

## **IBBC Report: Is Iraq Business Ready?**

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“The Government is committed to ensuring that the private sector plays a critical role in Iraq’s reconstruction and development.”  
(GoI 2005, p. 23)

### **Why the Emphasis on Iraq’s Private Sector?**

Reducing Iraq’s dependency on oil exports by creating a vibrant private sector has been a goal of every Iraq National Development Strategy/Plan since 2005. An expanding private sector is critical for two reasons.

First, the production, transport, and export of oil creates relatively few jobs. Only an estimated 1% of Iraq’s labor force are employed in the oil or associated industries. Therefore, oil exports are expected to contribute little to solving the most serious political economic challenge facing Iraq which is creating enough productive employment for its rapidly growing labor force. Every year, there will be about 1,000,000 new job market entrants. (IMF 2024a, p. 15) And even after adjusting for retirements of current workers, migration, and the very low labor participation rate among Iraqi women, Iraq must create 350,000 jobs every year just to keep the already high levels of youth unemployment and underemployment<sup>1</sup> from rising.

Predicting oil prices is difficult but in the oil futures market, where speculators risk their money on their predictions, data point to a decline in oil prices over the next half-decade. In part, this is based on the commitment of newly elected President Trump to expand US oil production and exports. A rapidly expanding labor force combined with declining world oil prices means that the days when the Government of Iraq (GoI) could create enough government jobs to prevent a rise in unemployment/underemployment are over. And Iraq’s ability to borrow is limited. Therefore, if Iraq is to avoid the economic loss and the accompanying political instability that will result from a substantial rise in unemployment/underemployment, it must expand its private sector.

The IMF estimates that Iraq will require real non-oil GDP growth of at least 5% a year of over the next decade to absorb the growing labor force. (IMF 2024a, p. 15) Unfortunately, the IMF

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<sup>1</sup> Unemployment is when a person is looking for a job but is unable to find one. Underemployment is when a person has a job, but the job doesn’t fully utilize the person’s education or skills.

projects that annual real non-oil GDP growth will be less than 3.5% over the next six years. (IMF 2024a, Table 1, p. 24) If Iraq is to forestall rising youth unemployment/underemployment, the IMF states: “Bold reforms to improve the business environment are also needed.” (IMF 2024a, p. 16)

Second, to reduce the uncertainty and waste caused by severe dependency on the cyclical oil industry. Oil exports account for 96% of Iraq’s total exports and 92% of its government revenue. And since oil exploration, drilling, processing, and export comprise about 55% of the country’s GDP, its economy is very sensitive to changes in international oil prices.

When oil prices are high as in 2022, there is rapid growth – real GDP increased by 7.0%. However, when oil prices fall, as in 2020, there is an economic contraction. Real GDP in 2020 declined by 12.1%. (IMF 2024a, Table 1, p. 24) And the adverse impact of an oil price decline tends to continue long after prices recover. For decades, investment expenditures have been the shock absorber of the GoI budget. When a fall in oil prices reduces government revenues, current expenditures including salaries and pensions are preserved while investment expenditures are slashed. Infrastructure projects slow or grind to a stop. And when a rise in oil prices permits such projects to be restarted, it is often discovered that previous work must be partially or completely redone due to looting, vandalism, or environmental damage. (Gunter 2021b, pp. 277-278)

Contributing to the feast or famine cycle in Iraq government expenditures is the relatively low percentage of total government revenues received from non-oil sources. Over the last five years, non-oil revenues averaged 2.9% of GDP, the lowest ratio among MENA oil exporting nations. Even fragile and conflict states in the region have a greater percentage of non-oil revenues. (IMF 2024b, p. 2) A vibrant private sector would increase government non-oil revenues and thus reduce the country’s revenue uncertainty. In an exercise in wishful thinking, the GoI budgeted that non-oil revenues would reach 8% of GDP in 2024.<sup>2</sup> This required substantial private sector growth which did not occur.

In summary, Iraq would benefit greatly from an expanded private sector that would increase macroeconomic stability, reduce fiscal dependency on oil revenues, and – most importantly - create jobs. But how can Iraq create a good environment for such private sector expansion?

This IBBC report begins with a section on the characteristics of the 2024 *Business Ready* report and compares it to the discontinued *Ease of Doing Business* report last published in 2020. Special attention is paid to characteristics of Iraq that may reduce the usefulness of the *Business Ready* report. Three tables show Iraq’s scores for 30 economic indicators, compare Iraq to the other fifteen upper-middle income countries as well as all fifty countries in the first *Business Ready* report, and reveal differences between Iraq’s scores in the 2024 *Business Ready* report and the 2020 *Ease of Doing Business* report. The next section examines detailed recommendations on how Iraq can improve its private sector environment. These recommendations are based on the *Business Ready* report and other recent studies by GoI and international organizations including the IBBC. The main part of this report ends with a summary. The appendix recaps the key points

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<sup>2</sup> Data from Tabaqchali 2024a, Table 2, p. 5 and WB 2024a, Table 1, p. 24. Calculations by the author.

with respect to Iraq of the 60-page *Iraq: Business Ready* report and the 150-page *Business Ready* report.

### **Comparing the former *Ease of Doing Business* Report to the new *Business Ready* Report<sup>3</sup>**

From 2003 through 2020, the World Bank (WB) annually published its *Ease of Doing Business* evaluation of almost every country's business environment but there was a four-year break after 2020 as the WB revised its evaluation methods in response to a series of scandals. A WB investigation concluded that the scores given to Azerbaijan, China, Saudi Arabia, and the UAE had been manipulated. (The Economist, 2024, October 12, p. 62) In October 2024, the WB published its first annual *Business Ready* (also known as B-Ready) Report to replace its former *Ease of Doing Business* Report.

The stated difference between the two reports is: "While the focus of the *Ease of Doing Business* project was on assessing the business environment for small and medium enterprises, the *Business Ready* project targets private sector development as a whole." (WB 2024a, p. xxi)

#### Focus:

*Ease of Doing Business*: assessed business environment for small and medium enterprises

*Business Ready*: targets private sector development as a whole

#### Scope:

*Ease of Doing Business*: primarily reported on regulatory framework on firms

*Business Ready*: evaluates the regulatory framework, public services, and operational efficiency

#### Data Collection:

*Ease of Doing Business*: expert consultations and case studies on de jure and de facto regulations

*Business Ready*: expert evaluations and firm surveys

#### International Comparisons:

*Ease of Doing Business*: aggregated rankings and scores facilitated international comparisons

*Business Ready*: disaggregated scores downplay international comparisons

In 2024, the first year of the WB's *Business Ready* Report, only 50 countries were evaluated. It is expected that another 50 countries will be in the 2025 report and an additional 80 countries in the 2026 report.<sup>4</sup>

<sup>3</sup> WB 2024a, Box ES.1, p. xxi

<sup>4</sup> Please note that there are two related WB publications published in 2024 which discuss business readiness.

*Business Ready* is a 150-page document that discusses the World Bank's revised system of evaluating business environments. In this IBBC report, this document is referred to as "WB 2024a." *Iraq: Business Ready* is a 60-page

Among the 50 countries<sup>5</sup> in the 2024 *Business Ready Report*, twelve are high income: Barbados, Croatia, Estonia, Greece, Hong Kong, Hungary, New Zealand, Portugal, Romania, Seychelles, Singapore, and Slovak Republic.

Sixteen countries, including Iraq, are upper-middle income: Bosnia and Herzegovina, Botswana, Bulgaria, Colombia, Costa Rica, El Salvador, Georgia, Indonesia, Iraq, Mauritius, Mexico, Montenegro, North Macedonia, Paraguay, Peru, and West Bank/Gaza.

Fifteen countries are lower-middle income: Bangladesh, Cambodia, Cote d'Ivoire, Ghana, Kyrgyz Republic, Lesotho, Morocco, Nepal, Pakistan, Philippines, Samoa, Tanzania, Timor-Leste, Vanuatu, and Viet Nam.

Finally, seven countries are low income: Central African Republic, Chad, The Gambia, Madagascar, Rwanda, Sierra Leone, and Togo.

Unfortunately, there were only two MENA countries in addition to Iraq, Morocco and West Bank/Gaza, which limits regional comparisons.

### *Pillars, Topics, and Themes*

For each of fifty countries, *Business Ready 2024* evaluates three foci which it calls “Pillars”, ten topics, and three themes.

