

Chapter 4 The State of the Institutions of Economic Freedom in the Kurdistan Region of Iraq

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1 Introduction

Mesopotamia was home to the world's oldest civilization. Many historians believe it was based on a largely free-market economy (Sanandaji, 2018).¹ Iraq, including the Kurdistan Region of Iraq (KRI), is located in the heart of Mesopotamia, which is currently suffering from critical economic, political, and institutional weakness. The Iraqi economy ranks as one of the least free and most corrupt economies in the world (Gwartney, Lawson, Hall, and Murphy, 2020; Transparency International, 2020). Several factors impeded the development of institutions supportive of economic freedom, including historical obstacles that related to the colonial legacy, policies of successive Iraqi governments, political and economic instability, as well as social, cultural, and religious obstacles.

This chapter attempts to analyze the state of institutions of economic freedom in the Kurdistan Region of Iraq. Its importance lies in the fundamental role of economic freedom in promoting individual initiative, entrepreneurship, voluntary exchange, and freedom to conduct a business, which ultimately leads to long-term economic growth, good governance, and democracy (Hall and Lawson, 2004). This study represents a preliminary attempt to build a rating of economic freedom

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- 1 Freedom as a word and concept was used for the first time by the civilization of Mesopotamia, specifically, by ancient Sumerians. It used to characterize the good king, Urukagina, as a liberator of his people from paying previous wartime taxes. Historical evidence has shown that the Sumerian manuscripts included the freedom-supporting laws of Urukagina and writings about liberating land from taxes collectors. One manuscript contained: "You can have a Lord; you can have a King, but the man to fear is the tax collector", which shows the crucial role of taxation in their economic system. It was used as a means of coercion and repression against the freedom of citizens. Thus, this insight may be the first appearance in writing of the concept of economic freedom, representing the attempt of the Sumerians to be free from taxes (Rabushka, 1991: 25).

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in the Kurdistan Region of Iraq. To do this, the author examined the evolution of economic freedom in the KRI and the impediments it faces. The methodology of the index published in *Economic Freedom of the World* (EFW) is used to estimate the ratings of economic freedom in the KRI.

However, it is difficult to study economic freedom in the KRI because of the troubled political, legal, and economic relations between the KRI and Iraq. There is also a lack of studies and data. Most economic studies in the KRI and Iraq neglect the examination of the institutions of economic freedom but rather focus on studying the quantitative and qualitative factors of production as determinants of economic growth and development.²

Moreover, during the period from 1991 to 2003, the Kurdistan Region of Iraq was an isolated and unrecognized state, with a political and economic split between the KRI and the rest of Iraq (Gunes, 2019: 28–33). Nevertheless, after the US-led invasion of Iraq and the adoption of the Iraqi constitution in 2005, Kurdistan was recognized as a semi-autonomous region within Iraq. The constitution granted broad federal powers to the KRI following articles 114, 115, 117, 120, 121, and 141, and both sides became more inclusive politically and economically. However, the databases published by the federal government in Baghdad do not include data about most economic activities of the KRI (Najmalddin Noori, 2016: 1–3).³

There is a considerable divergence in several economic and social aspects between Iraq and the KRI, especially the laws and regulations related to the private sector, trade and investment, taxes, the labor market, natural resources, doing business, and women's freedom, as the KRI is more open than Iraq. At the same time, there is a kind of harmony between them in terms of the monetary policy, public budget, and recently in the customs policy, and some other general legal rules (Auzer, 2017: 2–3). Therefore, the reports of economic freedom that focus on the Iraqi economy do not reflect the rating of economic freedom in the KRI.

The rest of the chapter is organized as follows. Section 2 presents estimates of the KRI's economic freedom scores. Section 3 examines the origins of the institutions of economic freedom in the KRI. Section 4 explains the areas of economic freedom in the KRI. Section 5 presents values and norms and the market in the KRI and a final section reviews the conclusions of the study.

2 Estimated economic freedom scores for the Kurdistan Region of Iraq

Measuring the economic freedom of the Kurdistan Region of Iraq is important to provide a reliable and objective measure of economic policy. It helps policy makers and the public distinguish between pseudo-reform that leaves economic and

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- 2 It should be noted, most of the scientific and research institutions in the KRI and Iraq still follow the old educational and research programs dating back to the 1970s and 1980s of the last century. For example, the importance of the role of the government (public spending, the public sector) is stressed in economic and social development, and there is little research examining the economic, political, and social variables that affect society and individuals' lives in the KRI and Iraq.
 - 3 Since the British established the Iraqi state in 1921, there have been numerous attempts to revitalize the economy and political stability within and between the KRI and the Iraqi governments in Baghdad; all, however, have failed. The national economy never merged. At the time of writing this study, a new round of talks has begun between the two parties on the federal budget, oil revenues, and border crossings.

political power in the hands of crony elites, and real reform that creates new prosperity, entrepreneurship, and jobs by opening business and work opportunities for everyone no matter whom they know (Al Ismaily, Al-Busaidi, Cervantes and McMahon, 2018). Moreover, measuring economic freedom provides policy makers with critical data on the level of economic freedom in the KRI at the moment, where improvements can be made, and where policies have been successful. As discussed in the next sections, the Kurdistan Regional Government (KRG) had hoped to increase economic freedom, certainly at least to a level greater than in Iraq. However, the estimates show that much work needs to be done to increase economic freedom in the KRI.

The scores in table 4.1 were developed by the author using the methodology of the index published in *Economic Freedom of the World* (EFW). Roughly speaking, the EFW index contains three types of data. The first are economic data, such as government expenditures, income-tax rate, money growth, rate of inflation, tax on international trade, and tariff rate. The author obtained this type of data from domestic sources, including official reports from the KRG-Ministry of Finance and Economy, KRG-Statistics Office, KRG-Ministry of Trade and Industry, the Central Bank of Iraq (CBI), and World Bank reports.

The second type of data is related to laws and regulations that protect property rights and regulate trade, credits, the labor market, and free business. The author gathered this type of data from several sources including official reports from the KRG-Ministry of Trade and Industry-General Directorate of Customs, Kurdistan Bank, Cihan Bank, and Al-Thiqa for Microfinance, KRG-Company Registration Department, and Chambers of Commerce in the KRI.

Both types of data should be handled cautiously. International sources of such data devote significant efforts to creating consistent data by coordinating procedures across nations. This is not done by the local sources cited here, so data will be based on different procedures and assumptions from other nations. As well, the KRG-Statistics Office is unable to provide reliable and consistent data as a result of structural, administrative and financial problems. The Kurdistan Region of Iraq also lacks institutions to collect data. However, it is hoped that these calculations will provide a good approximation of how the KRI compares internationally.

