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FOR THE MIDDLE EAST

# Report of the Task Force on the Future of Iraq

**Achieving Long-Term Stability to Ensure the Defeat of ISIS**

**Chair  
Ambassador Ryan Crocker**

**Executive Director  
Dr. Nussaibah Younis**





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*Cover photo:* Reuters/Alaa Al-Marjani. We chose the cover photograph to represent the common Iraqi demand for political reform, for security, for an end to corruption and graft, and for fair and equal economic opportunity. These demands cut across ethnic and religious boundaries and are often articulated in mass protests that raise the Iraqi flag.

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# Task Force on the Future of Iraq

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# Foreword

By Ambassador Ryan Crocker

The Iraqi government, backed by the United States and its coalition partners, is on the brink of retaking all the territories once occupied by the Islamic State of Iraq and al-Sham (ISIS) in Iraq. In this report, we offer a strategy for how the United States can build on this success to bring about a lasting defeat of ISIS and to secure US national security interests in Iraq over the long term.

Over the course of 2016, the Task Force on the Future of Iraq brought together the world's leading Iraq scholars, experts, and former policy practitioners to conduct a rigorous inquiry into how the United States could best protect its national security interests and promote Iraqi interests through targeted and effective engagement in Iraq.

The Task Force traveled to Baghdad, Erbil, Sulaimani, Najaf, Amman, Berlin, and twice convened in Washington DC to listen to the perspectives of Iraqi political leaders, civil society actors, and religious leaders. We likewise listened carefully to international policy makers representing several countries engaged in the war against ISIS. Based on this research, the Task Force presents the following report with policy recommendations in order to help the United States to achieve its national security goals in Iraq and thereby in the wider region.

It was a great privilege to work with the members of the Task Force and the senior advisers. Individually and collectively, they are the finest minds currently engaged on Iraq. They are of different nationalities, backgrounds, experiences, and points of view. They share some ideas in common; that the future of Iraq is important, not just for Iraqis but for the region and the international community. And that what the United States does or does not do will have a significant impact on that future.

By consolidating the gains that the United States has made in this second war against violent extremism in Iraq, we hope to avoid becoming entangled in a third.

## **Ryan Crocker**

Chair, Task Force on the Future of Iraq  
Atlantic Council

# Executive Summary

## National Security Interests of the United States

The objective of the United States is an independent, stable, and prosperous Iraq: one at peace within its borders and with its neighbors, reflecting legitimate and effective governance, and strongly inclined to cooperate closely with the United States in the Middle East. Iraq now is in a state of civil unrest that has given space to terrorist groups like the Islamic State of Iraq and al-Sham (ISIS) that directly threaten US national security interests. Although military force can limit the capacity of terrorist groups, it cannot eradicate the underlying causes that give rise to such groups. Only an effective, responsive, and legitimate government can tackle the root causes of radicalization. This does not mean that the United States should engage in a large-scale, nation-building program in Iraq, but rather, that it should support progress on key legislative programs and reform initiatives that directly tackle Iraqi grievances.

## The Case for Prioritizing Iraq

Advancing US interests in Iraq will have a positive impact on the following US national security interests across the Middle East:

- Denying safe haven to terrorist groups in Iraq reduces the strategic depth of connected groups operating in Syria and limits their capacity to threaten US and allied interests.
- Offering US support to the Iraqi government will eventually reduce Iraq's vulnerability to regional, and especially Iranian, influence and limit Iran's capacity to project power across the Middle East.
- Bringing key trade routes between Jordan and Iraq back online would help to strengthen the Jordanian economy, thereby stabilizing this vulnerable US ally.
- Achieving Iraq's oil and gas export potential and modernizing its economy could fire a new and powerful engine of regional and global economic growth, potentially undermining the appeal of extremist ideology among youth in the Middle East.

The United States has already built a multilateral architecture to fight ISIS: the Global Coalition Working

to Defeat ISIS. The March 2017 meeting in Washington at which all sixty-eight states in the Coalition were represented was an affirmation of Coalition solidarity with Iraq. This Coalition can be repurposed toward strengthening the resilience of the Iraqi state. The sustained leadership of the United States will be critical, but the burden of dealing with Iraq's deficiencies in governance can and should be shared with allies, partners, and friends. Given the substantial investments that have already been made, a relatively modest additional investment in the stabilization of Iraq may yield disproportionately positive results. By investing, rather than withdrawing, at this critical time, the United States can ensure that the gains made against ISIS are sustained in the long term.

## Recommendations for US Iraq Policy

### Publicly Commit to Engaging in Iraq in the Long Term.

US policy in Iraq is undermined by Iraqi perceptions that US engagement is superficial and transitory. Both ISIS and Iran promote the idea that the United States cannot be relied on for a long-term partnership. Recent visits to Iraq by Secretary of Defense James Mattis, Chairman of the Joint Chiefs Joseph Dunford and Senior Adviser to the President Jared Kushner are a good start. President Trump's March 20, 2017 meeting with Prime Minister Haider al-Abadi also provided some assurance to the Iraqi government and the public that the United States is committed to helping Iraq even after the military defeat of ISIS.

**Focus on Improving Governance.** Violent extremism flourishes in societies where the government is seen as corrupt, weak, and illegitimate by its population. The United States can most effectively tackle violent extremism in the long term by pressing the Iraqi government and the Kurdistan Regional Government (KRG) to better meet the needs of the Iraqi people. In the short term, this must involve supporting free and fair provincial and parliamentary elections.

**Strengthen the Iraqi Economy.** The Iraqi state needs a functioning economy in order to fight violent extremism, provide employment for youth vulnerable to radicalization, and to protect itself from Iranian intervention. The United States should continue to support the Iraqi economy through direct financial assistance and support for the United Nations (UN), International Monetary Fund (IMF), World Bank, and multinational aid.

**Keep Training Iraqi Forces.** The security threats to Iraq will not end when ISIS is driven out of Mosul. Iraqi Security Forces need to be prepared for the long-term defense of Iraqi territory from resurgent violent extremism. This can be achieved by maintaining an appropriate number of US troops in Iraq beyond the liberation of Mosul, and by pursuing a long-term mission to advise, train, and equip Iraqi Security Forces.

**Mediate between Baghdad and the KRG.** Any military conflict between Baghdad and the Kurdistan Regional Government would seriously undermine US efforts to achieve a permanent defeat of violent extremism in Iraq. The United States should continue to mediate as appropriate between Baghdad and the KRG as they deal with complex issues such as disputed territories, oil and oil revenues, security, and Kurdish independence and should escalate its support for the United Nations in such mediation.

### **Maximizing Prospects for Success**

**Engage with the Iraqis.** The United States can only be successful in Iraq with the support of the Iraqi government and the Iraqi people. There must be a greatly enhanced public diplomacy strategy in Iraq to communicate to the population that the United States seeks to support stability and growth for the country. At present, Iranian propaganda is far more effective than US efforts.

**Ensure Dedicated White House Support.** It is essential that President Trump and his National Security Advisor are fully on board with a governance-focused strategy for Iraq. The White House must remain directly engaged, rather than subcontracting Iraq to a special envoy.

**Consult with Congress.** The US Congress should be fully consulted in the preparation and execution of this strategy. By embracing an inclusive process, the Trump administration is likely to gain invaluable guidance, in addition to the support and backing of Congress. The March 20, 2017 letter from a bipartisan group of senators led by Senate Foreign Relations Committee Chairman Bob Corker is an excellent platform from which to build a long-term strategy of engagement.

**Engage the American Public.** It will be important to explain to the American public that future US efforts in Iraq do not represent a return to the days of nation building. Rather, the strategy should be explained as a strategic engagement designed to protect US security interests.