Pillar I: The Regulatory Framework “consists of the rules and regulations that firms must follow as they open, operate, and close a business.” Pillar II: Public Services” evaluates “the facilities that governments provide to support compliance with regulations.” Finally, Pillar III: Operational Efficiency “Captures the ease of compliance with the regulatory framework and the effective use of public services directly relevant to firms.” (WB 2024a, p. xxiii)

**Iraq scored 49 (out of 100) on Pillar I – Regulatory Framework.** This is one of the lowest scores among the fifty countries in the 2024 report because, in Iraq, good practices have not been widely adopted and regulations impose unnecessary restrictions on firms and discourage entrepreneurship. (WB 2024a, Table 3.1, pp. 43-44)

**With respect to Pillar II – Public Services – Iraq scored 22.** Only two low income countries, The Gambia and The Central African Republic, have worse scores. Iraq’s score shows a severe shortage of public services that make it difficult for firms to comply with regulations when attempting to expand their businesses. For example, Iraq not only lacks a competition authority to promote a level playing field but also lacks transparency on competition. (WB 2024a, p. 46)

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document that specifically discusses in detail the Iraq business environment. The Iraq report is denoted as “WB 2024b.

<sup>5</sup> See WB 2024a, Table B.1, pp. 147-148 for characteristics of the fifty countries in the 2024 report.

**Few economies showed weak results for Pillar III – Operational Efficiency. However, Iraq scored 47.** Only three countries had lower scores. Contributing to this poor performance is the fact, that over the last three years, there have been no completed cases of formal corporate reorganization or liquidation. (WB 2024a, Table 3.1, p. 43 and p. 47. Also, WB 2024b, p. 60)

A simple view of the policy implications of *Business Ready* scores is that Regulatory Framework and Public Services should be carefully crafted to maximize Operational Efficiency.

“Operational Efficiency captures the ease of compliance with the regulatory framework and the effective use of public services directly relevant to the firms.” (WB 2024a, p. xxiii)

The ten topics are: Business Entry, Business Location, Utility Services, Labor, Financial Services, International Trade, Taxation, Dispute Resolution, Market Competition, and Business Insolvency. Each topic is evaluated according to the three Pillars resulting in each country being scored on 30 different categories.

In addition to the three pillars and ten topics, there are also three themes – Digital Adoption, Environmental Sustainability, and Gender – that are noted and evaluated as appropriate in topics.

It can be expected that many new indices will be created using the hundreds of data points in the WB *Business Ready* Report. For example, there are evaluations of digitization in Business Entry (p. 4), Business Location (p. 11), International Trade (pp. 34-35) and other topics. This data provides an opportunity to create an index of digitization among the fifty countries in the first *Business Ready* Report.

The *Business Ready* report does not cover other aspects of the business environment. Instead, readers are directed to other publications. (WB 2024a, p. 8) For example:

Macroeconomic conditions – World Bank’s *Global Economic Prospects*

Corruption and accountability – World Bank’s *Governance Indicators*<sup>6</sup>

Human capital – World Bank’s *Human Capital Index*

Conflict, crime, and violence – UN Office on Drugs and Crime

*Probably the largest gap in the coverage of the Business Ready report is that it does not attempt to measure or collect data from informal firms including self-employed and household businesses. (WB 2024a, p. 8) As discussed below, this is a serious problem for Iraq since a large proportion of its businesses and employment are in the informal sector.*

## **Strengths and Weaknesses of Iraq’s Private Sector**

Table 1 shows these thirty scores for Iraq as well as an average score for each topic. As can be seen in this table, Iraq scored highest in Utility Services, Labor, and Business Entry and lowest in Business Insolvency, Market Competition, and Taxation. Also, with the sole exception of

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<sup>6</sup> See also IBBC Report: Gunter (2021a) “Corruption Worse Than ISIS: Causes and Cures for Iraqi Corruption”

Taxation, Iraq scores lower in public services than in either Regulatory Framework or Operational Efficiency.

**Table 1: Iraq's Topic Scores**

All scores are out of 100	Average	Regulatory Framework	Public Services	Operational Efficiency
Business Entry	52	79	27	51
Business Location	48	53	18	74
Utility Services	54	53	37	73
Labor	54	78	35	49
Financial Services	44	69	32	31
International Trade	42	49	34	43
Taxation	29	13	17	58
Dispute Resolution	40	50	12	57
Market Competition	21	30	3	32
Business Insolvency	7	20	0	0
<i>Average</i>	<i>39</i>	<i>49</i>	<i>22</i>	<i>47</i>

Source: WB 2024a, Tables A.1 – A.10, pp. 127-146.

Table 2 is a crude comparison of the average score for each topic to the average scores of the fifteen other upper-middle income countries as well as the entire 50 countries in the 2024 *Business Ready* report. While Iraq scored relatively close to the other upper-medium income countries with respect to Utility Services and Labor; the country did poorly with respect to Taxation, Market Competition, and especially Business Insolvency. Compared to the other 49 countries in the study – twenty-two of which are at lower levels of economic development than Iraq - Iraq has a very poor environment for private sector development. In fact, Iraq's overall business environment might accurately be described as hostile to the private sector.

**Table 2: Comparison with Upper-Middle Income and All Countries**

	Iraq Score (max score is 100)	Iraq Rank (out of 16 upper-middle income countries)	Iraq Rank (out of all 50 countries)
Business Entry	52	15 <sup>th</sup>	40 <sup>th</sup>
Business Location	48	16 <sup>th</sup>	41 <sup>st</sup>
Utility Services	54	14 <sup>th</sup>	42 <sup>nd</sup>
Labor	54	15 <sup>th</sup>	45 <sup>th</sup>
Financial Services	44	16 <sup>th</sup>	44 <sup>th</sup>

International Trade	42	16 <sup>th</sup>	46 <sup>th</sup>
Taxation	29	16 <sup>th</sup>	49 <sup>th</sup>
Dispute Resolution	40	15 <sup>th</sup>	46 <sup>th</sup>
Market Competition	21	16 <sup>th</sup>	49 <sup>th</sup>
Business Insolvency	7	16 <sup>th</sup>	49 <sup>th</sup>
<i>Average</i>	39	16 <sup>th</sup>	45 <sup>th</sup>

Source: WB 2024a, Tables A.1 – A.10, pp. 127-146

While both *Business Ready* and *Ease of Doing Business* have ten topics; focus, scope, and level of detail in these topics differ greatly. For example, compare Table A.1, in the Appendix, which summarizes the major categories and subcategories of *Business Ready* evaluation of the topic Business Entry to Table A.2 which evaluates the procedures required for Starting a New Business in *Ease of Doing Business*.

As a result of the wide variation in coverage, it is very challenging to compare the 2020 evaluations of *Ease of Doing Business* with the 2024 results of *Business Ready*. In the author opinion, only six of these topics have roughly the same coverage in both the WB 2020 and 2024 reports. As can be seen in Table 3, these topics with substantial overlap are: Business Entry/Starting a Business, Utility Services/Electricity, International Trade/Trading Across Borders, Taxation/Paying Taxes, Dispute Resolution/Enforcing Contracts, and Business Insolvency/Resolving Insolvency.

Another difficulty is that even though the scores for both reports are out of 100 points, average scores among the 186 countries evaluated in the *Ease of Doing Business* report are different from the average scores among the 50 countries evaluated in *Business Ready*. For example, the topic, Starting a Business, in the *Ease of Doing Business* had a score of 77 which put Iraq in the bottom quintile. However, if Iraq had achieved a score of 77 for the topic, Business Entry, in *Business Ready*, Iraq would be in the second quintile from the top. (WB 2024a, Table A.1, pp. 127-128)

In defiance of the WB warning to avoid international comparisons, I think that a better method of comparing Iraq's performance under the 2020 *Ease of Doing Business* and 2024 *Business Readiness* is to look at the country's performance relative to other countries. This data is provided in Table 3. For example, according to the *Business Ready* report, Iraq had a score of 52 for the topic Business Entry, which ranks the country in 15<sup>th</sup> place – just ahead of last place El Salvador. However, according to the *Ease of Doing Business* report, for the topic Starting a Business, Iraq had a score of 77 which put the country in 12<sup>th</sup> place. Based on this admittedly crude comparison, it appears that Iraq has made little relative progress in improving the business environment in Iraq between the last *Doing Business* Report in 2020 and the first *Business Report* in 2024.