Other variables included in the EFW index are based on expert opinions or on surveys conducted by international organizations such as the World Bank and the World Competitiveness Forum. These data are not available for the KRI. The scores are calculated by the author based on the international scoring methodology and on interviews conducted by the author. Again, the results should be treated with caution.

Table 4.1 shows the estimated scores for the Kurdistan Region of Iraq compared to the Iraqi scores. The Iraqi scores are from the 2021 edition of *Economic Freedom of the World* (this publication). The appendix for this chapter provides additional information on data sources for the Kurdistan Region of Iraq, which are from 2019 and 2020.

Overall, the economic freedom score for the Kurdistan Region of Iraq is similar to the score for Iraq. Again caution is required. The first concerns the Gender Legal Rights Adjustment, which measures whether the economic freedom of women and men are equal under the law (Fike, 2017). It is used to adjust downward scores in Area 2: Legal System and Property Rights if laws reduce the economic freedom of women compared to men. The Iraqi score is adjusted downward by the Gender

Table 4.1: Estimated scores of the Kurdistan Region of Iraq (2020) and Iraq (2021) for the Areas, Components and Sub-components of the EFW index

	Ratings of the Kurdistan Region of Iraq, 2020	Ratings of Iraq, 2021
Summary	5.15	5.55
1. Size of Government	3.4	5.05
A. Government consumption	1.1	3.6
B. Transfers and subsidies	1.09	7.9
C. Government investment	1.42	0.0
D. Top marginal tax rate	10.0	10.0
(i) Top marginal income tax rate	10.0	8.0
(ii) Top marginal income and payroll tax rate	10.0	9.0
E. State ownership of assets		4.8
2. Legal System and Property Rights	3.65	3.2
A. Judicial independence	0.11	5.2
B. Impartial courts	5.4	3.6
C. Protection of property rights	10.0	
D. Military interference in rule of law and politics	0.0	2.5
E. Integrity of the legal system		3.2
F. Legal enforcement of contracts	7.62	4.8
G. Regulatory restrictions on sale of real property	9.7	6.6
H. Reliability of police		
	<i>Gender Legal Rights Adjustment</i>	0.47
3. Sound Money	7.55	7.8
A. Money growth	9.7	8.5
B. Standard deviation of inflation	7.52	2.7
C. Inflation: most recent year	3.0	10.0
D. Freedom to own foreign-currency bank accounts	10.0	10.0
4. Freedom to Trade Internationally	6.23	4.8
A. Tariffs	3.06	4.9
(i) Revenue from trade taxes (% of trade sector)	7.2	9.7
(ii) Mean tariff rate	1.5	0.0
(iii) Standard deviation of tariff rates	0.48	
B. Regulatory trade barriers	5.94	3.4
(i) Non-tariff trade barriers	3.4	6.4
(ii) Compliance costs of importing and exporting	8.48	0.5
C. Black-market exchange rates	9.7	9.0
D. Controls of the movement of capital and people		1.8

	Ratings of the Kurdistan Region of Iraq, 2020	Ratings of Iraq, 2021
5. Regulation	4.94	6.9
A. Credit market regulations	2.66	9.5
(i) Ownership of banks	2.0	
(ii) Private sector credit	0.0	10.0
(iii) Interest rate controls / negative real interest rates	6.0	9.0
B. Labor market regulations	6.98	6.2
(i) Hiring regulations and minimum wage	3.3	2.2
(ii) Hiring and firing regulations	7.7	
(iii) Centralized collective bargaining	7.9	
(iv) Hours regulations	6.0	6.0
(v) Mandated cost of worker dismissal		6.5
(vi) Conscription	10.0	10.0
C. Business regulations	4.8	5.0
(i) Administrative requirements	4.6	
(ii) Bureaucracy costs		0.0
(iii) Starting a business	3.44	8.7
(iv) Impartial public administration		1.7
(v) Licensing restrictions	4.93	8.2
(vi) Cost of tax compliance	6.23	6.2

Legal Rights Adjustment, but not enough data are available to construct one for the KRI. International studies consistently report that women and the laws that apply to women are more equal in the KRI than in the rest of Iraq (Kaya, 2018). Any adjustment downward of the KRI's score by the Gender Legal Rights Adjustment is likely to be smaller than for Iraq. Nonetheless, unless the KRI treats women under the law the same as men, the gender adjustment will reduce its score somewhat.

The EFW index measures government restrictions on economic freedom, though non-governmental factors may limit the ability of people to use fully their economic freedom. One factor is the substantially higher level of violence in Iraq than in the KRI (Kaya, 2018). This reduces the ability of individuals to take advantage of economic freedom.⁴

As well, a number of variables are missing both for Iraq and the KRI. This may be especially important in the regulation area. While there are few studies of the business environment in the KRI, a 2014 study shows the region to

⁴ It should be noted, however, that the KRI is currently facing political and security challenges. There is mistrust and fragility in the relations among the ruling political parties in the KRI on the one hand and there is a fragile peace between the KRI, the Iranian-backed Shiite militias, and the Kurdistan Workers Party on the other. These challenges negatively affect the economic and political freedoms of individuals in the KRI.

have a significantly better business environment than Iraq, suggesting more business-friendly regulation (EIU, 2014). This contradicts the data on regulation in this economic freedom study as a result of the economic crisis that struck the KRI, where the Kurdistan Regional Government imposed more regulations on the business sector, which negatively affected the freedom of investment (Al-Mihya, 2017). They show the KRI lagging Iraq in regulation, but four variables are missing for Iraq and a different set of three are missing for the KRI, so scores for regulation should be treated as tentative.

The data presented here provide a starting point for studying and measuring economic freedom in the Kurdistan Region of Iraq. The data contain important information. Regardless of how the KRI compares to the rest of Iraq in economic freedom, if its policy makers want to increase economic freedom, as they claim, they still have a long way to go.

3 Origins of the institutions of economic freedom of the Kurdistan Region of Iraq

Economic freedom requires small and efficient government, the rule of law to protect freedom and property rights and enforce contracts, access to sound money, and freedom of trade, investment, business, and labor, in addition to the benign values and norms such as trust, tolerance, integrity, and dignity (Gwartney and Lawson, 2003).

Before investigating economic freedom in the KRI, it is essential to comprehend its origins and background. The institutions of economic freedom in the KRI are young and fragile. They have been influenced by the economic, political, and security inheritance of previous Iraqi regimes, as well as traditional social and cultural norms. Since 1991, the KRI authorities have attempted to modify the structure and pattern of political and economic institutions in the KRI, through legislation and issuance of new laws and regulations to promote free markets and democracy, although institutions in the Kurdistan Region of Iraq continued to function according to the Iraqi institutional framework. Bureaucracy and governance systems remain an extension of Iraqi institutions.