**Maintain a Multilateral Approach.** Leverage the counter-ISIS coalition to develop an ongoing stabilization partnership between Iraq and the international community. Build on the strength of European engagement to share costs, divide responsibilities, and better tackle sensitive areas in which the United States is not seen as neutral. Persuade the Gulf Cooperation Council (GCC) to more positively engage with Iraq.

**Take a Long View.** By measuring success along governance, rather than military, indicators, the Trump administration can ensure that it is on the path to achieving a real and lasting defeat of violent extremism in Iraq. Success will take years, rather than months, but it will be meaningful once achieved.

# US National Security Interests in Iraq

The Iraq policy of the United States has swung between hyper-ambitious interventionism and dangerous disengagement. The war in Iraq claimed the lives of almost 4,500 US servicemen and women, and hundreds of thousands of Iraqis died in the process. It also cost the United States \$815 billion in direct costs, and could end up costing some \$1.7 trillion. There can be no question of returning to this level of intervention.

When the United States withdrew its military forces from Iraq in December 2011, it also abandoned intelligence collection partnerships, slashed civilian and military training and reconciliation programs, and downgraded its political relationship with the country.<sup>1</sup> It was in this context that the unraveling of Iraq's fragile internal order and the rise of Islamic State of Iraq and al-Sham (ISIS) were ignored by the United States. Iraq returned to a state of civil war. The military defeat of ISIS will not end it.

At the start of the Trump Administration, it is worth thoroughly re-assessing US national security interests in Iraq, and devising a truly interest-based policy.

## Countering Violent Extremism through Meaningful Reform

Existing US policy in Iraq prioritizes the defeat of ISIS because of the threat that violent extremists pose directly to the United States and its allies. But, progress in the battle against violent extremism cannot be measured solely in terms of the number of ISIS fighters killed and the scale of territory retaken from the group.

Violent extremism flourishes in societies where state institutions are seen as oppressive, corrupt, ineffective, and illegitimate. Any long-term defeat of violent extremism in Iraq must overcome the failure of the Iraqi state to win the trust and support of wide swathes of the Iraqi population. This does not mean that a mammoth state-building effort is required, but rather that Iraqi progress on key legislative programs and reform initiatives should be seen as a critical part of an overall effort to defeat violent extremism in Iraq. This

will include US-led international efforts to help forge a new power-sharing agreement and the transition to a functioning government. If the United States walks away, Iraq will slide back into civil war. And civil wars metastasize. The Syrian war, for example, spread to Iraq with ISIS and to Turkey where clashes with the Kurds were reignited.

In our interviews, one senior Iraqi government official told us that the message he was hearing from the United States was: “forget about reforms, focus on ISIS.” If such messages are being conveyed, even inadvertently, they are counterproductive. Governance reforms are key to the battle to defeat ISIS and whoever might seek to succeed it. It is in the interests of the United States to promote that message and outcome relentlessly.

## Preventing Regional Instability

Iraq has become a destabilizing force in the Middle East, and its continued volatility has a significant impact on surrounding countries. The presence of ungoverned spaces in Iraq offers strategic depth to criminal, insurgent, and extremist networks in neighboring countries. Militant groups in Syria, including ISIS, benefit from supply routes through Iraq. And the export of Iraqi Shia fighters into Syria, organized by the Iranian Revolutionary Guard Corps, further exacerbates the conflict in Syria.

Insecurity in Iraq impacts trade flows, shutting down the cross-border trade that is critical to the economies of neighboring countries such as Jordan, and stymieing investment and development projects that could contribute to enhancing wealth, employment, and stability in the wider region. Outflows of Iraqi refugees, in conjunction with other regional refugee movements, reinforce economic and political pressures on surrounding states and on the European Union.

Situated between Iran and Saudi Arabia, developments in Iraq fuel tensions and heighten the risk of conflict between the two regional powerhouses. The expansion of Iranian influence in Iraq has shifted the balance of power in the region and has emboldened Iran in its sponsoring of violent sub-state actors across the Middle East. The rise of Iran has also fueled Saudi insecurity, contributing to the Saudi military campaign in Yemen with the potential to fuel other proxy

<sup>1</sup> Jeff Gerth and Joby Warrick, “Promises Unfulfilled: How a State Department Plan to Stabilize Iraq Broke Apart,” *Washington Post*, August 15, 2016, [https://www.washingtonpost.com/world/national-security/promises-unfulfilled-how-a-state-department-plan-to-stabilize-iraq-broke-apart/2016/08/15/82e2324e-5a8c-11e6-831d-0324760ca856\\_story.html](https://www.washingtonpost.com/world/national-security/promises-unfulfilled-how-a-state-department-plan-to-stabilize-iraq-broke-apart/2016/08/15/82e2324e-5a8c-11e6-831d-0324760ca856_story.html).





Source: Wikimedia Commons.

conflicts. Saudi-Iranian competition may also lead to an arms race.

The Iraqi government has also proven to be vulnerable to significant influence from Iran. Iran considers Iraq its first line of defense and has heavily invested in securing substantial power in the country. The objectives of the Iranian government are to undermine Iraq's military

strength, to extract gain from the Iraqi economy, and to exercise substantial influence over the Iraqi political process. Iran has been successful in each of these objectives, and the strength of its posture in Iraq has enabled it to project power more forcefully across the Middle East, especially in Syria, Lebanon, and Yemen. The interests of the United States in the

Middle East are undermined by Iran's destabilizing activities—which ratchet up sectarian tensions, fuel violent extremism, and in some cases, pose a direct threat to US personnel in the region.

The United States can position itself as a more attractive partner to Iraq than Iran by focusing on the value that it can bring to a partnership that Iran simply cannot offer. Such benefits could include access to global financing and technical economic support, direct foreign investment, advanced military and intelligence technologies and logistics, leading education systems, and a path to relevance within the international system. Revitalizing the US–Iraq Strategic Framework Agreement of 2008 could be an effective vehicle for enhanced cooperation in all these areas.

“The hard work that has gone into building the counter-ISIS coalition should not stop once ISIS has been driven from its territory in Iraq.”

The United States can also foster stronger relations between Iraq and its Gulf Cooperation Council (GCC) neighbors through mediating the restructuring of Saddam-era debt to GCC countries in general, and to Saudi Arabia in particular along the same terms it reached with its Paris Club creditors in November 2004.

By counterbalancing Iranian ambitions and restoring stability to Iraq, the United States could positively influence developments across a number of strategically critical countries in the Middle East.

### **Ensuring Free Flow of Oil and Gas**

Iraq is currently the fourth largest oil producer in the world, pumping some 4.5 million barrels a day. Ongoing instability in Iraq could reduce oil outputs and lead to a shock in oil markets that would damage the global economy. It is in the interests of the United States that oil flows freely onto global markets and that oil prices remain relatively stable. Iraq could also reduce its reliance on Iranian gas imports and, with investments, could act as a substantial exporter to the gas-short countries in the region, by developing its substantial untapped gas reserves and capturing large quantities of associated gas that now flares off wastefully. The best way to ensure the free flow of oil

and gas from Iraq to world markets is to support the Iraqi government in its efforts to govern effectively, to secure the support of its population, and to defend its territory from violent extremism.

### **Reasons for Optimism**

Today, Iraq is full of challenges, and engagement often looks expensive and futile. But, if the United States invests in this relationship with strategic patience and measures progress in years rather than in months, the future could be very promising. Iraq has a level of freedom of expression almost unparalleled in the Middle East, a burgeoning and vibrant civil society, a wealth of diversity and ambition amongst its youth, a robust higher education system, significant foreign exchange reserves at an independent Central Bank that has been successful at maintaining a stable currency, vast potential oil and gas wealth, and the ability to become a positive force for stability in the region.