**Table 3: Comparison of Iraq's *Business Ready* 2024 with Its *Doing Business* 2020**

<b><i>Business Ready 2024 Topics</i></b>	<b><i>Business Ready Score (out of 100) And Rank Among 16 Upper Middle- Income Countries</i></b>	<b><i>Doing Business 2020 Topics</i></b>	<b><i>Doing Business Score (out of 100) And Rank Among 16 Upper Middle- Income Countries</i></b>
Business Entry	52 (15 <sup>th</sup> )	Starting a Business	77 (12 <sup>th</sup> )
		Dealing with Construction Permits	68 (12 <sup>th</sup> )
Business Location	48 (16 <sup>th</sup> )		
Utility Services	54 (14 <sup>th</sup> )	Getting Electricity	62 (13 <sup>th</sup> )
Labor	54 (15 <sup>th</sup> )		
Financial Services	44 (16 <sup>th</sup> )		
		Getting Credit	0 (16 <sup>th</sup> )
		Protecting Minority Investors	46 (13 <sup>th</sup> )
International Trade	42 (16 <sup>th</sup> )	Trading Across Borders	25 (16 <sup>th</sup> )
Taxation	29 (16 <sup>th</sup> )	Paying Taxes	64 (14 <sup>th</sup> )
Dispute Resolution	40 (15 <sup>th</sup> )	Enforcing Contracts	48 (15 <sup>th</sup> )
Market Competition	21 (16 <sup>th</sup> )		
Business Insolvency	7 (16 <sup>th</sup> )	Resolving Insolvency	0 (16 <sup>th</sup> )

Sources: WB 2024a, Tables A.1 – A.10, pp. 127 – 146; WB 2020, p. 4. The sixteen countries are: Bosnia and Herzegovina, Botswana, Bulgaria, Colombia, Costa Rica, El Salvador, Georgia, Indonesia, Iraq, Mauritius, Mexico, Montenegro, North Macedonia, Paraguay, Peru, and West Bank/Gaza.

In the opinion of the author, the *Business Ready* Report is more comprehensive but less intuitive than its predecessor *Ease of Doing Business* Report. For example, where *Ease of Doing Business* attempted to quantify regulatory barriers to doing business, the new *Business Ready* relies more on evaluations of the quality of regulations.

The appendix of this report provides a detailed summary of Iraq's *Business Ready* scores for the ten topics and three pillars. What follows are recommendations for improving these scores and, therefore, creating a more supportive environment for Iraq's private sector.

### **How Can Iraq Improve Its Private Sector Environment**

Good policy decisions are data driven. Without quality data and analysis, policy makers are flying blind. Of course, the WB is not the only source of good data, Iraq's Central Statistic Organization (CSO) is an invaluable data resource although, at times, CSO data is not presented in a user-friendly manner.

The GoI has long used the WB's *Ease of Doing Business* in their analysis of Iraq's economy. For example, the GoI *Private Sector Development Strategy: 2024-2030* (2014, pp. 44 – 45) and the GoI *National Development Plan: 2018-2020* (2018, p. 77) directly referenced the *Ease of Doing Business* survey. In both cases, this survey was used to identify areas of weakness in the country's private sector environment. While other GoI publications such as the 2020 *White Paper* did not directly reference the *Ease of Doing Business*, they used data and analysis from WB reports that did.

In addition to formal organizations such as the WB and the IMF, private groups have also used the data and analysis contained in the *Ease of Doing Business* survey. The IBBC Reports, *Iraq 2020: Country at the Crossroads* and *Corruption Worse Than ISIS* both referred to the survey in their discussions of accelerating the creation of private sector jobs to reduce the country's dependency on oil (2020, p. 8) and in how market competition reduces incentives for corruption. (2021a, pp. 10-11)

What insights can the new *Business Ready* report provide for GoI private sector policy initiatives?

Fiscal and personnel resources to support such policy initiatives are limited. Therefore, the GoI leadership should focus its short and medium-term initiatives on those policy initiatives that have the greatest potential of achieving the most critical goal: increasing private sector non-oil employment. This will require growth in the number of private sector firms as well as the expansion of existing firms. While in theory the Business Entry and Labor topics in *Business Ready* are most relevant for analyzing what is necessary to encourage the formation of new private sector firms and the accompanying job creation, the reality – as expected – is more complicated.

High scores in the topic, Business Entry, are correlated with high scores in other topics. Based on the data from the fifty countries in the initial *Business Ready*, Business Entry tends to be most associated with Market Competition (correlation of 0.69), International Trade (0.64), and Business Insolvency. (0.58) (WB 2024a, Figure ES.16, p. li) It is interesting that the correlation between Business Entry and Labor is relatively low (correlation of 0.33)

Of course, correlation is not causation. It is possible that these apparent relationships shown by correlation could be statistical artifacts or that Iraq's special circumstances could result in stronger or weaker relationships among the topics. More optimistically, it is possible that progress in increasing the scores of other topics will increase the Business Entry and Labor scores easing the entry of new private sector job-creating firms. Analyzing the interrelationships among improvements in various topics under Iraq's special circumstances and their impact on private sector job-creation would be both valuable and extremely challenging. Such detailed analysis is beyond the scope of this report.

While there is room for improvement in the Regulatory Framework of each of the ten topics in *Business Ready*, probably the greatest impact on Operational Efficiency would occur if there was an increase in both the quality and quantity of Public Services. As noted above, "Public Services

spans the facilities that government provide to support compliance with regulations and the institutions and infrastructure that enable business activities. Indicators under this pillar are limited to the scope of the business environment in areas related to the life cycle of the firm.” (WB 2024a, p. xxiii)

What are the most serious problems with increasing private sector employment and how might these problems be solved or at least reduced in severity?

### 1. *Reduce Corruption*

One key facet of the business environment of Iraq that was explicitly excluded from the *Business Ready* report was the impact of corruption. (WB 2024a, p. 8) Whether it is “grand” corruption such as a minister diverting substantial official funds into his personal account or a “petty” corruption such as a doctor accepting a bribe to move a patient up a waiting list, corruption is widespread in Iraq. While grand corruption captures the headlines, petty corruption may have a more serious adverse impact on private sector firm creation and expansion.

One study showed that over half of small businesses reported that corruption increased their costs by 20% or more. And a WB study revealed that 100% of the construction contracts in Basrah required a bribe. More damaging than the direct cost of bribes is the increased uncertainty associated with ubiquitous corruption. For example, firms have little confidence that, even if a bribe is paid, necessary licenses will be approved in a timely manner. As a result, firms hesitate to invest.

Corruption tends to discourage expansion of private firms and therefore reduce the creation of jobs. Keeping a firm small and informal provides an opportunity to hide from corrupt officials or at least reduce the number and size of bribes that must be paid. (WB 2023, Box 1, p. 3)

While the GoI is currently engaged in a serious anti-corruption effort, the results over the last decade have been limited. According to Transparency International, Iraq’s honesty score increased from 16 (out of 100) in 2014 to 23 in 2023. This resulted in an improvement in Iraq’s international ranking from 170<sup>th</sup> (out of 175 countries) in 2014 to 154<sup>th</sup> (out of 180 countries) in 2023. The WB’s Worldwide Governance Indicators for Control of Corruption reports a more pessimistic result. Iraq’s score for corruption control fell between 2014 and 2015 before gradually recovering. As a result, the country’s 2023 score is only slightly improved compared to that in 2014. In other words, Iraq has progressed from being “extremely” corrupt to being “very” corrupt. Of course, the Iraq economy and society experienced a double shock in 2014 with the rise of the ISIS insurgency combined with a fall in oil prices. Both shocks greatly complicated the fight against corruption.

The components of a successful anti-corruption strategy are discussed in detail in the 2021 IBBC report “Corruption Worse Than ISIS: Causes and Cures for Iraqi Corruption”. (Gunter 2021a; see also Gunter 2021b, Chapter 4, pp. 48-73) Based on the experiences of other countries that have substantially reduced corruption – no country has succeeded in eradicating it – an anti-corruption strategy should have six components: (1) Political will and good governance, (2) Rely on one or a few anti-corruption agencies, (3) Cultural change, (4) Appropriate compensation of government employees, (5) Constant vigilance, and (6) Reducing the economic incentives for corruption. (Gunter 2021a, pp. 21-27)

One option for improving governance to reduce corruption is to move most government procurement online. Online notification, access, attestation, and submission tends to spread up the procurement process, increase the number of bids from smaller firms, reduce opportunities for corruption, and often lead to lower prices. (WB 2024b, pp. 50-52; Lomborg 2023, Chapter 9, pp. 131-145)

Of the other components of an anti-corruption strategy, two should receive greater emphasis in Iraq. First, it is critical to change the culture of corruption. Currently, many Iraqis see corruption as either a necessary evil or even a positive good. A businessman may see the official that he is bribing as providing a service that aids his business. Changing this tolerant view of corruption will require more than anti-corruption speeches from politicians and exhortations on billboards. What is required to change the culture of corruption are strong consistent anti-corruption messages from trusted persons such as teachers in elementary and secondary schools as well as imams in their Friday sermons. As expected, changing the culture of corruption in Iraq will be a slow process.