The origins of modern institutions in Iraq go back to the British colonial period. In 1921, the British established the Kingdom of Iraq. They brought in a king from outside Mesopotamia and imposed a constitution and laws on its people. As a result, predatory (extractive and coercive) institutions were formed, aimed at controlling individuals and harnessing them for the benefit of the new monarchy and British colonialism (Stewart, 2007).⁵ Even in the era of the nation-state, successive Iraqi governments imposed severe economic and social policies directed to control the country and subject its people to state power.

During the period from 1958 to 2003, three military regimes came to power and abolished the main institutions in Iraq. The legislative authority was dissolved,

5 The literature of economic thought has distinguished between contract theory and predator theory. A state based on the first theory leads to the formation of inclusive institutions aimed at protecting the freedoms and property rights of individuals in accordance with the rule of law. However, a state that is based on the second theory leads to the formation of extractive institutions aimed at controlling individuals and exploiting their potentials and resources by power for a ruler or one ethnic or small group of people (North, 1981; Acemoglu and Robinson, 2012).

the courts abolished, major economic sectors nationalized, and the institutions of civil society that were established under the monarchy dismantled. Successive Iraqi governments adopted socialist economic policies, which directed state power towards centralization, and reduced the role of landowners and capital under the pretext of reform and social justice, especially through the agricultural reform laws of 1958, 1969, 1970, and 1971. Through these laws, the government confiscated vast agricultural lands from their owners and redistributed them to the peasants who supported the revolution and the ruling parties, which reduced land tenure and the productivity of the land as well. They also nationalized major economic sectors, including the oil and gas sector. State-owned companies came to dominate most economic activities. Furthermore, Iraqi governments abolished the separation of powers by dissolving Parliament from 1958 to 1980, established military courts, abolished the Constitutional Court, and dismantled the institutions of civil society by subjecting them to the authority of the government (Abdul Jabbar, 2006: 19–20).

Consequently, Iraqi government policies led to political and economic centralization, excessive restrictions and bureaucratic regimes for doing business, the undermining of judicial institutions, lack of political and social stability, the dominance of partisan loyalties, patronage networks, favoritism, and dominance of traditional tribal values and customs, which negatively affected the progress of the institutions of economic freedom, including freedom of investment, trade, and work. In other words, institutions supportive of economic freedom suffered from vulnerability, negligence, lack of legal protections, weak funding, and excessive government interference. Hence, in Iraq predatory (extractive) institutions appeared that suppress the economic, political, and civil liberties of individuals (Sümer and Joseph, 2017).

However, the political transformations that accompanied the second Gulf War in 1991 and the Anglo-American invasion of Iraq in 2003 encouraged the Kurdistan Region of Iraq to create an appropriate environment for the development of institutions of economic freedom. Its authorities attempted to promote the private sector, free trade, and investment through codifying a set of laws and regulations supportive of economic freedom. In other words, the officials of the KRI declared that its economy would be underpinned by free-market mechanisms. They stated that the objective of economic policies in the KRI would be to encourage the private sector, local investment, and foreign direct investment, and trade and labor freedoms (Saadoun, 2000: 241–252). The following sections will attempt to investigate the status of these policies.

4 Areas of economic freedom in the Kurdistan Region of Iraq

This section describes the status of economic freedom in the Kurdistan Region of Iraq as revealed in the five Areas—the main subcategories—of the index published in *Economic Freedom of the World*.

4.1 Size of Government

The KRI's share of the federal budget of Iraq is the main source for financing its public expenditures. During the period from 2006 to 2013, the Kurdistan Regional Government received annually 17% of the federal budget minus sovereign expenditures, which amounted to about US\$12 billion in 2013. This share corresponded to 80% of the KRG's total revenues, funding KRG spending that was a major driver

of economic growth in the KRI. However, between 2014 and 2017 the federal government cut off the KRI's share of the federal budget as a result of the political conflict between the parties (World Bank Group, 2015: 19). The KRI's share has not yet been fully restored and the KRI has not passed a public budget bill since 2014.

During that period, the KRG declared economic independence and decided to sell its oil independently of Baghdad and rely on local revenues to finance public expenditures, but it failed to do either.⁶ The KRG relied on revenues from border crossings, local tax revenues, and oil revenues, but these financial resources did not cover the huge volume of government expenditures that were the result of the lack of transparency and the waste of public resources. So far, there is no accurate data for the total volume of public revenues in the KRI.

Excessive dependence on oil revenues is a key feature of fiscal and economic policies in both Iraq and the KRI. It has created a rentier state, a boom-and-bust business cycle, and an unpredictable business environment (World Bank Group, 2016: 21). In a period of high oil prices, the KRG's revenues increased, and public expenditures expanded (table 4.2).

Table 4.2: Public expenditures (US\$millions) of the Kurdistan Region of Iraq, 2007–2020

	Public expenditures	Rate of operating expense (%)	Rate of government investment (%)
2007	7,847.66	71.00	29.00
2008	7,628.783	62.20	37.80
2009	8,857.263	74.00	26.00
2010	11,432.176	69.00	31.00
2011	13,940	70.00	30.00
2012	15,245.797	75.90	24.10
2013	16,945.749	68.50	31.50
Mid-2014	7,999.68	N/A*	N/A
2015	N/A	N/A	N/A
2016	N/A	N/A	N/A
2017	N/A	N/A	N/A
2018	8,520,000	86.34	13.66
2019	8,520,000	86.34	13.66
2020	8,520,000	86.34	13.66

Note: * indicates that data are unavailable.

Source: KRG, Ministry of Planning, 2012; World Bank Group, 2016; Rudaw Media Network, 2020.

6 In 2015, officials of the KRG stated that the KRI intended to sell its oil independently of Baghdad. Ashti Hawrami, Former Minister of Natural Resources, announced that the KRI had plans to increase its oil exports to one million barrels per day in the next few years, and that the KRG would work to achieve economic independence from Baghdad. However, none of these actions have been achieved. The result was an economic crisis, accumulation of public debt, flight of investment, and deterioration of the standard of living of the citizens of the KRI (IHS Markit, 2015; Zhdannikov, 2015).

Public expenditures, including operating and investment expenditures, increased with the rise of oil prices from around US\$65 per bbl. to around US\$110 per bbl. in the period from 2007 to 2013. During this period, economic activity, investment, and trade flourished in the KRI, as the rate of economic growth reached about 12%. Consequently, the boom period led to an expansion of the size of government and masked the structural problems that the economy of the KRI faces. During the period from 2014 to 2017, government expenditures decreased because the Iraqi government cut off the KRI's share of the federal budget and oil prices dropped from around US\$85 per bbl. to around US\$46 per bbl. The high rate of corruption, diverted revenues, and tax evasion also reduced government expenditures. Further, local revenues could not cover government expenditures, which led to a severe financial and economic crisis in the KRI. The KRG was on the verge of bankruptcy and unable to pay civil servants' salaries and wages. Then, during the period from 2018 to 2020, the federal government transferred part of the financial dues to the KRG, which amounted to around US\$350–\$450 million per month (Naosh, 2018; Hawramani, 2020), to pay the salaries and wages of the public sector (table 4.2).