Although there is certainly baggage from the 2003 invasion in this relationship, in some ways the United States has had the opportunity to reset. Having left in 2011, then returned at the explicit request of the Iraqis, the United States can build on this more positive engagement going forward. The vast majority of Iraqis engaged by the Task Force, whether Shia, Sunni, Kurds, or religious and ethnic minorities, having seen what happened when the United States walked away in 2011, expressed a desire for a continuing and significant US military and diplomatic presence in Iraq.

And the United States does not have to engage alone. The hard work that has gone into building the counter-ISIS coalition should not stop once ISIS has been driven from its territory in Iraq. Instead, coalition partners must be pressed to continue to support Iraq militarily, politically, and economically, so that our role is less of a political lightning rod and so that our collective goals can be achieved at a lower cost. The United States could build on this multilateral support by persuading Gulf Cooperation Council (GCC) states to more positively engage in Iraq. The recent visit of the Saudi Foreign Minister to Baghdad was an encouraging sign in this regard. GCC states would benefit from a greater understanding of the variations within the Shia elite in Baghdad and an appreciation of how many of them resist Iranian efforts to dominate their political system. The United States can make the case that greater engagement could enable Iraq to positively contribute to GCC economic and security goals, and thereby bring aboard these critical regional partners.

# Good Governance Defeats Violent Extremism

## Strengthening Governance

The best way to defeat violent extremism is to support the evolution of an effective, responsive, and legitimate Iraqi government. Violent extremism flourishes in communities that feel marginalized and oppressed by the government. Tackling this driver of radicalization is key to achieving a permanent victory against ISIS in Iraq.

An effective US strategy in Iraq would require that the United States and its partners place good governance at the heart of an ongoing advisory and assistance mission in Iraq. Effective governance involves the professional delivery of public services, the predictable application of the rule of law, and transparent and accountable government. These elements are foundational to state stability, and promoting them should be a cornerstone of the US approach to Iraq.

In the short term, it is critical that the United States support the execution of free and fair provincial and parliamentary elections in the country. Provincial council elections are currently scheduled for September 2017, and parliamentary elections for April 2018. There are widespread concerns about the independence of the Iraqi Higher Electoral Commission, fears that the presence of Popular Mobilization Units (which are legalized, Shia-dominated paramilitary forces) could prevent citizens from freely exercising their right to vote, and worries that internally displaced persons (IDPs) may not have the opportunity to vote. These issues must be urgently addressed. The first elections in a post-ISIS Iraq must be seen as legitimate by all Iraqis if the country is to have a chance of healing its inter-communal divisions.

In the long term, it is important to bolster the relationship between Iraqis and the state. One in five Iraqis lives below the poverty line, despite residing in a country with vast oil wealth that experienced rapid rates of growth over the last decade. The concentration of wealth in the hands of a corrupt political elite damages the legitimacy of the state and, in some cases, drives people toward embracing extremist ideologies.

Corruption has permeated all aspects of public life in Iraq, leading to poor service delivery and a

monumental waste of public funds. Government procurement contracts are controlled by political parties that either auction them off or set up shell companies to award contracts to themselves. These contracts are then subcontracted, or simply never fulfilled, with funds siphoned off by corrupt politicians and other beneficiaries along the way. There are tens of thousands of ghost employees, who either pay their supervisor half of their wage in order not to show up for work, or who are fictitious, created by supervisors who then keep the entire allocated wage. And corruption trickles down through the system, with local officials extorting businesses and forcing civilians to pay arbitrary “fees” whenever they encounter the state bureaucracy. The humiliation that accompanies these routine interactions alienates citizens from state institutions that are supposed to serve them and renders the state increasingly vulnerable to instability and violence.

“The best way to defeat violent extremism is to support the evolution of an effective, responsive, and legitimate Iraqi government.”

In the first instance, it is important to recognize that governance structures can only be effectively overhauled by a concerted political effort by the Iraqi government. Governing elites and their political parties benefit overwhelmingly from systemic corruption and are deeply invested in maintaining the status quo. Nonetheless, pressure from Iraqi civil society, which has mounted mass protests against corruption across Iraq over the last two years, may bring about the political conditions in which change is possible. The United States should work with its international partners to bring significant pressure to bear on the political establishment to introduce substantive reforms, starting by cutting off the highest-ticket corrupt practices, i.e. those usually tied to procurement carried out by ministries in tandem with political parties.

One approach would be for the Iraqi government to publish online the amounts allocated to particular development projects along with details of the contractor chosen. That way, local communities could track whether this investment results in the completion of the project commissioned, and if not, they can then hold both the government and the chosen contractor accountable.

Transparency in the bidding process for contracts, as well as government procurement directives that would consider, in addition to price competitiveness, other important qualifications when selecting contractors and service providers (e.g., technical capability, performance history, credit rating), would also help to tackle the locus of the costliest corruption in the Iraqi state. If the bids submitted were available online, the government would be forced to pick the most competitive bid, and the public could trace the project through to completion and attempt to hold all parties to account in the process. Preventing sub-contracting is also important to keeping the original bidder liable for fulfilling the terms of the government contract.

Chile is one example of a country that has launched a transparent, online public procurement and hiring system to help tackle corruption. ChileCompra has been a great success, and in 2012, it completed 2.1 million purchases through the platform.<sup>2</sup> By investing in technologies such as these, the United States, its partners, and international financial institutions can help the Iraqi government address the core grievances of the Iraqi population and support the longevity of the Iraqi state.

The United States and European countries can also redouble their efforts to ensure that senior Iraqi politicians are forced to account for their money when they seek to invest it in the Western world. Stricter controls on property investment in particular can prevent political elites from safely parking the proceeds of corruption in Western capitals.

The United States can build on the successful collaboration with Iraq to combat financial crime and terrorism financing. Technical assistance provided by the US Department of the Treasury to the Iraqi government, as well as cooperation with the Central Bank of Iraq, has led to success in dismantling terrorism financing networks, including the disruption of illicit money-exchange houses such as the joint US-Iraqi

operation to shutter the Iraq-based Selselat al Thahab money-exchange in December 2016.<sup>3</sup>

Allocating reconstruction, development, and technical assistance to provincial governments, with strict accountability criteria, may prove more effective than distributing the same resources to Baghdad. The proximity between provincial governments and the citizens they serve makes accountability easier, better enables the allocation of resources to the places of greatest need, and tackles suspicions that particular areas are deprived because of their ethnic or sectarian identities. The key will be to ensure that provincial governments have the budgets, capacity, and technical capability to perform the tasks assigned to them.

The legal framework for such devolution already exists in Iraq. The constitution allows for the extensive empowerment of local governments, and a 2008 law outlining the rights of provinces was radically expanded in 2013. The obstacles to implementing greater devolution are now political rather than legislative. The Iraqi state has a deeply ingrained centralist mentality, and there is a tendency for decision making to be monopolized by the center. The United States and the United Nations Assistance Mission for Iraq have both pressed the Iraqi government to do more to implement devolution, and this issue should continue to be a key policy priority in ongoing dialogues with the Iraqi government. There have also been a number of initiatives supported by the UN and by USAID, such as the Tarabot and Taqadum programs, to help build capacity in local governorates to enable them to take on these new roles.<sup>4</sup> It is critical that such training is expanded.

The devolution of security management could also be a positive step in repairing trust between Iraqi citizens and the government. Locally recruited police, reflecting the ethnic and sectarian makeup of the towns in which they work, should direct internal security in close cooperation with federal counterterrorism units and intelligence services. In this regard, they could benefit from participating in training and equipping missions provided by the international community. Having police connected to the local area manage security could diffuse tensions that come with having federal police or security forces inserted from elsewhere in the country. And effectively trained but locally rooted

2 Rasmus Jeppesen, "Accountability in Public Procurement," United Nations Capacity Development Centre, United Nations Development Programme, September 2010, <http://unpcdc.org/media/142496/story%20of%20an%20institution%20-%20accountability.pdf>.