The second component that deserves greater attention is to reduce the economic incentives for corruption by making business regulations both more transparent and simpler. If obtaining a building permit legally currently requires 90 days and costs almost four times average income (WB 2024b, p. 14), there will be a strong incentive to bribe the appropriate officials to obtain the permit sooner and at lower total cost. However, if the process could be reduced to – say - 30 days and half of average income, there will be a reduced willingness to pay a bribe.

## 2. *Simpler and More Transparent Business Regulation*

One of the problems with the WB’s new *Business Ready* evaluation is that it does not attempt to measure or collect data on informal firms including self-employed and household businesses. (WB 2024a, p.8) This is especially problematic in Iraq since an estimated two-thirds of total employment is informal in small firms involved in the retail and trade, construction, restaurants, and transportation. (Al Mawlawi 2019, p. 5) These informal businesses are small with an average of 2.2 workers including the owner. (WB 2023, Box 1, p. 3) In addition to Iraqis who work in informal/unregistered businesses, there are those who work for registered businesses but with informal contractual arrangements. (IMF 2024b, p. 15)

Many firms in Iraq remain unregistered – informal - to avoid the high cost of registration. And there is some evidence that employees ask firms not to register them with the Social Security Fund (SSF) to avoid having SSF fees deducted. (CSO 2023, p. 28) Motivating more firms to join the formal economy will probably require significant progress in financial access since one of the chief advantages to firms of joining the formal economy is better access to finance. However, as discussed in the next section, access to bank finance by private sector firms is extremely limited in Iraq.

With respect to the fundamentals, business dealings with the government still require paper documents with many government agencies with “wet” signatures and “live” rubber stamps. This results in the necessity for potential business owners to carry paper documents to multiple government offices with an increased likelihood of documents being misplaced requiring them to restart the process.

Another barrier to business entry is the requirement for paid-in minimum capital. Paid-in minimum capital requirements were developed to enable authorities to control who is allowed to start a business and as a way of providing security to creditors. (WB 2020, pp. 42- 43) However, as a guarantee for creditors, capital requirements have generally failed. In Iraq, a prospective business owner is expected to deposit the initial capital in a commercial bank and obtain and file a confirmation receipt. However, the funds can be immediately withdrawn upon the issuance of the certificate of registration. (Gunter 2021, pp. 229-230)

WB research has shown that even a minimal paid-in capital requirement reduces business start-ups. (WB 2020d, Figure 3.2, p. 45) As a result, about 120 countries including 12 MENA countries do not require any paid-in capital. However, in Iraq, the total cost to register a new domestic firm is 71% of average income. (WB 2024b, p. 6) Since Iraq’s paid-in minimum capital requirement fails to achieve its stated goals and is a barrier to entrepreneurship, it should be eliminated.

Procedures for foreign businesses who wish to establish a business in Iraq are complex and differ substantially from those of domestic businesses. For example, tax regulations differ on whether a foreign firm is doing business “in Iraq” or “with Iraq.” As a result, most foreign firms seeking to do business in Iraq must seek specialized legal advice which adds to the expense of investing in Iraq. (PWC 2024, p. 4)

Another barrier to business entry in Iraq that is not directly discussed in the WB report is that political and economic instability can lead to bankruptcy or substantially increased costs. A 2021 CSO study found that the second most cited cause of business failure was “sectarian displacement/security situation.” This accounted for about 15% of all business failures. (Central Statistical Organization, Iraq (CSO) 2021, Table 6.8C, p. 44) Because of security risk, either firms will not be formed, or they will be structured to minimize losses from instability even if this structure makes them less efficient.

Finally, there is evidence that the primary cause of substantially delayed or failed investment projects in Iraq is the failure to obtain an allocation of land. Often,

intervention is required from the highest level of government to obtain approval for a land allocation. (Al Mawlawi 2019, p. 20)

### 3. *Improve Access to Banking Services and Finance*

In most countries, private sector firms have access to bank services and loan financing to support both daily operations and firm expansion. This doesn't occur in Iraq. While some progress has been made in Iraq's financial system including creating a licensing framework for payment service providers, modernizing payments systems, and strengthening of consumer protection, Iraq's financial sector continues to be dominated by state-owned banks (SOB) which are both undercapitalized and poorly managed. (WB 2023, p. 21)

As a result, the banking system in Iraq provides minimum support to the private sector excluding almost all private sector firms from loans and other banking services such as the efficient receipt and payment of funds. There has been some progress. Formerly, one sign of the weak financial environment was the lack of bank branches and ATMs. In 2021, there are only 4 bank branches and 6 ATMs per 100,000 population. These were the lowest ratios in the MENA where the averages are 13 and 32 respectively. (WB 2024c, Table 5.4) Since then there has been a sharp increase in the number of ATMs in Iraq although the ratio of ATM to population still lags the MENA average. In 2023, there were an estimated 15 ATMs per 100,000 population. (Tabaqchali 2024b, pp. 1-2) However, there are still smaller towns that lack even a single bank branch or ATM. And even when a bank branch exists and a firm can successfully open an account, the major banks including Rafidain and Rasheed make little effort to cater to their non-government customers. (Gunter 2024, p. 25) As a result, usage of banking services is very low. As recently as 2020, only 1% of informal micro-small-medium enterprises (MSME) and 4% of formal MSME used banking services. (COS 2021, Table 7.1.A, p. 45)

The private sector also makes little use of bank loans to create or expand their firms. An estimated 80% of private firms used the owner's savings to start their business while another 13% borrowed from relatives or friends. (WB 2023, Box 1, p. 3) Borrowing from a bank or similar financial institution is discouraged by excessive collateral requirements, high interest rates, concerns about secrecy, and a complex application and approval process.

A bank loan for a medium size project can take 6 – 12 months for approval. During this delay, it is not uncommon for a borrower's credit risk to change or for the delay to lead to the cancelation of the project. Also contributing to the difficulty of obtaining bank financing is the fear by many firms that any financial information shared with a bank will be provided to tax authorities. These difficulties result in a lack of trust in banks and cash hoarding in homes and small businesses. (CSO 2023, pp. 23-26)

The GoI is pursuing different efforts to improve banking support for private sector firms. More than half of the portable phones in Iraq are sophisticated enough to support e-

banking. However, the use of mobile money payments was until recently at a very low level with only 3% of formal firms and 2% of informal firms using mobile money payment services. (COS 2021, p. 46) However, over the last three years, there has been more than a doubling of Point-of-Sale (POS) facilities at retail establishments. (Tabaqchali 2024b, p. 2) If this expansion of POS was combined with a reduction in the cost of making/receiving e-payments, this would allow the private sector to increasingly bypass the limited network of brick-and-mortar bank branches and reduce the use of currency.

With respect to loans to private sector firms, there is less optimism. The SOB are quasi-fiscal organizations that direct loans to favored government organizations and SOE. Since most of these policy loans have little likelihood of repayment, they should be classified as non-performing. As a result, two of the three largest SOB – Rafidain and Rasheed – probably have negative net worth. The almost seventy private banks in Iraq account for about 20% of total bank assets. About half of the private banks are relatively recent conversions from foreign exchange bureaus and have low capital levels. While little bank specific data is readily available, it is thought that most private banks also have a large percentage of non-performing loans which severely limits their ability to make new private sector loans. (WB 2023, Table 2, pp. 22-24)

The restructuring of the SOB will face opposition. According to a GoI study: “The financial relationship between the SOEs, state banks, and central government is complex, intertwined and relatively opaque.” (GoI 2016, p. 5) Government agencies and SOE have grown to depend on a steady stream of credit from SOB with little expectation of that these loans will require repayment. The private banks face similar issues although on a smaller scale. The five largest private banks which only account for about 5% of total banking system assets will require a substantial increase in capital and – more critically – an upgrade in the banking skills of their personnel before they could significantly increase their financial support of the private sector.

While the GoI is currently engaged in a serious effort to reorganize the SOB and increase the capabilities of the private banks, it is expected to be a long process. One near-term option is to rationalize banking regulations to encourage more foreign banks to do private sector business in Iraq. One step in this direction was that the 2020 decision by the Central Bank of Iraq allowing foreign banks to confirm letters of credit. However, as expected, domestic banks oppose any expansion of foreign banks operations in Iraq.