The tax system of the KRI suffers from regulatory and administrative issues such as inefficiency of the tax system and its staff, as well as the expansion of the informal sector. Poorly constructed laws and legislation led to tax evasion and lack of transparency in tax collection. The contribution of taxes to public revenues is low: it provided only 1.9% of public revenues in 2012, 2.0% in 2013, 2.7% in 2014, and 3.5% in 2015. Moreover, in 2020, the KRG exempted the private sector from paying taxes for two months because of the COVID-19 pandemic. A progressive income tax was imposed, ranging from 5% to 15%. The real estate tax rate was set at 9% (KRG-General Directorate of Income Tax and Real Estate Tax, 2020).

The Kurdistan Regional Government exempts foreign companies from taxes and fees for 10 years in order to attract foreign investment. Many local and established foreign companies evade paying taxes, according to the General Directorate of Taxes in the KRI. The number of companies registered is 22,624, while only 7,500 companies pay taxes. Some avoid paying taxes by claiming financial losses or legal issues (KRG-General Directorate of Taxes, 2020). In fact, the KRG does not consider taxes a crucial revenue source for the public budget because it relies on oil revenues and for political purposes, that is, to free itself from popular accountability and democratic pressures. Local authorities argue that the reason for low taxes in the KRI is to attract local and foreign investment. Consequently, the KRI's top marginal income-tax rate is at a low enough level to score 10 for Component ID of the EFW index, indicating that income taxes do not constitute an obstacle to the economic freedom of individuals in the KRI (table 4.1).

The KRG follows a centralized system for managing the economy and employs public expenditures to achieve the political interests of the ruling political parties. The ruling parties intervene excessively in governmental, economic, and social institutions. They have politicized most governmental institutions, including financial allocations in line with their partisan interests. The Kurdistan Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK) try to control government institutions by stacking the government with loyal followers and

by removing opponents and independents from government employment.⁷ For instance, in each election, both parties employed thousands of their followers in the public sector without respecting institutional requirements and procedures. These actions led to over-staffing and created disguised unemployment in the public sector, as well as distorting and weakening the work ethic. This process has been marred by corruption and favoritism. Evidence indicates that there are more than 100,000 fake jobs in the public sector in the KRI (Saleh, 2014).

Thus, the economy of the KRI is dominated by the public sector. More than 80% of the public budget pays salaries, pensions, social assistance, and subsidies, as the public sector represents an essential sector of employment in the KRI. It employs between 65% and 68% of the labor force. This is the second-largest rate of employment in the public sector in the world (**table 4.3**).

Table 4.3: Percentage of the work force employed by the public sector in various countries, 2016

Work force employed by public sector (%)	Countries
85.2	Cuba
65-68	Kurdistan Region of Iraq
44.6	Kuwait
40.6	Belarus
40.0	Iraq
36.8	Seychelles
33.7	Bahamas
33.1	Jordan
32.8	Norway
31.7	Croatia
31.2	Latvia, Denmark
31.0	Serbia
21.3	Average of the OECD (35 countries)
Below 20	All other countries

Source: Adapted by the author from Hawrami, 2016.

After the federal government cut off the KRI's share of the federal budget, oil prices fell, and ISIS occupied the areas adjacent to the KRI, the fragility of the political, economic, and social institutions emerged and the irrational and undisciplined economic policies of the KRG became evident. In this regard, as mentioned,

⁷ Kurdish political parties have been influenced by regional socialist parties to adopt centralization of power and the administration of public institutions. In particular, after the withdrawal of civil and military institutions of the former Iraqi regime from the KRI in 1991, the Kurdish political parties adopted a pattern similar to that of the Arab Socialist Ba'ath Party in the matter of political organization and administration of institutions in the KRI. They sought to politicize, centralize, and monopolize civil and military institutions without regard for the rule of law, standards of good governance, democracy, and freedom (Jameel, 2017).

the KRG failed to pay the salaries and wages of public-sector employees; likewise, it failed to pay its financial obligations to private-sector companies including contractors, traders, and investors, which led to the bankruptcy of many companies, and an accumulation of public debt that reached US\$28.5 billion in 2020 (Xendan Media Network, 2020). Even with the emergence of the COVID-19 pandemic, politicization, centralization, and corruption continued in the KRG's policies.

The pandemic revealed more distortions and fragility in the KRI's economic and health institutions. The scope of the private sector shrank, and the rates of poverty, unemployment, and disease increased (UNDP-Iraq, 2020). Private and public health institutions have been unable to keep pace with the pandemic, because of favoritism and lack of funding and health capacities, as the KRI had 180 to 200 ventilators for 6 million people, its population in 2020 (Barzanji, 2020). Putting everything together, the KRI scored 3.4 out of 10 for Area 1: Size of Government, which indicates the large size of the government. This is one of the most significant obstacles limiting economic freedom in the KRI (table 4.1).

The scores for Size of Government show the Kurdistan Region of Iraq lagging Iraq. This is mostly the result of the huge number of workers in the public sector in the KRI, 65% to 68% of the workforce, compared to Iraq at 40% (table 4.3). However, Iraqi expenditures may be higher than the numbers indicate because there is a lack of data, especially the data related to financing the Popular Mobilization Forces (PMF).⁸

The economic and social policies of the KRG and the ruling parties led to an inflated size of the government, centralization, politicization, excessive dependence on oil, corruption, and favoritism. Such policies conflict with the development of economic freedom. Government decision making replaces individual initiative and personal choice.

4.2 Legal System and Property Rights

The legal and judicial system in Iraq and the KRI is the result of a long history of struggle and the cultural diversity of its people. It is based on various legal sources, including Arab legal sources (especially Egyptian), Western laws, Islamic law (Al shari'a), and principles of justice. Compared with other Middle Eastern countries, Iraq has an older and more sophisticated legal system, specifically regarding the protection of property rights, economic freedom, and civil rights (Amereller, Jäger, and Al-Janabi, 2010: 9) However, it is currently plagued by neglect, numerous structural and bureaucratic problems, and interference from politicians and clerics.