3 US Department of the Treasury, "Treasury Sanctions Senior Isil Financier and Two Money Services Businesses," December 13, 2016, <https://www.treasury.gov/press-center/press-releases/Pages/jl0684.aspx>.

4 United States Agency for International Development, "Tarabot: Iraq Administrative Reform Project," updated 2017, <http://tarabot-iraq.org/>.



police forces could become the first, best lines of defense against the ongoing ISIS insurgency.

We would stress, however, that devolution in the economic or security spheres must be an Iraqi decision. The time for international solutions to Iraqi political problems is long past. Iraq has a long history of strong central governments; only Iraqis themselves can assess what the political consequences of devolution might be.

The Kurdistan Regional Government (KRG) suffers from many of the same deficiencies in governance as Baghdad, and it is equally important that the United States strongly encourages reform in the region. Although the KRG remains a better environment for foreign investors than Baghdad, primarily because of better security, still, bureaucratic regulations and corrupt practices hamper foreign investment and local entrepreneurship. The use of public sector jobs as political patronage has led to inefficiency and a drain on public finances. When oil prices were high, the KRG, like Baghdad, failed to invest in diversifying the economy, or to expand local production of agricultural or manufactured goods to reduce the almost total reliance on imports.

Strapped for cash, the KRG pursued an independent oil policy and commenced with oil forward sales contracts between the KRG Ministry of Natural Resources and international oil traders to finance the operations of the government. However, these forward sales contracts lacked transparency, and the accounts in which the proceeds of these oil sales were deposited have not been audited, further exacerbating the lack of Kurdish public trust in the KRG management of its finances. In 2015, the KRG also seized the monies in the Central Bank of Iraq branches in Erbil and Sulaimaniyyah, including the regulatory capital of Iraqi public and private sector banks that were deposited at these branches, causing the illiquidity of a number of private sector banks.

The financial crisis and deferred or non-payment of public sector wages has led to widespread popular discontent manifested in regular strike actions and mass protests. Local access to public services including healthcare, education, and access to water and electricity has been dramatically reduced, as pressure is put on services by 1.8 million internally displaced Iraqis and Syrian refugees now living in the KRG. And some 4,000 public infrastructure projects have been suspended, as a cost-saving measure, leaving Iraqi Kurds with little confidence that their public services will improve. Frustration with this state of affairs has promoted an outflow of educated Kurds, who had

returned to the region after 2003 to help develop their homeland, and thousands of others have joined the refugee exodus from the Middle East to Europe.

The KRG has implemented austerity measures by slashing salaries and halting public investment, but these actions depress consumer spending, inhibit growth, and damage public confidence. Further structural change is needed to help restore public trust in the political system and to spur sustainable economic growth. At the same time, the KRG has made some progress on reform by removing price subsidies, metering electricity, and increasing transparency in the oil and financial sectors.

At the request of the KRG, the World Bank has prepared a detailed roadmap for reform in the region, which is a very positive step.<sup>5</sup> The World Bank roadmap draws on a vision document prepared by the KRG Ministry of Planning entitled *Kurdistan 2020: A Vision for the Future* for which the World Bank sought to provide a blueprint for implementation.<sup>6</sup> The World Bank report recommends that the KRG take steps to diversify the economy, reduce obstacles to private enterprise, bolster domestic production and lessen reliance on imports, increase access to credit for small and medium enterprises (SMEs), cut subsidies and reduce public sector employment, and improve accountability and tackle corruption.

These recommendations address the core of the KRG's governance problems, and have been developed in consultation with the regional government. The United States and its coalition partners should ensure that their messaging to the KRG strongly endorses the World Bank report, and ongoing assistance to the KRG should be linked to progress in achieving the reforms mapped out in the report. By reinforcing this positive roadmap, and by strongly incentivizing its implementation, the international community has an opportunity to help stabilize the Kurdish economy and to strengthen Kurdish government-society relations for the long term.

## Supporting Economic Reform

Defeating violent extremism in Iraq also requires that the local population has access to employment, and that the Iraqi government can maintain fiscal solvency.

5 World Bank Group, "Reforming the Economy for Shared Prosperity and Protecting the Vulnerable: Executive Summary," 2016, <http://documents.worldbank.org/curated/en/708441468196727918/Executive-summary>.

6 Ali Othman Sindi, "Kurdistan Region of Iraq 2020: A Vision for the Future," Ministry of Planning, Kurdistan Regional Government, 2013, [http://www.iraq-jccme.jp/pdf/archives/krq\\_2020\\_english.pdf](http://www.iraq-jccme.jp/pdf/archives/krq_2020_english.pdf).



People waiting in line during aid distribution in Arbat Camp, January 2015. *Photo credit: Melih Cevdet Teksen.*

Without a secure underpinning for its economy, the Iraqi state risks becoming increasingly vulnerable to violent extremism and to the myriad paramilitary groups backed by Iran—groups that can provide economic benefits to local supporters.

Receipts from oil exports account for over 90 percent of the Iraqi state's revenues. Therefore, the halving of global oil prices in 2014 saddled the country with double-digit budget deficits reaching a high of \$20.6 billion in 2016 before dropping to \$18.4 billion in 2017. The government initially reacted to the shortfall in oil revenues by suspending investment expenditure, accumulating significant arrears to international oil companies, and seeking to finance the deficit by tapping its foreign currency reserves, borrowing from state banks, and seeking international financial assistance. With the Iraqi economy in freefall, the government began negotiations with the IMF, and, with significant help from the United States, it secured a three-year Stand-By Arrangement (SBA), through which Iraq will receive a total of \$15.6 billion inclusive of \$5.34 billion from the IMF itself.

In December 2016, Iraq passed its first review after the implementation of the IMF Stand-By Arrangement. The government had made progress in some areas, including by escalating payments to international oil companies, which was vital to maintaining a positive climate for investment in the country. But the IMF found that more work needed to be done, especially on diversifying the state's sources of revenue, reducing payroll expenditure, and strengthening anti-corruption measures.

The conditions attached to the disbursement of funds from the IMF are positive inducements for Iraqi government reform, but they will not lead to a fundamental restructuring of the Iraqi economy.

The IMF conditions do not mandate an overhaul of the salary, pension, and social welfare payments that account for a vast proportion of the government's expenditure. This omission reflects fears that the Iraqi government could collapse if it attempted to pass such controversial reforms in the face of already widespread popular opposition. The Stand-By Arrangement, therefore, represents a short-term fix to help the Iraqi state finance the war against ISIS. However, this is not a

roadmap for the fundamental economic restructuring that Iraq needs to achieve sustainable fiscal health. In the long term, it is critical that Iraq diversify its economy and reduce its almost total reliance on oil and gas receipts. In particular, it needs to invest further in agriculture and manufacturing to spur local job creation, to reduce its dependence on imports, and to improve its long-term economic prospects.

In January 2017, the United States took the positive step of signing a loan guarantee agreement (LGA) with the Government of Iraq that enabled Iraq to issue a \$1 billion, five-year tenor, 2.149 percent coupon US-Government guaranteed bond (USAID Bond). The LGA is meant to pave the way for Iraq to eventually borrow on its own merit in the international capital markets, and the LGA stipulates that the USAID bond will be issued in parallel with a conventional, un-enhanced, Eurobond as appropriated in the 2017 budget. Moreover, the conditions of the LGA were designed to augment the reforms as under the IMF SBA. The support of the United States has reinforced that assistance from the IMF and the World Bank and is helping Iraq to successfully navigate its financial crisis.

The United States should use the IMF program as a forcing mechanism to instill reform in the Iraqi economy and its budgetary process. Historically, there was a lack of coordination between the Iraqi Ministry of Finance and other ministries, with the latter often acting as independent fiefdoms when establishing their capital investment budgets. The IMF should insist on better coordination between the Ministry of Finance and the rest of the ministries in general, and in particular with the Ministry of Electricity and the Ministry of Oil. The United States can also assist Iraq in establishing a methodology to prioritize projects based on economic viability as well as other strategic objectives such as forward and backward linkages in the economy.

