Rebuilding Iraq: The U.S.-Gulf Role

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Brief Analysis

Four experts discuss how the recent Kuwait reconstruction conference will affect efforts to rebuild Iraq's war-torn areas ahead of the May elections.

On February 16, Aleksandra Zittle, Shelly Culbertson, and Geoffrey Batt addressed a Policy Forum at The Washington Institute. Zittle is the economic chief in the State Department's Office of Iraq Affairs. Culbertson is a senior policy researcher at RAND Corporation and coauthor of the book Making Victory Count After Defeating ISIS: Stabilization Challenges in Mosul and Beyond. *Batt is the managing member of Euphrates Advisors LLC. Bilal Wahab, the Washington Institute's Nathan and Esther K. Wagner Fellow, moderated the forum. The following is a rapporteur's summary of their remarks.*

BILAL WAHAB

In coordination with the Iraqi government, European Union, United Nations, and World Bank, Kuwait recently hosted the International Conference for Reconstruction of Iraq. Baghdad sought to raise over $80 billion in private-sector investment for rebuilding areas destroyed by the Islamic State (IS) and resettling displaced Iraqis, which is important groundwork for elections in May.

Only $30 billion was pledged, raising questions about whether current guarantees will be enough. Moreover, how will the United States support the reconstruction given the Trump administration's hesitance on nation building? Whatever the case, Iraq will have to adapt quickly during this shift from direct development assistance to private sector funding and foreign direct investment.

ALEKSANDRA ZITTLE

On the first day of the conference, Iraq launched a ten-year reconstruction and development framework encompassing government reforms, private sector investment, and international financing to help rebuild communities, create jobs, and modernize the economy. More than twenty-five countries and multilateral organizations pledged $30 billion in loans, grants, and investment projects. The contributions by Iraq's neighbors were particularly encouraging: Kuwait offered $2 billion in assistance, Turkey $5 billion, Saudi Arabia $1.5 billion, Qatar $1 billion, and the United Arab Emirates $5.5 billion.

The magnitude of destruction wrought by three years of war against IS requires a long-term U.S. commitment to rebuilding the country, and Washington continues to stand shoulder-to-shoulder with Baghdad in that regard. Even before the conference, the United States was already the largest donor, providing more than $6 billion in economic and security assistance.

At the same time, Washington never envisioned the conference as a pledging event aimed at crossing a particular donation threshold. Iraq cannot meet its long-term reconstruction needs exclusively through humanitarian assistance, cash grants, and international monetary assistance—it must reform and grow its economy through private investment, which will lay the foundation for job creation and sustainable recovery.

Accordingly, the State Department and U.S. Chamber of Commerce jointly organized a large delegation of American companies for the conference. These and other firms evaluated around 200 projects put forward by the Iraqi government for high-priority investment, including several in the Kurdistan region. Also in attendance was Secretary of State Rex Tillerson, who announced that Washington will support any new American investments through the Export-Import Bank and the Overseas Private Investment Corporation. The 2008 Strategic Framework Agreement will continue to serve as the basis for both deepening U.S. commercial ties with Iraq and emphasizing anticorruption reforms.

SHELLY CULBERTSON

Investing in efforts that help Iraqis return to regular life is critical for a successful reconstruction. To bring immediate stability to Mosul and other areas, help internally displaced persons (IDPs) get home, and create livable conditions, the United States should focus on providing technical assistance and diplomatic support in four main sectors.

The first concern is the humanitarian situation. The war with IS displaced 5.7 million Iraqis, 1.6 million from Ninawa province alone. Over 3 million have returned home, but 2.6 million remain in camps due to a host of obstacles, including destruction of their houses, mine hazards, unemployment, and local disputes. About 70 percent of Iraqi children have missed at least a year of school and are still awaiting reintegration into the educational system. Around a million of them were forced to study IS curricula while under occupation and likely require rehabilitation. Mechanisms to ensure that IDPs can vote are also crucial given the approaching elections in May. The largest number of IDPs are Sunni, and failure to represent them could raise questions about the legitimacy of the election results.

The second concern—and the first reason why most people do not return home—is security. In Mosul, for example, explosives and booby traps remain in 90 percent of buildings. Efforts to remove explosives from public infrastructure are under way, but little funding is available for mine removal in residential areas. Moreover, soldiers and militias mobilized to fight IS are still serving as law enforcement, creating frustration among locals. Hiring and training community police forces that reflect local demographics is therefore urgent.

The third concern—restoring urban infrastructure and public services—was a big focus of the donor conference, though the World Bank and UN Development Programme had already been investing in key infrastructure repairs beforehand. To absorb the $30 billion in pledges, Iraq needs to implement technical changes such as anti-corruption measures. Equally critical is the development of a diverse private job sector in order to decrease government employment, which currently sits at 40 percent of the workforce. The restoration of basic healthcare is another priority currently under way via UN stabilization programs.

The fourth concern is governance and reconciliation. New justice procedures are needed to resolve local sectarian disputes, process individuals who engaged in IS criminal activity, and decentralize government responsibilities to the provinces. Implementation of Iraq's 2013 decentralization law has been slow, and national reconciliation initiatives never took off. The United States should try to facilitate more movement in this regard.

GEOFFREY BATT

The Kuwait conference mishandled the presentation of projects to private investors. Although emphasizing top-down, state-centered mega-projects is understandable given Iraq's formidable postwar challenges, such proposals tend to stir private-sector fears of corruption, red tape, and legal hazards. The Iraqi government lacks mechanisms to properly allocate money, as revealed in its potential budget surplus despite recorded deficits. At every level, parties have failed to come up with creative solutions to urgent stabilization challenges in territories liberated from IS.

As the second-largest oil economy in the world, Iraq should consider offering a dividend from a percentage of oil revenues to support the struggling population and give all ethnic groups an immediate stake in the economy. Another possibility is privatizing non-resource-based entities such as the Trade Bank of Iraq.

On a positive note, Iraq's hotel and technology sectors have been increasingly profitable, and the stock market has been strong since 2017. Despite optimism among investors, however, the country's rampant corruption and lack of a system to ensure proper handling of funds are keeping them cautious. Projects that are large or involve long wait times between approval and implementation increase the likelihood of corruption. And while Iraq's GDP is around $200 billion, 90 percent of the population does not use the banking system, and only 9 percent of GDP is private credit. Robust development of the financial and banking sectors would create transparency and fiscal management, enabling exponential growth in the private sector and diversifying it away from oil.

This summary was prepared by Yasir Zaidan and Marina Poudret. ❖

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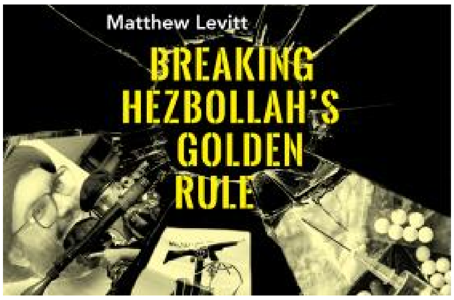

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