The legal framework in the KRI allows individuals the freedom to own, sell, exchange, give, and use their private property (World Bank Group, 2018: 8). This is guaranteed by constitutional and legal texts, specifically, article 23 of the Iraqi Constitution 2005; and paragraph 20 of article 19 of the draft constitution of the KRI stipulated the necessity to protect private property and the economic

⁸ The Popular Mobilization Forces (PMF) are Shiite militias supported by the Iraqi and Iranian governments. The influence of the PMF militias has expanded in Iraqi institutions since 2014, as PMF militias consist of 53 factions and, while the number of their fighters officially reaches 60,000, their leaders receive the salaries of 150,000 fighters in a fake way; and they have 48 seats in the Iraqi Federal Parliament. The 2021 Federal Budget Law set the expenditures on the PMF militias at \$US2,257,362.25, but their expenditures exceed this amount of funding as a result of their possession of multiple types of military weapons (Al-Jubouri, 2020; Williams, 2021).

freedom of citizens. Moreover, the legislative and executive authorities of the KRI have enacted and amended a set of laws and regulations to support economic freedom. More specifically, they have enacted laws to strengthen the independence of the judicial system and the freedom to invest and trade, promote free competition, and develop anti-trust measures.⁹

In 2013, the KRG put in place comprehensive and ambitious reform program, *The Kurdistan Region of Iraq 2020: A Vision for the Future*, that covers public and private institutions in the economic, civil, and security sectors. The goals are to reduce bureaucracy and corruption, and to support start-up companies and entrepreneurship by lessening the regulatory burden. The plan also established free economic zones. These measures opened the economy and helped spur foreign investment, which flowed into the KRI faster than it did in the rest of Iraq (KRG-Ministry of Planning, 2013).

However, challenges still face the institutions of economic freedom in the KRI. Most of the laws, regulations, and reform programs are dead letters. Laws and regulations regarding property rights, doing business, investment, trade, and labor have not been fully implemented. They have been used to support the interests of the ruling parties and enrich political elites and tribal leaders. This led to the creation of an extensive patronage network, crony capitalism, and rent-seeking (Jameel, 2017; Pring, 2015).

Meanwhile, the judicial authority suffers from institutional difficulties and interference from the ruling parties, government, and tribal leaders.¹⁰ The judicial system has been politicized by the ruling parties (KDP and PUK) like many other institutions. Court personnel, including judges, judicial officers, and employees, are appointed on the basis of partisan and political loyalty regardless of competence and professionalism. Human Rights Watch stated that the court system in the KRI is subject to political influence and used to stifle dissent (Smith and Shadarevian, 2017: 9). The United Nations High Commissioner for Refugees (UNHCR) reported that courts in the KRI are not seen as responsive and that local citizens are hesitant to use courts and the police, although many of the laws themselves are sound and meet international standards. Access to legal justice largely depends on ethnic and religious affiliations, tribes, and connection as it is difficult for individuals to defend themselves in the courts without having these connections (Smith and Shadarevian, 2017: 9).

9 In general, the authorities in the Kurdistan Region of Iraq have enacted a set of important laws to strengthen the institutions of economic freedom. These laws meet international standards, such as investment law no.4 of 2006, legislation on employment of foreign workers no. 2 of 2007, oil and gas law no. 22 of 2007, the law of the judicial authority no. 23 of 2007, law of office of financial monitoring no. 2 of 2008, law non-governmental organizations no. 1 of 2011, law to establish a fund to support small projects for young people no. 2 of 2011, law of commission of integrity no. 3 of 2011, amending of the pension and social security law for workers in the private sector no. 4 of 2012, law of non-governmental schools and institutions no. 14 of 2012, law of competition and antitrust no. 3 of 2013, Kurdistan oil and gas revenue fund no. 2 of 2015, and public sector employees' payroll and retirement reform law no. 2 of 2020 (Kurdistan Parliament, 2020).

10 It should be noted that Judicial Council in the KRI was formed under the Judicial Authority law no. 14 of 1992 and law no. 23 of 2007, which laid down the legal framework for the judicial authority and granted it administrative and financial independence from the executive authority (Kurdistan Judicial Council, 2020).

Thus, the judiciary and courts in the KRI lack independence and impartiality in applying the rule of law and protecting the rights and freedoms of individuals. The courts have been unable to impartially adjudicate many civil, commercial, and property disputes, and prevent the embezzlement of funds because of the interference of ruling parties, politicians, and tribal leaders. Many cases have not yet been issued a court ruling and are still pending now, such as the dispute over shares in the Chavi Land project in Slemani, and the Dasht Behesht residential project in Erbil and Dohuk, among many other examples.

Furthermore, the protection of private property and the rule of law in the KRI have been affected by the weak infrastructure of legal, administrative, and security institutions. The courts still rely on old means in carrying out their tasks. The estate registration system is outdated with regard to planning, mapping and surveying lands. All administrative transactions depend on paperwork and handwriting.

The courts of the KRI are unable to resolve commercial disputes for foreign companies and investors because of the lack of necessary infrastructure and the inefficiency of judicial personnel. The process of registering property and enforcing contracts requires several bureaucratic procedures. In the case of buying or selling the property, the registration process requires six procedures and takes more than seven days, and costs 3% of the property's value. To enforce contracts, individuals usually require a relatively long period that takes around 183 days and costs 24% of the claim value.¹¹ Additionally, the public does not trust the professionalism of the security services and the police because their loyalty to the ruling parties supersedes their loyalty to the rule of law.¹²

In this context, the author sought to estimate the KRI's score for Area 2: Legal System and Property Rights. The estimate of 3.65 indicates that the judicial system in the Kurdistan Region of Iraq is ineffective and lacks independence, and that the courts are not impartial and are unable to protect property rights and enforce contracts (table 4.1).

Despite its low score for its legal system and protection of property rights, the KRI scores better than Iraq. The rule of law in Iraq is damaged by the increasing interference of politicians, clerics, and militias in the judiciary, and growing violence and militia attacks on the rights and freedoms of individuals in Iraq (Smith, Malik, and Knights, 2021). Many of the same problems, though lesser in scale as reflected by the scores, trouble the KRI. Politicization and partisan and governmental interference are the main obstacles facing judicial institutions in the KRI. Political interference in the legal system prevents formal institutions from developing and operating outside the lines drawn by the ruling parties. These factors have led to the emergence of various forms of corruption and favoritism and the expansion of the role of informal institutions such as tribal and traditional values and norms in drawing public policies in the KRI.

11 This information was collected through extensive interviews conducted by the author with employees in the KRG-Real Estate Department and a group of lawyers and businessmen, Dohuk, 2020.

12 In fact, the security services in the KRI are designed by the ruling parties (KDP and PUK) to employ individuals according to partisan, tribal, and family loyalties. This poses a great challenge to developing and unifying these security services within a single security system, and also constitutes an obstacle to imposing the rule of law (Hama, 2015; Sümer and Joseph, 2017: 37).

4.3 Sound Money

Monetary policy in the KRI is governed by the Central Bank of Iraq (CBI). It is an extension of Iraqi monetary policy in terms of laws, regulations, and administrative and technical structure. After the 1991 uprising, the monetary and banking sectors of the KRI were completely paralyzed because of the withdrawal of Iraqi government institutions from the KRI. Cash and financial assets were also transferred from banks in the KRI to branches of the CBI outside the KRI. Consequently, the sector lost its ability to provide banking services and public confidence shrunk. The CBI issued a new currency in the early 1990s after the imposition of the economic embargo on Iraq by the international community but, in the KRI, people continued using the old currency, which was locally called the “Swiss Dinar” or “Swiss Currency”. They also used foreign currencies, particularly the US dollar as means of exchange (Issa, 2006: 111–112).