Simplifying the legal steps for starting and running a business and clamping down on officials who extort local companies will be critical first steps toward enabling the expansion of the private sector. The lack of credit available to entrepreneurs and to small and medium enterprises also prevents growth; the United States, its partners, and international financial institutions can support the availability of credit by mandating that a proportion of their assistance be made available as credit to SMEs.

International investment in Iraq can also be substantially aided by regulatory reform, by a much more permissive visa system, and by the formation

of a high-level commission (perhaps housed in the prime minister's office) that can help international companies cut through the deeply obstructive bureaucratic system that is currently limiting foreign direct investment. The Commercial Law Development Program housed in the US Department of Commerce has provided years of excellent technical assistance to the Iraqi government, including helping to develop a commercial law framework and creating an investment guidebook, but much of the implementation of this technical work depends on senior diplomats exerting the political pressure that is needed to tackle the private interests that continue to obstruct progress.

The United States should encourage closer Iraq-GCC economic cooperation by seizing the opportunity created by the Saudi Foreign Minister's recent visit to Baghdad to meet with Prime Minister Al-Abadi and the Iraqi leadership. The United States should facilitate a restructuring of the \$30 billion Saddam-era "debt" to Saudi Arabia along Paris Club terms, as well as assist Iraq to structure a debt for equity swap program to encourage Saudi and GCC investment into infrastructure projects post-Mosul liberation.

The United States should also do more to directly encourage and facilitate US companies that are interested in investing in Iraq. The United States should continue to assist Iraq in enabling an investment environment with a level playing field in order to not disadvantage US companies when competing with other foreign investors in the Iraqi market.

Incentivizing public sector employees to transition into the private sector will require the government to limit the extremely generous pensions offered by the public sector, and to use the resources saved to jump-start a pension system open to private sector employees. Balancing out the benefits available to public and private sector workers is critical to reducing the massive burden placed on the public purse by a bloated public sector currently seen as a lifelong financial guarantee for those who work in it. The Iraqi government should also implement steps that encourage public sector workers to move on.

Tackling entrenched corruption is tough but necessary to reduce the massive market distortions that prevent a balanced economy from taking root. Partnering with technology companies can offer one way of reducing opportunities for graft in the system. The Iraqi government's partnership with a private company to pay public sector employees through a biometric card system has been one successful initiative reducing the vulnerability to corruption of the previous cash-based payment system, but it needs to be rolled out more



comprehensively. Diversifying sources of income also requires the Iraqi government to enforce its tax and customs collections system—instituting automated deductions could significantly help in this process.

It is also imperative that the Iraqi government continues to prioritize investment in the oil and gas sector and works to maximize the efficiency of the institutions that deal with foreign companies working in the sector. These resources provide the foundation of the Iraqi economy and even a transition away from oil dependency will require that they are effectively deployed.

Renegotiating contracts with oil companies could make this more manageable. The government also could benefit from moving away from its technical-service agreements, which levy high fees per barrel on the government at a time when oil prices are low, and which fail to incentivize cost efficient investments in infrastructure on the part of oil companies. Additionally, speeding up decision-making processes and strengthening institutional capacity are important to maintaining and growing international investment in the sector.

Iraq could be encouraged to further develop its capital markets. Functional capital markets encourage corporate and institutional transparency, allow both early-stage and mature companies to raise equity and debt capital, facilitate new company formation, attract foreign investment (which in turn strengthens international ties), create wealth, and allow a broad segment of the population to participate in the country's prosperity. In addition, functional capital markets can play a critical role in developing vital infrastructure and in post-war reconstruction efforts. Unlisted firms could be offered tax incentives to list on the Iraq Stock Exchange (ISX), and some state-owned companies could be privatized and listed on the Exchange as well. The credit worthiness of the Iraq Stock Exchange could be further enhanced if internationally recognized financial institutions are permitted to act as custodians for securities listed on the ISX. It is also important that the Iraqi government make it easier for foreign companies to transfer money in and out of Iraq, while keeping the sanctity of the anti-money laundering and anti-financial crime and terrorism-financing regime established by the Central Bank of Iraq with the technical assistance of the US Department of the Treasury. There are currently long delays in transferring large sums of money into and out of Iraq, and, unless this issue is addressed, foreign investors will remain reluctant to invest in Iraq.

The United States has been fearful of rocking the boat by pressing too hard for economic reform during the war against ISIS, but there will be opportunities to strengthen US policy in the years that will follow the liberation of key Iraqi territories. The United States can use direct economic assistance, loan guarantees, its influence with the IMF and the World Bank, and its relationships with donor countries and multilateral development banks to condition the continued transfusion of support into the Iraqi economy on the implementation of structural reform measures. A tougher approach to economic reform in Iraq will be politically difficult in the short term, but is absolutely crucial to ensuring the solvency of the country, and therefore its stability over the long term.

### **Fostering Cross-Sectarian Inclusivity**

ISIS was able to seize a third of Iraq's territory partly because of massive Sunni disaffection with the Iraqi state. In the early days after Mosul fell to ISIS, some Sunnis believed that they had been liberated from the Iraqi government by a Sunni-led revolution mounted by former military officers, Baathists, and Sunni armed groups. Such delusions have long since been put to rest, but the Iraqi government needs to address Sunni perceptions of marginalization and disenfranchisement if it wants to decisively defeat violent extremism in Iraq.

In the process of our consultations with Sunni Arab Iraqis, the number one concern that they communicated to us was security. Whether they are fleeing ISIS territory, waiting in IDP camps, traveling back to their homes, or trying to rebuild their lives—they fear arbitrary arrest and imprisonment, revenge activities of occasional rogue militias and tribal adversaries, and the ubiquitous unexploded ordnance that ISIS has planted in homes and civic buildings.

Many of the Sunnis we met with expressed concerns about the rise of Shia paramilitary forces—Popular Mobilization Units (PMUs)—especially those groups backed by Iran, which have now become a legal part of the Iraqi security infrastructure. There have been cases of Shia paramilitary forces (and some federal police) carrying out extrajudicial killings, torturing Sunnis, kidnapping and extorting them, and looting and burning their homes. Regardless of the limited scale of such abuses, their presence often makes Sunnis feel insecure. The issue of the PMUs and their relationship to the Iraqi state (as well as to Iran) will become even more critical after the liberation of Mosul. US presence and engagement should indirectly support those in the Iraqi government who seek to curb PMU influence.



“... [T]he Iraqi government needs to address Sunni perceptions of marginalization and disenfranchisement if it wants to decisively defeat violent extremism in Iraq.”

Despite there being a wide range of Shia paramilitary units, with some behaving much more positively than others, the United States should continue to work for all paramilitary units to withdraw from Sunni areas. Sunni IDPs are also, in some cases, being prevented from returning to their homes by Kurdish Peshmerga Forces, who are seen as ethnically re-engineering disputed territories to enable integration into the Kurdish region.

Local security is best managed by local police recruited from local areas, and this is a clear demand expressed across the Sunni political spectrum and among minority communities. And by strengthening the professionalism and the capacity of the Iraqi Army and federal and local police, the United States can ensure that the Iraqi state and local communities do not need to rely on security provided by PMUs. There is also an urgent need to reform judicial procedures when it comes to holding ISIS members to account. To date, there has been a dangerous proliferation of official and unofficial lists of accused ISIS supporters. In some areas, individual militia units, tribal entities, and government agencies each hold their own lists of suspects. The existence of such lists puts thousands of potentially innocent Sunnis at risk of arbitrary arrest, imprisonment, or even murder and may also endanger their families and other relations.

