in loans and another \$1 billion as investments. Qatar pledged \$1 billion in loans and investments while the United Arab Emirates pledged \$500 million in addition to \$5.5 billion in private sector investments in Iraq. Turkey offered \$5 billion in credit lines, while Iran did not pledge anything significant. The United States, on the other hand, only pledged to extend a previously committed \$3 billion credit line to Iraq, with no further direct government assistance.

Much against Iraqi officials' expectations, no business deals were signed during or immediately after the conference despite the hundreds of business representatives who attended it. These representatives did not hesitate to express their misgivings about the political and security risks of doing business in a country that suffers from recurrent infrastructure destruction and rampant corruption (consistently among the world's top 10 most corrupt countries, according to Transparency International).

Now, a year later, the misgivings of the international business community remain the same and the pledges remain as they were. Other than humanitarian aid delivered to conflict areas, there is hardly any palpable progress on the ground in terms of internationally funded reconstruction. In a recent policy debate, organised by the Middle East Research Institute (MERI, [www.meri-k.org](http://www.meri-k.org)) in partnership with the Al-Rafidain Centre in Baghdad (5 February,

2019), the Iraqi Minister of Housing and Reconstruction Bangen Rekani stressed that no pledge from the donors has materialised so far, and the Iraqi government has failed to sufficiently address its own structural and functional weaknesses, including corruption. He admitted that the government of Iraq has not provided a clear vision or strategy on how to reconstruct the devastated areas, or how to attract international business communities, let alone how to engage local, national and international stakeholders.

Indeed, Iraq's track record for tackling challenges and impeding barriers has been disappointing. It has failed to systematically and adequately deal with issues like security, particularly the re-emergence of IS in rural areas close to destroyed towns and cities, and criminal attacks on construction sites and contractors, as documented by the US-founded Office of the Special Inspector General for Iraq Reconstruction. Iraq has failed to address its poor institutional transparency and accountability, poor capacities for planning and financial management and poor coordination among stakeholders, including local governments who have complained that they were not consulted by the national government before, during or after the preparation of the DNA report. Furthermore, there is hardly any progress in the reconciliation process, demilitarisation and rebuilding of trust in the government's authority, all of which go hand-in-hand with reconstruction processes.

Other, less specific, challenges also exist, many of which are outside the political leaders' power to address. These include uncertainty in the outlook of regional power dynamics that affect Iraq most, and the outlook of Iraq's financial and economic recovery while oil prices remain volatile. Not only is Iraq almost exclusively dependent on oil income, it has a grossly underdeveloped private sector as well as a weak business climate that has attracted minimal foreign investment outside the oil industry. Furthermore, Iraq has one of the highest poverty and unemployment rates in the Middle East, while its population (currently 39 million) is among the fastest growing in the world, increasing by one million per year. As a result, Iraqi cities are exponentially expanding without adequate planning or government investment in the infrastructure. Its housing deficit, currently at two million as per the World Bank's estimate, will grow.

Yes, these issues can be overwhelming, but they should not be reasons for the international community to give up on Iraq, nor for Iraqi leaders to fear embarking on ambitious reform programmes. On the contrary, the challenges show that Iraq has no alternative other than focusing on nation- and state-building, and tackling the weaknesses in its governing system. Fortunately, Iraq's neighbours and the rest of the international community remain interested in the reconstruction of Iraq, albeit with reservations, because they know that failure to help Iraq rebuild could unravel its gains against IS. The socio-economic problems that previously bred sectarian conflict and created space for IS persist.

The onus, therefore, is on the Iraqi leaders to make the most of the pledges of support that remain on the table, and the rising oil prices that are boosting confidence in the country's future finances. It is time for the Iraqi government to design a clear strategy in collaboration with local governments on how they plan to meet donors' expectations and implement the various projects. Since the Kuwait conference, Iraq held a transformative general election and a new government was formed last October. In his vision document, the new Prime Minister, Adel Abdel Mahdi, included reconstruction as one of his government's top

priorities. Iraqis and international partners are eagerly awaiting action from Baghdad with a great deal of optimism and anticipation. Time will tell if the new government can deliver.

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