Today, the authorities of the KRI do not have the right to regulate monetary policy because of constitutional restrictions; therefore, the KRI’s citizens and companies must use the Iraqi currency in their daily dealings under the monetary authority of the CBI (Abdulahman, 2002: 143). After the Coalition Provisional Authority (CPA) issued a new Iraqi dinar in 2003, the monetary currency used in the KRI and the rest of Iraq was standardized (CPA, 2003).

The Iraqi constitution of 2005 and the laws and regulations governing the CBI guarantee its independence from interference by the executive and legislative authorities.¹³ Until recently, this legal protection has preserved the independence of the CBI and positively affected its role in economic performance. Consequently, monetary policy achieved relative stability. The rate of money growth increased by 6.7% during the 2016-to-2018 period, the annual inflation rate was 0.117% during the 2017-to-2019 period, and the interest rate was in the range of 4% to 8% during the same period (Iraq, Ministry of Planning, 2020: 64–88). The KRI scored 7.55 for Area 3: Sound Money (table 4.1).

However, despite the KRI and Iraq having a unified monetary policy, their scores differ. Iraq scored 8.04 in 2019, largely as a result of inflation rates, as the overall inflation rate in Iraq was slightly negative in 2019. However, the Consumer Price Index (CPI) in the KRI reached 3.5% in 2019 (KRG-Ministry of Planning, 2020: 2).

Iraq’s and the KRI’s scores for Sound Money will likely decline in future years. At the end of 2020, the CBI, under pressure of the federal government, devalued the Iraqi dinar against the dollar by about 23% under the pretext of reducing the deficit in the balance of trade and stimulating the economy; the main goal, however, was to reduce the deficit in the public budget. This policy has led to a rise in the prices of goods and services in 2021 by about 30%, leading to social unrest.¹⁴

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- 13 In fact, monetary policy in the era of the former Iraqi regime was subordinate to the government, as there was direct interference by the executive authority in the affairs of the CBI. However, after the US-led occupation of Iraq, the Coalition Provisional Authority (CPA) issued Central Bank Law No. 56 of 2004 authorizing the CBI to regulate and administer monetary and banking policy in Iraq, including the issuance of currency, regulating the process of issuing the currency and adjusting the supply of money, exchange rates, national currencies, and foreign currencies. Besides, Article 103 of the Iraqi Constitution 2005 affirmed the administrative and financial independence of the CBI from the executive authorities in Iraq (CBI, 2020).
- 14 The devaluation of the Iraqi dinar against the dollar raised many questions in Iraq, as the Iraqi economy suffers from a major deterioration because of the volatility of oil prices, the high budget deficit, high trade deficit, high indebtedness, and the security and political instability that are the result of the militias’ control over of the many state institutions (World Food Program, 2021; Latif, 2020).

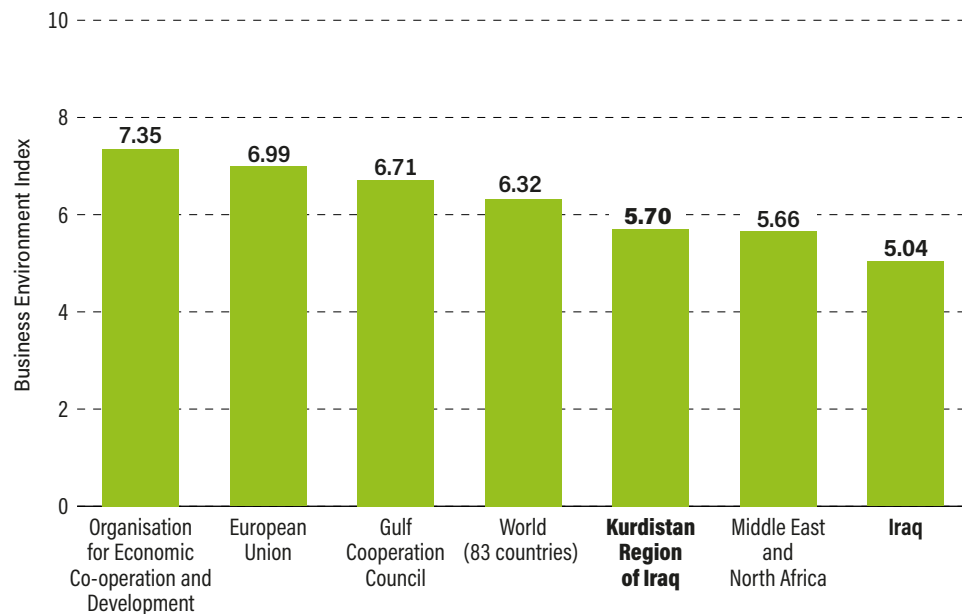
4.4 Freedom to Trade Internationally

Trade is one of the vital economic sectors of the Kurdistan Region of Iraq. The official reports of the KRG-Ministry of Trade and Industry estimated total imports about US\$11 billion and the volume of non-oil exports at about US\$90 million in the period from 2010 to 2017. The trade sector provides more than 90% of the KRI's commodities. Turkey, Iran, and currently China make up 35%, 25%, and 30%, respectively, of KRI's imports. (KRG-Ministry of Trade and Industry, 2012: 3) The KRG imposes customs duties on all exported and imported goods and services at a rate between 5% and 80%. Licensing requires a long bureaucratic procedure: 16 procedures, taking roughly 60 days, and costing about US\$3,000. The trade sector and the management of border crossings are major problems between the KRI and the Iraqi federal government (KRG-General Directorate of Customs, 2020). In fact, the trade sector and border crossings of the KRI have been dominated and politicized by the ruling parties since 1991, as it suffers from political duopoly, corruption, smuggling, and lack of transparency. However, the KRI's score for Area 4: Freedom to Trade Internationally remains at a moderate level, 6.23 (table 4.1).

4.5 Regulation

In general, between 2006 and 2014, the Kurdistan Region of Iraq had a better and safer business environment than the rest of Iraq. According to the Economist Intelligence Unit (EIU), the overall level of the KRI on the Business Environment Index is around 5.7, ranking it 57th out of 83 jurisdictions (EIU, 2014: 31). The KRI ranks higher than the average of the rest of Iraq and the MENA region (figure 4.1).

Figure 4.1: Scores of the Kurdistan Region of Iraq, Iraq, and other areas on the Business Environment Index, 2014



Source: Adapted by the author from Economist Intelligence Unit, 2014: 33.