The international community can work with the Iraqi government to institute rigorous, evidence-based standards that must be met for individuals to be included on the list of suspected ISIS supporters, and the government should try to enforce the use of a single, consistent, and accurate list across all of its agencies.

It is also crucial that judicial systems be established in liberated areas as quickly as possible, to offer a venue in which those who committed crimes during ISIS' rule can be held to account, and, where appropriate, to enable victims to receive compensation from the Iraqi State. Unfortunately, much of the good work done to

strengthen Iraq's judicial system between 2003 and 2011 has been undone. Provincial administrations are struggling to cater to the overwhelming demand for judicial services in the aftermath of liberation. By providing effective judicial services at the local level, it is possible to preclude victims from pursuing revenge attacks or from turning to militias for justice. And giving Sunnis fair and predictable access to justice is one of the best ways to tackle their perception of insecurity and victimization, and can help to repair the relationship between Iraq's Sunni community and the state. The same applies to religious and ethnic minorities and other communities that have been affected by ISIS.

### **Stabilization, Reconciliation, and Reconstruction**

If liberated areas remain devastated and impoverished after the war to defeat ISIS, they risk producing a marginalized and economically deprived generation of Iraqis who will remain vulnerable to violent extremism. At the very least, liberated communities must be offered comparable services to those offered at the height of ISIS rule; beyond that, hope must be restored to local communities to assure them that there is a future for them in their hometowns.

The immediate demands of clearing mines and rebuilding basic infrastructure have thus far dominated international efforts—which have been largely coordinated through the UN's Funding Facility for Immediate Stabilization (FFIS). There have been many successful efforts in immediate stabilization, significantly aided by the pressure that the United States has brought to bear on partner countries to contribute resources. The United States should continue to encourage donations to stabilization work in Iraq and could benefit from ramping up its efforts to ensure that pledges are swiftly transformed into cash contributions.

In April 2016, the United Nations Development Program (UNDP) opened a Funding Facility of Expanded Stabilization (FFES). The goal of this mechanism is to raise funds for reconstruction of institutions such as universities and public hospitals, which can provide employment and services for thousands of locals, and to invest in electricity and agriculture, as well as to restore connections between liberated towns and surrounding areas. This funding mechanism has been largely neglected to date, and the UNDP has reported that a further \$300 million is required for enhanced stabilization in 2017.<sup>7</sup> Although it is a struggle given

<sup>7</sup> *Funding Facility for Stabilization Annual Report 2016*, UNDP, March 5, 2017, <http://www.iq.undp.org/content/iraq/en/home/>

the demands of humanitarian relief and immediate stabilization work, the Trump administration should recognize that it will need to work with its partners to invest in medium- to long-term reconstruction in Iraq. There is understandable reluctance in agencies of the United States government to become embroiled in another costly reconstruction effort; however, investing in reconstruction is far more cost effective than engaging in yet another counter-extremist military effort.

The United States has the opportunity to learn from its experience of stabilization and reconstruction operations in the years after 2003, and therefore can enhance the efficacy of its engagement. The United States can work with partner countries and the United Nations to limit the cost of its own contribution.

The Final Report from the Special Inspector General for Iraq Reconstruction, issued in March 2013, offers some particularly salient lessons.<sup>8</sup> One is that pursuing smaller and more achievable projects is more likely to achieve results and less likely to squander resources through corruption. This does not mean that big ticket items, such as rebuilding sanitation systems, do not need to be pursued—but rather that phases of the project should be broken down into smaller, measurable constituent parts so that they can be better tracked and managed. It is also critical that robust oversight be instituted over all stabilization and reconstruction initiatives to ensure that valuable funding is not lost through corruption or ineptitude.

The report also notes that engaging local Iraqi stakeholders in all reconstruction projects is important to ensure that these initiatives meet local needs, and that they will be sustained by the local community once they are handed over. This means that non-Iraqi contractors should only be used where skills gaps

exist locally, and that these contractors should train local counterparts to take over these tasks. Even if this extends the timeline of reconstruction projects, it makes them more sustainable and therefore more likely to positively impact the community in the long term.

To further secure the gains that have been made against ISIS, the United States and its international partners should make greater investments in both local and national reconciliation initiatives in Iraq. ISIS exploited weak governance, societal divides, and local conflicts to advance and hold territory. Their strategies sought to further divide Iraqi society. By implicating tribal and community members in their crimes, they turned neighbors against each other, and prompted a cycle of revenge violence that, in some areas, is preventing IDPs from safely returning to their homes and inhibiting stabilization and rehabilitation of liberated areas.

Local reconciliation and establishing the conditions for peaceful coexistence are critical to stabilization, and there are successful templates for such efforts. The United States Institute of Peace has supported locally led dialogues in Tikrit, Yathrib, and other liberated areas that have reduced communal tensions and facilitated the return of thousands of IDPs. These efforts must be escalated across all liberated areas.

As always in reports such as this one, it is far easier to state what should be done than it is to define the concrete means of actually getting it done. Thanks to the US military contributions to the anti-ISIS effort (air power, advisors, and weapons), the United States has significant leverage with the Iraqis. The United States can build on that as it stays engaged in support of Iraqi Security Forces in the wake of an ISIS defeat as described below. To increase leverage in pursuit of the equally important economic and governance agendas, the United States should provide relatively modest amounts of direct economic assistance. This will give Prime Minister al-Abadi leverage against more radical elements internally, and give the United States leverage as it presses the Europeans, the GCC, and others for more assistance.

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library/Stabilization/funding-facility-for-stabilization-annual-report-2016/.

8 “Learning from Iraq: A Final Report from the Special Inspector General for Iraq Reconstruction,” report presented before Subcommittee on the Middle East and North Africa of the Committee on Foreign Affairs of the United States House of Representatives, Washington, DC, July 9, 2013, <https://www.gpo.gov/fdsys/pkg/CHRG-113hrg81868/pdf/CHRG-113hrg81868.pdf>.

# Strengthening Iraqi Security Forces

In the long term, only the development of strong, capable, and professional Iraqi Security Forces can prevent the Iran-backed elements of the Popular Mobilization Units from expanding their influence in Iraq and enable the state to establish and maintain a monopoly on the legitimate use of physical force.

## Maintaining a Training and Advising Mission

Almost every senior Shia, Sunni, and Kurdish political official we met with expressed a strong desire for the United States and coalition forces to remain in Iraq beyond the liberation of Iraqi territory from ISIS. They recognize that recapturing territory from ISIS will not signal the defeat of the group, but rather a transition back into a traditional insurgency posture, for which US assistance will continue to be required. They believe a capable, well-trained, and properly equipped army is essential to preventing resurgent violent extremism.

There have been some successes in US training efforts in Iraq, including years of training of Iraq's elite Counterterror Forces. These units have performed exceptionally on the front lines against ISIS. And the training efforts undertaken during the war against ISIS have yielded positive results. During our discussions, the Iraqis expressed the wish to build on the current momentum with an ongoing training relationship, which can help to strengthen the capacity of the Iraqi army for the long term.

“A sudden, post-ISIS withdrawal from Iraq by the United States would set the stage for the return of violent extremism.”

There has been frequent criticism of the US training effort in Iraq, particularly as it became evident that the substantial investment in training the Iraqi Army in the years since 2003 had failed to produce a force able to defend the country from ISIS in 2014.<sup>9</sup>

It is important to note, however, that former Prime Minister Maliki undermined the professionalism of the Iraqi Army once the United States withdrew in 2011, replacing competent generals with party *apparatchiks* and undercutting the chain of command by directly issuing orders to mid-level officers. As instability spread across the Middle East in 2011 and beyond, Prime Minister Maliki may have feared that a strong Iraqi army could have undermined him politically. In the aftermath of actual and attempted military coups in Egypt and Turkey, the Iraqi Army must be rebuilt so that it is effective but also subordinated to government control. At the same time, safeguards should be instituted to prevent civilian leaders from using a strengthened army to intimidate political rivals or to manipulate the outcome of elections.