#### *4. Decrease Public Sector Employment and Reduce State Owned Enterprise Dominance*

A challenge to rationalizing Iraq’s labor market to increase private sector employment that is not directly addressed in the WB report is that of public sector employment. For decades, the government has acted as the “employer of first resort” which has resulted in the GoI currently accounting for an estimated 40% of total employment in Iraq which is very high by both regional and global standards. (IMF 2024b, p. 16) As a result, salaries and pensions for government employees have major fiscal implications for Iraq. In 2023,

such payments totaled 67.6 trillion dinars, about 56% of all current government expenditures. (IMF 2024a, Table 2, p. 25)

However, the adverse impact of excessive government employment on the private sector extends beyond the fiscal burden. Lavish salaries and benefits combined with complete job security, generous pensions, and a relaxed work environment make public employment extremely attractive compared to jobs in the private sector. Many young Iraqis, especially university graduates, are willing to spend a substantial period unemployed while waiting for a possible government job.

The first step to reducing excessive government employment would be to finally complete the much-delayed biometric registration of all government employees whether ministerial or at state-owned enterprises (SOE). With a centralized database of all government employees, it will be possible to eliminate both double-dippers who either hold two or more government jobs or are simultaneously receiving a pension as retired while a “full time” government employee. In addition, a reliable database should reduce the number of “ghost workers” who are paid but never or rarely show up for work.

The second step is to reduce the scope of SOE in Iraq. With few exceptions, these SOE are high cost/low quality producers that receive large government subsidies and rely on various authorities to give them advantages over competing private sector firms. As an example of the differences in quality, consider SOE and the private sector as providers of electricity, water, and the internet. Electricity and water are provided by SOE and the operational efficiency is low. The average user experiences twelve electrical outages a month meaning that 77% of firms must own or share a generator to continue to operate during outages. With respect to water, 26% of firms report insufficient water. Private sector provision of internet services is much more efficient, scoring at almost 90% for time to obtain a connection and reliability. (WB 2024b, pp. 19-20)

SOE reduce the efficiency of upstream and downstream private sector entities, block the expansion of private sector competitors, and lock into unproductive employment some of the best young Iraqis. As discussed in an earlier IBBC report (Gunter et al 2022), reducing the influence of SOE will require not only careful planning but also substantial political courage.

The final step will be more controversial. To create both fiscal and market space for an expansion of the private sector, there must be an absolute reduction in the number of direct and indirect government employees. One proposal is that government entities engage in gradual attrition such as hiring only one new employee for every three retirees. (IMF 2024b, p. 23)

It may seem contradictory to advocate the reduction of government employment while Iraq faces the difficult challenge of creating enough new jobs to prevent a further growth in the number of unemployed. However, to reduce job creation to a static counting exercise – one more government job is one less unemployed – ignores the inefficiencies, waste, and fiscal impact of large-scale government employment in Iraq. The growth of

government employment over the last two decades has substantially reduced scope for private sector growth and increased employment. It is possible that one more government job meant a loss of more than one private sector job!

*Reducing SOE dominance is critical to increasing the competitiveness of the country's private sector.*

##### 5. *Create a Fair and Rapid System for Resolving Insolvencies*

Over the last several decades, economic research has increasingly emphasized the importance for economic growth of not only having procedures for resolving commercial disputes but also that these procedures are perceived as both fair and efficient. An efficient resolution is both low cost and rapid. If a court's resolution of a dispute is either biased towards one of the parties such as a government entity or is expensive and drawn-out, it will be a serious barrier to private sector development.

Iraq lacks a process for either ensuring the survival of economically sound but temporarily insolvent firms or the efficient reallocation of the assets of failed firms. In fact, there is no evidence that any Iraq firm has undergone restructuring or bankruptcy in the last 21 years. Since the country has minimal relevant insolvency regulations and no public services support for dealing with such situations, Iraq ranks 49<sup>th</sup> out of the 50 countries evaluated in *Business Ready*. Only Timor-Leste has a lower score. The absence of such regulations and the necessary public services leads to great economic waste as temporarily insolvent firms are forced to close while the assets of failed firms are more likely to be looted than transferred to creditors.

In addition, the adjudication process for commercial disputes in Iraq is neither fair nor efficient. The average time for court litigation is 320 days and the litigation cost is an estimated 19% of the value of the claim. As a result, 59% of firms perceive the courts as a constraint on business. (WB 2024b, p. 45)

Are Iraq courts impartial? Although 83% of Iraqis view courts as being independent and impartial, there is still a widespread belief among private sector firms that when a private sector firm has a commercial dispute with an SOE or other public sector entity, the Iraq court will favor the public entity. And, when international arbitration is an option, there is little confidence that the Iraqi entity will comply with an international court judgement. (Al Mawlawi 2019, p. 21)

The absence of a formal process to deal with a firm's dissolution reduces the likelihood of its creation. Potential creditors will hesitate to provide finance, capital goods, or supplies to a firm since if the firm fails, they will recover nothing. And the lack of an effective means of dealing with a firm's insolvency also has an additional adverse impact on entrepreneurship in Iraq. Without an unambiguous bankruptcy of an insolvent firm that prevents creditors from any further legal action, entrepreneurs find it difficult to escape

from previous failures. They know that if any future endeavor is successful, creditors of their previous endeavor will seek to attach assets of any new firm.

#### 6. *Greater Educational Width and Depth*

Education in Iraq suffers from problems of both quantity and quality. Adult illiteracy in Iraq is an estimated 9% for males and 20% for females compared to 3% and 5% respectively for the average upper-middle income country. (WB 2024c, Table 2.10) It is critical that Iraq reduce illiteracy rates especially among those whose education was disrupted by the war with ISIS and among the rural elderly. Without the basic ability to read and write; the quality of life, economic productivity, and ability to resist corruption of these groups will be low. An illiterate man or woman is a ready victim to any corrupt official waving a piece of paper.

There is also a wide range of quality of elementary, secondary, and tertiary (college) education in Iraq. Some schools at each level are excellent but most suffer from some combination of degraded facilities, poorly motivated instructors, inappropriate curriculum, and corruption. Forged education certificates are widespread.

The strong preference for public sector employment distorts the choice of fields of study. Students seek education in fields, such as medicine, that are demanded by the public sector rather than pursuing the technical and vocational education that is most needed by the private sector. (IMF 2024a, p. 15) As discussed above, many young persons are willing to remain unemployed for extended periods of time in hopes of eventually gaining one of the prized public sector jobs.

As a result of the low quality of many schools and the preference for government employment, Iraq simultaneously suffers from many job seekers while private sector firms are unable to fill many open positions. In economics, this is referred to as structural unemployment where unemployment is not caused by a shortage of available jobs but rather by an incompatibility of preferences and skills. This incompatibility is exacerbated by low little on-the-job training – only 17% of firms offer formal training to their full-time employees. (WB 2024b, p. 25) And government training programs tend to concentrate on teaching skills that the instructors are comfortable with teaching rather than the skills demanded by the private sector such as equipment maintenance, computer literacy, and English.

Improving education quality is not simply a matter of increased spending. While increased teacher salaries and smaller class sizes improve teacher satisfaction, these changes have little impact on learning outcomes. A educational innovation with a very high benefit-cost ratio is teaching students according to their actual learning level rather than age. In other words, if a 10-year-old student is reading at the 1<sup>st</sup> grade level then he or she should be in class with other students who are reading at the same learning level. (Lomborg 2023, Chapter 5, pp. 59-73)

Another controversial option for improving the quality of education in Iraq is to provide greater transparency to families and potential employees. At various times during their elementary, secondary, and tertiary schooling, students could be required to take exams that measure the students' knowledge, skills, and critical thinking capability. The exam results would not only measure individual learning but also allow a better evaluation of school quality. To avoid the expected accusations of corruption and favoritism, these exams could be graded, and results posted by one of the international education organizations in Europe or Asia. It can be expected that the education bureaucracy will oppose such efforts at transparency. But if the reputation of Iraq education is to return to high levels that were achieved in the late 1970s, there must be a willingness to benchmark against the best international schools.

#### 7. *Adopt an Appropriate Exchange Rate and Facilitate International Trade*

The Iraqi authorities agree with the IMF that resumption of the World Trade Organization (WTO) process is important to developing a modern international trade ecosystem. (IMF 2024a, p. 17) Another issue not discussed in the WB report is that unregistered firms are unable to legally export. Therefore, unregistered firms considering an export opportunity, must consider increased regulatory burden and tax liability if they export. As a result, some firms will avoid international trade. (COS 2023, p. 42)

As is well known, Iraq's international exports are dominated by oil and the value of these oil exports changes dramatically year-to-year because of changes in the world price of oil. For example, in 2020, Iraq's crude oil exports were only \$47.7 billion which resulted in a large trade deficit and sharp drop in international reserves. However, oil exports earned \$129.1 billion in 2022 resulting in a very large trade surplus and rise in Iraq's international reserves. (IMF 2024a, Table 5, p. 28) Due to the impact of changes in the value of oil exports on Iraq's international reserves, government revenues, and GDP; Iraq would benefit from export diversification.