Before the occupation of Iraqi territories by the Islamic State of Iraq and Syria (ISIS) in 2014, the KRI was a favorite destination of many international trade and investment companies. The economy of the KRI was growing rapidly. The region enjoyed a stable security and political environment, and better infrastructure and

electricity than the rest of Iraq. The movement of capital and goods between the KRI and foreign nations expanded, as the border crossings represent essential commercial outlets for the KRI and Iraq. The following sub-sections explain the state of the regulations governing the business environment in the KRI.

4.5.1 *Credit Market Regulations*

The credit market of the KRI is incapable of financing economic activities. The banking and financial sector in the KRI is weak and inefficient. It suffers from a shortage of liquidity, bureaucratic restrictions, and outdated regulations, which reduce its contribution to financing economic activities. Of the 49 banking and financial institutions in the KRI, six are government-owned banks. They focus completely on distributing the salaries and wages of public-sector employees; 43 banks and financing companies are owned by the private sector (World Bank Group, 2016: 25). The banking sector in the KRI is under the control of the KRG and not the supervision of the CBI. Banking and financial services between government-owned banks and private-sector banks are rare. Banking and financial transfers within the KRI and between the KRI and the rest of Iraq are few and difficult. The regulations of the KRG do not allow government institutions to keep their deposits or have current accounts in private banks, and do not allow private banks to pay the salaries and wages of public-sector employees.

This situation distorts competition in the banking sector and negatively affects the banking and financial services in the KRI. Since the private banks are dependent upon complex, out-dated systems and do not have access to large sources of liquidity, their role in financing private-sector projects is limited. The government has effectively directed the government-owned banks to distribute salaries and wages to the public sector and to pay the government's financial obligations to the private sector, which has placed private banks in critical financial circumstances (World Bank Group, 2016: 25).

However, some of the private banks and financial companies are able to finance small and medium enterprises (SMEs). The amount of credit they supply to the SMEs ranges between US\$2,000 and US\$10,000 with an interest rate ranging between 7% and 12% (Al-thiqa for Microfinance, 2019). Nevertheless, the contribution of these institutions in providing credit to the private sector does not exceed 2% of GDP (World Bank Group, 2016: 25). The banking and financial sector also suffers from low public confidence as a result of the recurrent financial turmoil and economic instability in the KRI and Iraq, which reduces the banking and financial sector's ability to attract deposits and investments. This is a big challenge to the SMEs in obtaining credit. As a result, the KRI receives a low score of 2.66 for Component 5A of the EFW index, indicating that the banking and financial sector suffers from excessive restrictions and regulations that impede its ability to perform its functions efficiently and effectively (table 4.1).

4.5.2 *Labor market regulations*

The labor market in the KRI suffers from deadlock, and outdated laws and regulations, poor technical and linguistic skills, and limited management experiences (EIU, 2014: 43–46). The KRI receives a middling score of 6.98 for Component 5B of the EFW index (table 4.1). On top of restrictions on the freedom of labor, the large size of the government further distorts the labor market. The dominance of the public sector over the labor market constitutes a major obstacle to stimulating

and developing the skills and capabilities of the workforce in the KRI. Most individuals prefer to work in the public sector because it provides them retirement benefits, paid holidays, regular working hours, and does not require high skills and capabilities. These benefits are limited or unavailable in the private sector of the KRI (Hansen *et al.*, 2014: 58). In fact, most private-sector companies do not follow hiring and firing regulations and workers' rights are not protected, which leads to an aversion for working in the private sector (Qadir, Rahman, and Salih, 2016: 4–6).

4.5.3 Business regulations

The Kurdistan Region Investment Law No. 4 of 2006 is one of the fundamental laws that encourage freedom of business and investment in the KRI. It is considered one of the most liberal investment laws in the Middle East (Nikolova, 2013: 19). Under the law, a foreign investor is treated as a local investor in terms of rights and duties. Investment projects are exempt from paying taxes and fees for 10 years. And, the investment law reduces financial barriers to the entry and exit of capital for investors. From 2006 to 2019, the number of licensed investment projects reached 890 and invested capital amounted to more than US\$52 billion. In excess of 16,000 acres were allocated to investment projects. These investments are distributed between domestic investment at 81%, foreign investment at 12%, and joint investment at 7% (KRG-Board of Investment, 2020: 4).

However, business regulations remain onerous, reducing economic freedom. Such an environment is not conducive for local small and medium enterprises and new entrepreneurs as a result of lengthy and costly bureaucratic procedures. New business start-up licenses require 10 to 12 procedures and long rotations are required among several establishments, including the Companies Registration Department, the Chamber of Commerce, the Income Tax Department, and the Real Estate Registration Department. The usual duration is 90 days, and the cost of registration is approximately US\$3,000 (KRG-Companies Registration Department of Dohuk, 2020). Because of these restrictions, the KRI scores only 4.8 for Component 5C of the EFW index (table 4.1).

Overall, combining the scores for credit, labor, and business regulations, the KRI's score for Area 5: Regulation is 4.94 (table 4.1). This level indicates that freedom to carry on a business or make an investment in the KRI is low. Therefore, the role of investment in long-run economic growth in the KRI remains weak, fragile, and unstable. So, despite a wide range of laws and regulations supporting freedom of business and investment, the business environment in the KRI continues to suffer from corruption, favoritism, complex bureaucratic barriers, with responsibilities distributed under various ministries and institutions, lack of transparency, and incomplete and inaccurate data on most economic sectors, due to the weakness of the KRG Statistics Office, besides of the existence of a large informal economy and cash-based economy.

5 Values and norms and the market in the Kurdistan Region of Iraq

The EFW index of economic freedom measures the degree to which governments restrict freedom. However, economic freedom and the ability of individuals to take advantage of it are also affected by social and cultural standards. Economic freedom is based on well-established systems of values and norms, including respect for an impartial judicial system, not swayed by family, tribal, or other favoritism.

Kurdish society is characterized by a conservative, tribal character in which values, norms, family, social, and religious relations play a vital role in organizing social, economic, and political frameworks. In fact, the nature of these values and norms is characterized by traditional, collectivist, and conservative values that may be inconsistent with the values and norms of economic freedom and democracy. According to traditional, collectivist values and norms, the life of individuals is subservient to the welfare of the group. Individuals' lives are centered on the group; they work within his group, and marry a member of the group.¹⁵ Such values and family relations also play an important role in the governance, economic relations, and structure of Kurdish political parties, including KDP and PUK.¹⁶ Thus, economic, commercial, and investment transactions take place within a system of social values, and family and political relations that are traditional and conservative. Under this mentality, the two ruling parties control the political, economic, media, and social systems in the KRI. Specifically, political, economic, and social powers are concentrated in the hands of a specific class of tribal leaders and former generals of security and military services (Peshmarga). Oftentimes, this political and social class does not abide by the laws and regulations in force, as they consider themselves stronger and higher than these institutional frameworks. They have built up a system of relationships with most of the tribal leaders and financially support them to control society and obtain their votes in the electoral rounds.