The former prime minister's policies also alienated significant portions of the Iraqi Sunni population, and, when combined with the escalating civil war in Syria, the Iraqi Army suddenly found itself facing an extremely challenging landscape of threats. Moreover, the US training effort had been heavily focused on counterinsurgency efforts, while ISIS mounted a somewhat conventional attack. The recent training has introduced Iraq's forces to new skill sets that are tailored to the specific conditions that they face in the fight to retake territory from ISIS, and to the challenges of holding recently liberated areas. This training, alongside the ongoing support and assistance offered by the United States, has been critical to defeating ISIS without directly engaging US troops in the fighting. But this success must be sealed by the onset of legitimate governance supported by capable security forces. A sudden, post-ISIS withdrawal from Iraq by the United States would set the stage for another descent into civil war.

The Trump administration should make clear its intention to remain engaged in Iraq and reassure the Iraqi government that a sustained training, advising, and equipping mission will remain at the center of the Iraq-US relationship. A commitment to maintain a troop level in Iraq commensurate with a long-term training mission will signal to US allies in Iraq that they will not be abandoned, and will give Iraqi politicians the confidence to hedge against Iran by working with the United States. Transforming the Iraqi Army has to be a gradual process, and success will be more about

<sup>9</sup> Nick Turse, “The US Military’s Poor Record Training the Iraqi Army,” *War is Boring*, January 22, 2016, <https://warisboring.com/the-u-s-military-s-poor-record-training-the-iraqi-army-328bee4315a9#.1h1o7qrsi>.

consistency and longevity of effort rather than about short-term injections of resources.

An effective training and advising mission should include the embedding of US advisers at the operational level in major units across a wide range of locations, including in volatile areas. This vantage point will enable US advisers to assess the equipment needs of the brigade and will allow for hands on training in intelligence collection, strategizing, and targeting. It will also give advisers the opportunity to monitor for abusive or corrupt behavior, and to act to prevent it.

A straightforward way to institute an ongoing training mission may be to extend the mandate of the Combined Joint Task Force—Operation Inherent Resolve, with the permission of the Iraqi prime minister. The mandate of Operation Inherent Resolve is to defeat ISIS “in order to enable whole-of-coalition governmental actions to increase regional stability.”<sup>10</sup> The ongoing training of Iraqi troops could continue under this mandate, and perhaps preclude having to undergo the political turmoil associated with passing a new Status of Forces Agreement. There could also be an arrangement specifying that, as the Iraqi economy begins to recover, the Iraqi government will pay for an increasing proportion of the training effort.

Until these costs can realistically be shared with the Iraqi government, the United States should extend the mandate of the Iraq Train and Equip Fund and signal to the Iraqi government that it is committed to solidifying the gains made against ISIS, and to stabilizing the country.

Providing such a valuable training, advising, and equipping effort would give the United States leverage in Iraq, which should be used to advance political reforms critical to stabilizing the country in the long term. Most immediately, the United States should ensure that Iraqi Security Forces are recruiting sufficient numbers of Sunnis and minorities. And beyond that, there should be an effort to link expansion of the training mission with progress in the political arena.

### **Securing Ongoing Coalition Involvement**

One of the positive hallmarks of the US strategy in Iraq has been the involvement of international partners in security cooperation. In contrast to the 2003–2011 period, when the coalition was heavily dominated by

British and American forces, today many NATO and Group of Twenty (G20) nations are working in Iraq.

A priority for the Trump administration should be to preserve this international support for Iraq, while helping to transition partnerships away from involvement in kinetic operations toward intelligence-sharing and training, equipping, and assisting Iraqi Security Forces. Key focus areas for coalition support could include continued training for special operations forces, intelligence training with a specific focus on counterterrorism operations, development of border security and logistical capacities to support operations in ungoverned spaces, and counterinsurgency training for the Iraqi Army and the federal police.

In particular, European engagement in Iraq should continue to be encouraged and developed. The refugee crisis and terror attacks in Europe have exposed Europe’s vulnerability to shocks from the Middle East, and has led the “big three” European states of France, Germany, and the United Kingdom (UK) to agree that defeating ISIS is an absolute foreign policy priority. The UK and France are today key contributors to the air campaign against ISIS, Germany is arming and training Kurdish Peshmerga on the northern frontlines, and Italy is heavily involved in training the Iraqi federal police.

The United States should strengthen and build on this new commitment by continuing its leadership role while facilitating increased responsibility for European partners. Such an approach would reduce the costs of US engagement in Iraq, while enabling the European Union powers to tackle critical threats to their own national security. A multilateral security partnership with Iraq would also be less politically sensitive both in Iraq and for the US public. And European states not involved in the 2003 invasion have greater latitude to work in Iraq without courting the controversy that often dogs the United States in the country. Nonetheless, the effective deployment of resources from partner states in Iraq requires that the United States takes on a leadership role in directing this effort.

### **Additional Priority Areas: Disputed Territories, Intelligence, Ministry of Interior**

A priority issue for the United States and its coalition partners in Iraq should be keeping a lid on tensions along the southern border of the KRG, where territory is claimed by the Iraqi government, the KRG, and local minority communities. The districts where control passes from Iraqi Security Forces to the Peshmerga have been vulnerable to ISIS attacks, and ethnic

<sup>10</sup> Operation Inherent Resolve, “Campaign,” Combined Joint Task Force website, last accessed March 17, 2017, <http://www.inherentresolve.mil/campaign>.



tensions in these areas can be quickly inflamed and lead to localized violence that has the potential to ignite a wider civil conflict. The coalition could organize a series of committees and hotlines geared toward quickly de-escalating violence in disputed areas. Strong coalition attention to these territories will also incentivize moderation among the Peshmerga and Iraqi Security Forces, and could prevent a new ethnic conflict from engulfing Iraq's disputed regions. It is also critical to note that almost all the territory that the Kurdistan Regional Government has claimed during the anti-ISIS war was previously under Arab Sunni control. If left unresolved, territorial disputes could enable a resurgence of violent Sunni groups including ISIS and its potential successors.

A second priority area will be strengthening Iraq's intelligence capability. Iraq's intelligence services suffered a severe setback when US forces withdrew in 2011, and in the years since, they have struggled to penetrate and dismantle extremist networks. Iraqi intelligence officers need to be trained in the skills of conducting long-term penetration operations within extremist organizations, must cultivate sympathy in host communities, and build up intelligence assets. This will become increasingly important as ISIS retreats from its current posture into a more traditional underground insurgency. Preventing the mass-casualty suicide attacks that ISIS continues to inflict on Iraqi civilians is a high priority for Iraq's political establishment, and they are highly receptive to US assistance in this area. The United States should

take this opportunity to help the Iraqis effectively use intelligence to tackle the underground insurgency in the country.

A final area of emphasis should be US relations with Iraq's Ministry of Interior. The Ministry is dominated by the Badr Organization, which is key player in the Popular Mobilization Units and which had a long history of close cooperation with Iran. The United States was able to develop a working relationship with Badr while in Iraq before 2011, and it must take steps to strengthen its partnership with the Ministry of Interior. The Ministry is the largest in Iraq and is responsible for the Iraqi police forces. It will certainly play a key role in stabilization.

Recognizing that this will be a sensitive and gradual process, the United States should begin to deepen its ties with the Ministry of Interior and perhaps offer support to its forensic and intelligence departments, and help to train its emergency response division in counterterrorism strategies. The United States could also encourage partner states in the coalition to take a lead in training the Iraqi federal police, as the Italians have been doing, and to take on highly sensitive areas, including the treatment of prisoners. The shortcomings of the Ministry of Interior have been extremely damaging for intra-sectarian relations in Iraq, and working to strengthen the professionalism and competence of the Ministry must be an important part of any strategy to stabilize Iraq.