However, Iraq's great dependency on oil exports have resulted in a severe case of Dutch Disease in Iraq because strong oil exports have tended to lead to an appreciation, a strengthening, of the dinar. And a strong dinar decreases the cost of imports into Iraq while making non-oil Iraq exports less competitive in foreign markets. Thus, Iraq's exchange rate policy has implications for the ability of the country's private sector to expand production for export markets. Unfortunately, the country's exchange rate policy seems arbitrary which has reduced domestic and international confidence in the GoI.

During the fiscal crisis of 2020 when oil prices fell to \$38.10 per barrel, the GoI depreciated the dinar by 22.7% to 1450 dinars per dollar. This not only partially alleviated the fiscal crisis – every dollar of oil exports now provided the MoF with 22.7% more dinars for salaries, pensions, etc. – but also increased the competitiveness of Iraq firms. Imports were more expensive, and exports were cheaper providing incentives for private sector firms to expand both to meet domestic demand, formerly met by imports, as well as to seek foreign markets for Iraq products.

However, with the rise in oil prices to \$95.30 in 2022, the GoI *inexplicably* revalued the dinar by 10.7% to 1310 dinars per dollar!

The economic case for this revaluation – to reduce inflation - was weak and an outside observer can only conclude that its primary motivation was political pressure from influential groups that would benefit from a revaluation regardless of the overall adverse impact on the country. Maybe there was an unholy alliance among public and private entities who were major importers, entities and individuals with substantial dollar denominated foreign debt, and groups engaged in smuggling dollars to Iran and Syria. Regardless of the cause, this revaluation of the dinar reduced the competitiveness of Iraq private sector firms in both the domestic and export sectors. (Gunter 2024, p. 11)

The gap between the official rate of 1310 dinars per dollar and unofficial rate of 1500 dinars per dollar (first half of 2024) provides strong evidence that the dinar is seriously overvalued. (IMF 2024c, p. 3) The issues involved with managing Iraq’s exchange rate to maximize economic growth were the subject of the recent IBBC Report “Two Cheers for Iraq: Exchange Rate Challenges” (Gunter 2024)

To improve the competitiveness of private sector firms in Iraq has two options. The GoI could devalue the dinar to close the gap between the official and market exchange rates. As discussed above, this devaluation would reduce the competition from imports faced by private sector firms in Iraq while making their exports more competitive. A more controversial alternative would be for Iraq to return to a currency board that provided decades of exchange rate stability before it was dismantled under Saddam. (Gunter 2021, pp. 292-296)

### *Challenges to Reform*

Reforming Iraq’s business environment is essential but will be challenging for at least four reasons. First, is finance. When oil prices are high as they were in 2022, there is little motivation to rationalize the regulatory environment of the private sector since increases in government current and investment spending can drive the economy. However, when oil prices are low as in 2020 there is little fiscal space to pay for innovations.

A second difficulty is the correlation among performance in different topics discussed above. Economies with a favorable business environment in one topic tends to perform well in another. For example, a country that has an efficient business dispute resolution will tend to be strong in international trade (correlation of 0.74). (World Bank 2024a, Figure ES.16, p. li) Thus reform efforts must avoid the Scylla of thinking that fixing a single category of regulations or increasing public services will have a dramatic effect on Iraq’s overall business environment. It is possible that fixing one sector will only result in shifting inefficiencies to another sector. However, one must also avoid the Charybdis of thinking that unless everything can be reformed simultaneously, it is useless to attempt any reforms!

Third, is the issue of managerial bandwidth in the bureaucracy. The war on corruption in Iraq has resulted in the requirement that, in many ministries, approval of relatively minor payments or policy initiatives must be approved at a high level, often by the Minister himself. This monitoring daily ministerial operations will dominate the schedule of senior leaders leaving little time and energy for guiding new initiatives.

Finally, many reforms will be politically unpopular. Socialism is part of the DNA of Iraq and both the public and the elite generally distrust the private sector. Capitalism and capitalists are not generally considered to be essential to a more prosperous Iraq but rather the fruits of a foreign ideology that engages in exploitation. Young people and their families prefer that they get a government job with higher pay, more generous benefits, job security, and a relaxed work ethic than a private sector job that will be more demanding work for less pay. Politicians realize that the surest route to re-election is to promise an expansion of government employment and benefits, not a reduction in the scope of the bureaucracy. Therefore, creating a more favorable environment for Iraq's private sector will require that the nation's leaders engage in the difficult process of educating the voters on the impossibility of continued government dominated economic growth. This will require substantial political skill and courage.

## Summary

Rapid growth of Iraq's labor force combined with the expectation of stable or falling revenues from oil exports mean that the GoI will no longer be able to act as the "employer of first resort." Unless there is a substantial increase in the private sector contributions to GDP, government revenues, and, most importantly, employment creation; Iraq faces significantly higher unemployment and underemployment accompanied by political instability.

Good policy is based on good data. And the revised World Bank report, *Business Ready*, provides a rich trove of data on three aspects of ten key sectors of the economy. However, it is not a cookbook, many of the categories and subcategories of data are non-intuitive compared to the now discontinued World Bank *Ease of Doing Business* report. And, *Business Ready* does not attempt to measure or collect data from informal firms including self-employed and household businesses. Since an estimated two-thirds of Iraq employment is informal, this is a serious omission.

Based on the *Business Ready* data on Iraq, the author thinks that the GoI should focus on seven difficult challenges: (1) reducing corruption, (2) simplifying business regulation, (3) improving access to financial services, (4) decreasing public sector employment, (5) creating a system to resolve insolvencies, (6) Improving education quality, and (7) adopting an appropriate exchange rate.

Improvement in these areas will require both focus and the expenditure of political capital. But the cost of failure will be high. Continued dependency on oil export funded government employment will become steadily more difficult over the next decade resulting in an increase in both the unemployment and underemployment rates especially among young men. This result is not only economically inefficient but socially and politically destabilizing.

## Appendix

The data provided in the WB's *Business Ready* report allows two types of analysis. One can look at how well Iraq does in each pillar and each topic – an absolute analysis. This data is summarized in Table 1. Each of these are scored 0 to 100 with 100 being the highest possible score. Also, the data permits comparison of Iraq's pillar or topic scores with those of other countries in the report – a relative analysis. While the absolute analysis will show any progress or retrogression in the business environment in Iraq, the relative analysis will show how Iraq compares to other countries. This international comparison is given in Table 2. This latter analysis may be important for foreign investors who are deciding among several countries. Of course, it is possible that Iraq can experience an absolute improvement while simultaneously it suffers a relative retrogression if other countries improve their business environments faster than Iraq.

As an example of the degree of detail used by the WB *Business Ready* report in the assessment of each pillar, Table A.1 shows the major categories used in the assessment of the first topic – Business Entry. Note that this table only shows the major categories, there are 65 minor categories in the five-page summary of Business Entry in Iraq in the 2024 *Business Ready* report. (WB 2024b, pp. 2-6) In contrast, Table A.2 shows the more limited scope of the former *Ease of Doing Business* report for a similar topic.

### Table A.1: Business Entry in 2024 *Business Ready* Report on Iraq

**Average of Three Pillars** Scored 52 out of 100

#### **Pillar I: Regulatory Framework** 79/100

Information and Procedural Standards 33/50

Company Information Filing Requirements

Beneficial Ownership Filing Requirements

Availability of Simplified Registration

Risk-Based Assessment for Operating Business and Environmental Licenses

Restrictions on Registering a Business 46/50

Domestic Firms

Foreign Firms

#### **Pillar II: Public Services** 27/100

Digital Services 7/40

Business Start-Up Process

Storage of Company and Beneficial Ownership Information

Identity Verification

Interoperability of Services 0/20

Exchange of Company Information

Unique Business Identification

Transparency of Online Information 20/40

Business Start-Up  
 General and Sex-Disaggregated Statistics on Newly Registered Firms  
 Availability of General Company Information

**Pillar III: Operational Efficiency 51/100**

Domestic Firms 23/50

Total Time to Register a New Domestic Firm

Total Cost to Register a New Domestic Firm

Foreign Firms 28/50

Total Time to Register a New Foreign Firm

Total Cost to Register a New Foreign Firm

**Indicators and Components** (Not included in Business Entry average)

Total time to register a new domestic firm: 21 days

Total cost to register a new domestic firm: 71% of per capita GNI)

Total time to register a new foreign firm: 31 days

Total cost to register a new foreign firm: 72% of per capita GNI)

**Table A.2: Starting a Business in 2020 *Ease of Business*: Iraq**

1. Obtain husband's approval to leave home (applies to women only)
2. Reserve a unique company name at the Baghdad Chamber of Commerce
3. Reserve a unique company name at the Federation of Chambers of Commerce
4. Hire a lawyer to draft articles of association
5. Deposit the initial capital at a commercial bank and obtain proof thereof
6. Apply for registration at the Companies Registry
7. Obtain the registration certificate
8. Make a company seal
9. Register employees for Social Security

What follows is a summary of each of the ten topics in the 60-page *Iraq: Business Ready* report.