# Mediating Between Baghdad and the KRG

There is a fundamental lack of trust and good faith in the relationship between Baghdad and the KRG, with the KRG believing that it is victimized by Baghdad, and Baghdad seeing itself as exploited by the KRG. But a continued deterioration of the relationship between Baghdad and the KRG is neither in their interests nor does it serve the interests of the United States.

There is no question that most Iraqi Kurds want an independent state. However, there are significant disagreements among Kurds over how and when that should take place. There is substantially greater consensus that the process should be managed in such a way that an independent Kurdistan would have a close relationship with Baghdad, particularly in the economic and security spheres.

This suggests the possibility of two overlapping processes: one long term to address the issues associated with the establishment of an independent state such as borders, oil, and the status of Kirkuk and other disputed territories. A near-term process would focus on managing immediate challenges such as the distribution of oil revenues, security cooperation after the defeat of ISIS, and maintaining calm in disputed territories. Baghdad and the KRG have formed a number of joint committees over the years, some functioning better than others. Both have already announced their intention to establish committees to discuss secession.

From an economic standpoint, it makes sense for the KRG to rebuild a functioning revenue-sharing deal with Baghdad. And Baghdad stands to benefit from engaging with the KRG as a relatively stable hub for international investment and as a route to trade with Iraq's neighbors.

As noted previously, the disputed territories have the potential to re-ignite civil war. A full resolution of this issue is clearly a long-term proposition. However, immediate steps will be critical to avoid the unleashing of yet another round in Iraq's civil war.

While a grand settlement on revenue-sharing and disputed territories must necessarily be part of a long-term process, in the short term, efforts should focus on achievable, confidence-building measures. Joint security agreements between the Iraqi Security Forces and the Peshmerga in disputed areas could ensure

that localized conflicts do not escalate. Baghdad could take on more of the burden of caring for the IDPs from the ISIS conflict who are overwhelmingly located in Kurdish territories. Both Baghdad and the KRG could agree to withdraw forces from minority communities that wish to achieve greater autonomy and to police themselves locally. And Baghdad and the KRG could coordinate on foreign policy to achieve better outcomes.

The United States is the only party that is trusted by both Baghdad and the KRG to guide these efforts over both the short and long terms. The United States could also use its ongoing assistance strategically to encourage KRG-Baghdad cooperation, for example by supporting joint infrastructure projects in disputed areas that serve local needs. By creating incentives for continued cooperation between the two sides, they can try to move beyond constant crisis management toward a more productive state of relations.

The United States and its partners must continue to restore a revenue-sharing deal between Erbil and Baghdad. The United States can encourage the KRG to calculate the value of independent exports as compared to federal transfers and to consider what kind of compromises they would be prepared to accept. And the competing Kurdish political parties need to formulate a single ask of Baghdad.

Mediation efforts by the United States paid off in a small but significant way in August 2016, when the KDP came to an agreement with Baghdad to restart production from the three Kirkuk oilfields currently operated by the state North Oil Company and to share the profits. Baghdad had shut down production from the three oil fields in March 2016, after the KRG failed to remit revenues to Baghdad. American diplomats helped to broker a deal whereby the pumping of some 150,000 barrels per day would resume from the fields, with revenues being split evenly between Baghdad and the KRG. Both sides also committed to using these revenues to pay public servants in Kirkuk, where these oil fields are located. This deal was modified after Iraq came to an agreement with the Organization of the Petroleum Exporting Countries (OPEC) to cut oil production. Now, Baghdad's share is transferred to Kurdish oil refineries to provide electricity primarily for local citizens rather than exported through the state oil marketing company. The move represents a positive,



US soldiers give Iraqi soldiers a class on assembling metal detectors to aid them in the fight against ISIS, April 2015. Photo credit: The JIDA/Flickr.

pragmatic step on the part of Baghdad and could bode well for further negotiations with the KRG.

The technocratic character of the current oil minister in Baghdad could also represent an opportunity for the advancement of KRG-Baghdad negotiations. Jabbar al-Luaibi, former head of the state South Oil Company and a respected technocrat, has made conciliatory statements about the KRG since his inauguration as oil minister and could prove an energetic partner in efforts to reach a resolution. Additionally, the financial strain in the KRG suggests that the region is eager to reach a deal with Baghdad.

The United States and the coalition engaging in Iraq should seek to capitalize on this potential opening by continuing to put pressure on both sides to reach a sustainable compromise. Such a settlement will likely require that Baghdad recognize the reality of continued independent Kurdish oil exports, which is symbolically important to the KRG in its pursuit of self-determination. And restoring fiscal transfers from

Baghdad may require the KRG to make a conscious effort to position itself as a contributing partner within the Iraqi state, at least over the short term.

Mirroring the Kurdish desire for independence is an Iraqi Arab frustration with the KRG's stated intention of remaining in Iraq only so long as it is a financial net positive for them. This leads to an increased questioning of why Baghdad should want the KRG to remain as part of the country. The ability of both parties to manage short-term issues will affect how the long-term process plays out. A successful set of outcomes is achievable. But given the complexity and sensitivity of these issues, it will be extremely difficult. A sustained US engagement with both parties is essential. As is the case with devolution, however, it is not for the United States to take a position for or against Kurdish independence. It is to assist the parties wherever possible in achieving goals they have set for themselves.

# Conclusion

As Iraq draws closer to ending ISIS' territorial hold on the country, it will be tempting to declare victory and move on. This would be a catastrophic mistake. ISIS is already reverting to its old playbook by mounting mass-casualty attacks on civilian targets across Iraq. If the United States withdraws from Iraq, ISIS will have the opportunity to regenerate and gradually restore its capacity to threaten US interests in Iraq, across the Middle East, and perhaps even in the United States. Achieving a permanent defeat of ISIS requires that the United States maintain a robust military, assistance, and diplomatic presence in Iraq. By doing so, the United States can help the Iraqi Army to continue to root out ISIS elements, and it can enable the Iraqi government to address the underlying drivers of violent extremism in the country. The key to lasting success will be sustained support for the Iraqi government's efforts to reform its approach to governance, to re-establish its legitimacy among its citizens, and to stabilize its economy.

We have seen what happens when the United States withdraws politically and militarily from Iraq without regard to conditions. Iran and its proxies moved into Baghdad and the south while ISIS swept through the north and west. The focus of the previous US

Administration was strictly on the military defeat of ISIS. But ISIS is the symptom of profound political dysfunction, not its cause. If the current US administration elects to follow the same policy of declaring victory and withdrawing after the defeat of ISIS, we will see the same result: the onset of another round in Iraq's civil war, a strengthening of Iran's malign grip over Iraq and the resurgence of ISIS or its successor. To protect the security of the homeland, we soon will be in another expensive war.

We have offered here the elements of a strategy for Iraq that aims, in the end, to keep Americans safe from terrorism. It will require of the United States and its allies an effort long on strategic patience with some investment costs. But these costs are only a fraction of what it will cost to go to war again. The fact that American forces have returned to Iraq after departing in 2011 should make the point. The national security interests of the United States dictate that it does its best to help bring about an Iraq that is independent, stable, and prosperous; an Iraq at peace with its neighbors, reflecting legitimate and effective governance, and strongly inclined to cooperate closely with the United States in the Middle East.



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The Task Force on the Future of Iraq is also grateful to its media partner, *Inside Iraqi Politics*.



*Inside Iraqi Politics* is a political risk newsletter that provides analytical insight into Iraq in English based on Arabic and Kurdish sources. *Inside Iraqi Politics* goes beyond pure politics and Baghdad theatrics to the intersections between the political and security, between investment and state development. *Inside Iraqi Politics* is more than sources, it is perspective. Written by a multilingual staff with years of experience following Iraqi affairs, the publication provides nuance and depth while keeping you abreast of events in Iraq.





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