1. **Business Entry** measures “the quality of regulations for business entry, the quality of digital public services and the transparency of information for business entry and the operational efficiency of business entry.” (p. 63) Note that all scores are out of 100 points unless stated otherwise. As can be seen in Tables 1, Iraq's Business Entry scores are:

Average: 52  
 Regulatory Framework: 79  
 Public Services: 27  
 Operational Efficiency: 51

With respect to its regulatory framework of business entry, Iraq has a good score of 79. In fact, Iraq would have scored higher except for weaknesses in two areas. First, the country lacks a simplified registration process that would allow entrepreneurs to register a firm without intermediaries such as lawyers. Second, Iraq still requires a paid-in minimum capital requirement.

Public Services support for business entry in Iraq is very limited scoring only 27. The country scored zero for the entire company registration process and for the operation of the database of company information. For almost two decades, there has been discussion of a “one stop, one day shop” to facilitate company registration. However, previous attempts have failed in substantially reducing the difficulty and cost of registering a new business.

In fact, instead of facilitating new business, some previous efforts have resulted in “one more shop” that further reduces the operational efficiency of the business entry process which is reflected in the score of 51. Even if a potential business operator knows exactly the legal process, it currently takes an average of 21 days – 31 days for a foreign firm – to register a new firm. (WB 2024b, p. 6)

2. **Business Location** “evaluates regulatory quality, governance quality, and the transparency and operational efficiency of services for property transfer, building permits, and environmental permits.” (WB 2024b, p. 65)

Average: 48  
 Regulatory Framework: 53  
 Public Services: 18  
 Operational Efficiency: 74

Among the regulatory framework deficiencies were limitations on arbitration during land disputes, the lack of standards for energy efficient buildings, and deficient zoning, land use, and environmental regulations.

There are two serious problems with the public services support of business location. First, is the lack of an online process for transferring property including checking for encumbrances on real estate. (WB 2024b, p. 11) Second, is the almost complete lack of transparency. Even basic information on the requirements for property transactions including building permits are difficult to access. (WB 2024b, pp. 12-13)

Despite weaknesses in the regulatory framework and public service provision, operational efficiency has a WB score of 74. Obtaining construction permits is relatively efficient although costly. It takes an average of 90 days to obtain a building permit, and the cost of a permit is equivalent to 362% of average income. However, Iraq scores zero on resolving constraints on land access. (WB 2024b, pp. 13-14)

**3. Utility Services** “covers the three key utilities supporting firm operations – electricity, water and internet...” (WB 2024a, p. 68)

Average: 54  
 Regulatory Framework: 53  
 Public Services: 37  
 Operational Efficiency: 73

Somewhat surprisingly for a country that still suffers from periodic electrical blackouts, the provision of utility services is evaluated as being relatively good in Iraq. Iraq scored an average of 54 as a high score in operational efficiency offset a weak provision of public services. With respect to the regulatory framework for governing the supply of electricity, Iraq is weak in environmental sustainability. Also, the regulations for supplying water are weak with respect to tariffs and monitoring water quality. And for the internet, regulations are inadequate for planning, monitoring service quality, and environmental sustainability. (WB 2024b, pp. 16-17)

Of the three pillars, the provision of public services to support utility services is the frailest. Iraq scores only 37 in this category. Whether for electricity, water, or the internet; the GoI makes it difficult to connect to a utility service, monitor quality, or efficiently pay tariffs.

However, there is a wide divergence in the operational efficiency among the three utilities. Such efficiency is relatively high for the internet, moderate for electricity, but poor for water. (WB 2024b, pp. 19-20) Electrical outages remain common with the average user experiencing twelve electrical outages a month. As a result, 77% of firms either own or share a backup generator. Outages are also common for other utilities with 29% of firms reporting internet disruptions while 26% experience insufficient water. (WB 2024b, p. 20)

**4. Labor** measures good practices in employment regulations and public services from the perspective of both firms and employees...” (WB 2024a, p. 70) Labor was not directly evaluated in the now discontinued *Ease of Doing Business* report.

Average: 54  
 Regulatory Framework: 78  
 Public Services: 35  
 Operational Efficiency: 49

While Iraq has a strong regulatory framework with a score of 78, it scores lower on public services to support labor and operational efficiency. (WB 2024b, p. 21)

Labor regulation requires balancing workers' rights and yet maintaining flexibility for employers to hire and fire employees to successfully run their businesses. Overly stringent policies will increase the cost of monitoring compliance and lead to increased informality and unemployment. (IMF 2024a, p. 16)

The regulations concerning labor rights are strong in Iraq. (WB 2024b, p. 21) Since these labor regulations were modeled after those in countries at significantly higher levels of economic development, it is an open question whether these regulations are appropriate for Iraq. For example, to the extent that these regulations are not only complex but also expensive for firms to obey, these requirements may motivate some firms to violate labor laws either for domestic workers or by employing foreign workers even in areas where unemployed or underemployed Iraqis have the necessary skills.<sup>7</sup> According to the WB, 53% of Iraqi firms see labor regulations as a constraint. (WB 2024b, p. 25)

With respect to public services that support labor, the absence of unemployment insurance and adequate pensions for private sector employees is especially serious. (WB 2024b, p. 23) For over a decade, the GoI has wrestled unsuccessfully with the challenge of reconciling a very generous pension system for public employees with the inadequate private sector pensions. Reducing generous public sector pensions is politically unacceptable while raising private sector pensions to match those of public sector employees would sharply increase the fiscal deficit.

Resolving labor disputes is complex although 26% of firms were involved in such a dispute over the last three years. Finally, health and safety inspections often reveal deficiencies although such inspections are relatively rare with only 17% of firms were inspected. (WB 2024b, pp. 24-25)

5. **Financial Services** includes “the quality of regulations for financial services, the accessibility of information in credit infrastructure, and the operational efficiency of receiving financial services.” (WB 2024a, p. 72) This topic includes measures of commercial lending, secured transactions, e-payments, and credit information. (WB 2024b, p. 26)

Average: 44  
 Regulatory Framework: 69  
 Public Services: 32  
 Operational Efficiency: 31

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<sup>7</sup> Al Mawlawi (2019) states that, depending on the investment sector, firms are required to register with the appropriate union. However, unions often provide little oversight on labor practices, focusing instead on extracting fees from their members and bribes from the firms. (p. 17)

Like the labor topic discussed previously, financial services benefits from a good regulatory framework but weak public services in support of such services and low operational efficiency.

The regulatory framework for commercial lending is generally solid except for record keeping of customer records. However, secured transactions are limited by an inability to publicly register security interests in movable assets and e-payments have weak protection for consumers especially when disputing a transaction.

The most important public services to support the effective provision of financial services are the existence and efficient operation of credit bureaus/registries of individuals and firms as well as registries of collateral. Unfortunately, credit bureaus/registries in Iraq currently have credit histories and ratings for only a small percentage of firms and individuals. And collateral registries are not only incomplete but difficult to use. The WB estimates that it takes about 14 weeks to register a new security in the collateral registry. As a result, obtaining a loan is a long expensive process. A decision on a loan application takes an estimated 33 days and over half of firms don't even try to get a loan due to unfavorable rates, collateral requirements, or complex procedures. (WB 2024b, p. 29)

E-payments have not yet gained much traction in Iraq. Only 6% of all payments are made electronically. Only a minority of firms have the necessary technology and e-payments are expensive. To make an e-payment has an average cost of 3% of the transaction and to receive an e-payment has an average cost of 5%. (WB 2024b, p. 29)

- 6. International Trade** measures the quality of regulations for international trade with respect to “the creation of a fair, transparent, and secure environment for international trade in goods and services and for digital trade.” There is also an evaluation of “the time, cost, and ease of complying with trade requirements...as well as the perceived obstacles related to business transportation, customs, and trade regulations.” (WB 2024a, p. 75) A detailed discussion of some of the barriers to international trade in goods and service can be found in the 2023 IBBC Report: “Seaports and Airports in Iraq: Rules Versus Infrastructure”.

Average: 42  
 Regulatory Framework: 49  
 Public Services: 34  
 Operational Efficiency: 43

Iraq's international trade score is 42 with a relatively narrow range among the three pillars. (WB 2024b, p. 30)

Iraq's regulatory framework for international trade is very uneven. It is poor for goods and digital trade but very good for trade in services. With respect to international trade in goods, there is no “maritime single window” that shippers can access and the use of non-tariff measures to restrict imports are common, arbitrary, and change unpredictably. In

addition, as mentioned above, electronic signatures and contracts are rarely utilized which results in shipping agents having to carry stacks of paper back and forth to government offices. Safety regulations are often inconsistent with world standards and some safety issues are not addressed. (WB 2024b, pp. 30-34) In contrast, Iraq’s regulatory environment for international trade in services is very good with a score of almost 90%. Unfortunately, the regulatory environment for digital trade is a regulatory desert with few relevant regulations.

The failure to provide public goods to support international trade can be divided into digital and physical infrastructure. The digital infrastructure to provide an advanced electronic system for shippers to communicate with and get decisions from regulatory authorities in a transparent manner is almost non-existent. In fact, on the specific issue of “transparency and availability of information” related to international trade, Iraq has a score of zero. Iraq does better on the physical infrastructure of its land borders and airports. However, with respect to the management of its borders, Iraq has a score of 44 reflecting weak risk management and the complete absence of a “trusted trader program”. Such programs in other countries have substantially not only reduced the burden on border authorities but also have allowed authorities to concentrate on firms more likely to engage in smuggling, customs fraud, etc. (WB 2024b, pp. 34–36)

Complying with the complex system of opaque border regulations and procedures makes international trade in goods costly in both time and dinars. It takes an average of 30 days at a cost of 6% of the value of the goods for exports to clear all border control agencies. For imports, it takes 60 days at a cost of 8% of the value the goods imported. (WB 2024b, pp. 36-37)

7. **Taxation** “measures the quality (clarity and transparency) of tax regulations, such as the accessibility of tax guides, the existence of binding rulings, transparency in the introduction of new regulations, and...the public consultation process.” (WB 2024a, pp. 78-79) Also, this topic covers the financial burden on firms by measuring the effective tax rate.

Average: 29  
 Regulatory Framework: 13  
 Public Services: 17  
 Operational Efficiency: 58

As shown in Table 2, Iraq’s average score of 29 is the lowest score among the sixteen upper-middle income countries. The quality of Iraq regulations (Pillar I) related to taxation encompassing both the legal framework (de jure) and its implementation (de facto) is very poor. Because tax regulations lack clarity, tax procedures are opaque, and there are no environmental taxes; the *Business Ready* report scores Iraq tax regulations at 13.

Public Services (Pillar II) related to tax matters includes digital services, data management, transparency, and tax audits are also poor with a score of 17.

Iraq does better on the practical effectiveness of tax regulations (Pillar III) with a score of 58. This last category includes evaluations of total time to prepare and file taxes, duration of tax audits, and the financial burden on firms.

The average firm in Iraq spends about 60 hours a year preparing taxes and 57% of firms use electronic systems to file and pay taxes. The VAT refund process is particularly difficult to navigate in Iraq. An estimated 71% of firms do not even try to apply for a VAT refund due to the associated burden. And even if the VAT refund process is correctly followed, the time to receive a refund is about 10 weeks. (WB 2024b, p. 41) Individual tax returns are not usually required for a firm's employees. Rather, it is the responsibility of the employer to withhold these taxes and pay them monthly to the General Commission of Taxes. (PWC 2024, p. 9)

The binding constraint in improving the collection of revenues is the weak regulatory framework. Specifically, according to the Bank, Iraq only earns 4 points out of 40 for the clarity and transparency of tax regulations. Firms lack a single printed or online guide to taxes. This lack of an accessible guide can be especially frustrating when a firm follows previous practices only to discover that there has been an unpublicized revision in the tax code and therefore the firm wasted time and dinars in unnecessary activities. A related issue is the failure of the GoI to seek input from the public before revising tax regulations. (WB 2024b, pp. 38-39)

More controversial is the evaluation of a country's taxation regulatory framework for environmental taxes. Iraq currently lacks regulations concerning environmental taxes as do most of the countries in the report. As a result, Iraq receives zero points in this subcategory. (WB 2024b, p. 39)

**8. Dispute Resolution** “focuses on settlement of commercial cases through court litigation and alternative dispute resolution such as arbitration and mediation.” (WB 2024b, p. 80)

Average: 40  
 Regulatory Framework: 50  
 Public Services: 12  
 Operational Efficiency: 57

With respect to de jure features necessary for the efficient processing of cases, Iraq scores 50. Court litigation is often extended since time standards for adjudication are weak and there are no limits to the number of adjournments so that even ordinary cases can take years. Also, the regulatory environment for alternatives to a court trial such as mediation is limited. In fact, when it comes to legal safeguards in mediation, Iraq scores zero.

Public services to support both court litigation and alternative dispute resolutions such as mediation are scored as 12. There is no small claims court which forces claimants into the more expensive and drawn-out formal court process. In addition, digitization of the dispute resolution process is primitive. As a result, court proceedings involve stacks of paper. Transparency is almost non-existent. While the public has access to court hearings in person, there is no online access and judgements even of higher courts are not published in a readily accessible form.

Surprisingly, this lack of transparency doesn't contribute to a widespread belief that the court system is corrupt. An estimated 83% perceive courts as being impartial in resolving commercial disputes. As mentioned above, there is no support for alternative dispute resolutions without even setting up a roster of accepted arbitrators and mediators. (WB 2024b, pp. 43-44)

- 9. Market Competition** “measures the quality of regulations that promote market competition including good practices in antitrust laws, property rights protection, licensing and technology transfer.” Also included are data on the time required to award a public contract through the bidding process and the time required to pay government contractors. (WB 2024b, pp. 83-84)

Average: 21  
 Regulatory Framework: 30  
 Public Services: 3  
 Operational Efficiency: 32

The Market Competition topic estimates a country's success in enforcement of competition policy, protection of intellectual property rights, and improving competition in markets where the government is a buyer. Iraq's average Business Ready score for market competition is 21 (see Table 2) which is the lowest score of the upper middle-income countries.

Iraq scores 30 in the quality of its regulations that promote competition (Pillar I). Among the weakest elements of the current regulatory environment are those related to state-owned enterprises (SOE). The WB notes that Iraq lacks a stated justification to create or continue SOE and a competition law that applies to all SOE. Another area of regulatory weakness is university-industry collaboration especially with respect to patent ownership and financial incentives for research. (WB 2024b, pp. 48-50)

While the country's regulatory environment is weak, the provision of public services (Pillar II) to promote market competition and foster innovation is worse. Iraq's score is 3 out of 100. Among the sub-categories of public services where the Bank gives Iraq zero points are the institutional framework, access to relevant government regulations, digitization of intellectual property services, e-procurement, and transparency of government procurement. In fact, the only sub-category where Iraq receives a non-zero score is “Public Consultation on IP Laws and Regulations.” This may account for the

strength of IP rights protection which provides five out of the 30 points for the regulatory framework. (WB 2024b, pp. 52-54)

With respect to Operational Efficiency (Pillar III) of Market Competition, Iraq scores 32. This score reflects low efficiency in achieving market dynamism, innovation, and weak public procurement. (WB 2024b, pp. 54-55)

The lack of market competition and innovation in Iraq is illustrated by several variables. Almost 38% of firms report that their price is regulated. Excluding small firms, only 4% of firms spent on R&D during the last year. More optimistically, 92% of firms reported have five or more competitors in their main product market. (WB 2024b, pp. 55-56)

**10. Business Insolvency** assesses – based on international best practices – the de jure features of the regulatory framework necessary for structured debt resolution. Data is presented on the time and cost required for a company to resolve in-court liquidation and reorganization proceedings to identify any bureaucratic hurdles. (WB 2024a, pp. 84-85)

Average: 7  
 Regulatory Framework: 20  
 Public Services: 0  
 Operational Efficiency: 0

A well operating insolvency system will allow the restructuring and continued operation of fundamentally sound firms while maximizing recovery for creditors and/or shareholders in the case of firm liquidation. To achieve both aims, it is critical that the process be relatively quick because the longer the process is delayed, the greater the losses to creditors, shareholders, and the economy. Currently, the system of resolving business insolvency in Iraq is almost a complete failure. In fact, the Bank was unable to find a single case of a firm failure being formally resolved.

While the regulatory environment (Pillar I) for business insolvency is an estimated 20, both public services (Pillar II) and Operational Efficiency (Pillar III) are zero. As a result, Iraq is ranked last among upper middle-income countries for resolving business insolvency and is second from last among all 50 countries in the initial *Business Ready* Report. Only Timor-Leste has a lower score. (WB 2024a, Table A.10, pp. 145-146)

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