Most commercial transactions are executed without free competition and transparency. The major investment and commercial projects, such as infrastructure projects, housing, oil and gas, telecommunications, and the pharmaceutical and cigarette trade, among other sectors, have been distributed in favor of certain individuals within specific tribes who are loyal to the ruling parties, in addition to controlling most government jobs. Consequently, an extensive predatory network of patronage, favoritism, and crony capitalism has been established that dominates main economic activities.¹⁷ Therefore, traditional tribal values and norms have distorted the ethics of business and freedom of investment and trade, diminished individuals' confidence in the market system, and impeded the development of the institutions of economic freedom in the KRI. The traditional social values also negatively affect individuals' freedom, freedom of work, and gender equality. Many people are discouraged from working in some trades because they are thought of as socially inferior crafts.

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- 15 The values and norms that have been practiced in the KRI are similar to the values that were practiced by the Maghribis, who were driving trade in the Mediterranean in the twelfth century. The Maghribis had collectivist values that focused on group interests over individual interests. These values can serve a protective purpose in a lawless world, but collectivist values could not serve for long-run success. They are in radical contradiction to the individualistic values upon which Western civilization was born, and under which economic, political, and civil freedoms have been flourished (Easterly, 2013: 131–137).
- 16 There is a strong relationship between values and social norms, and the interference of political parties in markets in the KRI. It is unrealistic to obtain a clear picture of the reality of commercial and economic transactions in the KRI without studying these factors that ultimately undermine the role of the institutions of economic freedom (Aziz, 2017; EIU, 2014: 38).
- 17 The overlap between political, economic, and social frameworks, the lack of rule of law, and control by unchecked powers over society in the KRI has become an attractive theme for numerous authors (Hassan, 2015; Najmaldin Noori, 2016).

Women's freedom to engage in free economic activities is restricted. Women in the KRI are exposed to abuse and violence under various social and religious arguments, including early marriage, polygamy, and "shame-washing".¹⁸ According to 2019 official reports, cases of violence against women have seen a steady increase. These reports record more than 8,509 cases of violence against women, including 30 murders, 46 suicides, 125 burning injuries, 81 self-immolation, and 93 sexual assaults (Hifo, 2020). Moreover, there is a large disparity in terms of ownership between men and women in the KRI and Iraq: 26.2% of the land is owned by women while men own 73.8% (UN-FAO, 2020). The proportion of women entrepreneurs engaged in trade and investment is very small in the KRI because society looks down on women working in the private sector. As a result, women's participation in the labor market is below 15% (KRG-Statistics Office, IOM, and UNFPA, 2018: 38).

However, the legal status of women in the KRI is better than it is in Iraq because the KRI has a set of laws and institutions to protect the rights and freedoms of women.¹⁹ Iraq lacks such laws and institutions to protect the rights and freedoms of women (Human Rights Watch, 2019). Specifically, laws and regulations in the KRI are more in line with the principles of the Convention on the Elimination of Discrimination against Women (CEDAW) than is the case in Iraq. Also, the KRG established institutional bodies to deal specifically with women's issues and support gender mainstreaming in policy-making, such as the Special Directory to follow up on cases of violence against women and domestic violence courts, and the High Council of Women's Affairs in the parliament to advise ministries on gender-mainstreaming (KRG-Supreme Council for Women Affairs, 2012).

These laws and regulations and the actions of the KRG led to a reduction in the level of gender inequality, the level of violence against women, polygamy, and early marriage in the KRI compared to Iraq. The Gender Inequality Index, where lower scores indicate less inequality, is based on reproductive health, empowerment, and labor-market participation. The KRI's score in 2014 was lower, 0.48, than Iraq's, 0.56 (UNDP-Iraq, 2014); and while the rate of underage marriage (ages 15–19) is 10% or lower in the KRI, in Iraq it is 19% (Kaya, 2018). Kurdish women's perception of their situation and conditions is slightly more positive than that of women in Iraq. For example, fewer women in the KRI than in Iraq believe that there is no equality between men and women (overall 40% in the KRI compared to 76% in Iraq) (Kaya, 2018).

In fact, the progress of women's status in the KRI compared to Iraq has cultural and social roots. Women have an influential role in Kurdish society. Sociological studies indicate that the Kurds are one of the most open Islamic communities when the freedom and rights of women are considered (Nikitin, 1956: 173–180). There are still Kurdish clans and families led by women. The position of women in Kurdish culture is in some cases higher than that of men. Thus, women in the KRI are able to enjoy a higher level of economic freedom than in Iraq.

18 "Shame-washing" is also called an "honor crime", which is committed against women if they deviate from prevailing social values and customs, such as having a sexual relationship with a man without her family's permission, in which case the woman will be killed or tortured by her family.

19 The Parliament of the Kurdistan Region amended the Iraqi Personal Status Law No. 188 of 1959 in 2008, and authorized the Combating Domestic Violence in the KRI Law No. 8 of 2011, which guaranteed broad legal rights for women, prevented attacks against them, and restricted polygamy in the KRI. Additionally, in recent years, the KRG has established several centers to protect women from being killed and assaulted by their families.

Summing up, despite the diverse social and cultural characteristics that support economic freedom in the KRI, there is still significant overlap of traditional social values and norms, family relationships, and party loyalty with the market in the KRI, which constrains the institutions of economic freedom from functioning properly and effectively.

4 Conclusions

The Kurdistan Region of Iraq has taken numerous measures to support and develop the institutions of economic freedom by legislating a wide range of laws, regulations and public-sector reform programs protecting property rights and creating a suitable environment for doing business, making private investments, and engaging in trade and entrepreneurship. This has improved the business environment in the KRI. However, most of the economic and political institutions are still young, ineffective, and fragile, a result in part of the remaining influence of the economic, political, and security legacies of previous Iraqi governments and traditional social values and norms that contradict free markets, good governance, and democracy. Most of the laws and reform programs of the KRG remain dead letters.

Economic freedom is hobbled by an inflated size of government, politicization, severe centralization in managing economic and financial resources, excessive dependence on oil revenues, lack of transparency, a sagging and weak legal system, a judicial system that is not independent, complex bureaucracy, incomplete and inaccurate data on most economic and social sectors, the existence of a cash economy, corruption, favoritism, nepotism, administrative laxity, and social loafing. Therefore, distorted political and economic institutions have emerged whose primary purpose is to impose the control of the ruling political parties and tribal values and norms over society and its economic resources. These factors have crippled the institutions of economic freedom, including the benign values and norms of the free market. Ultimately, these obstacles negatively affected the rating of economic freedom in the KRI, estimated at 5.154, an indication that the economy of the Kurdistan Region of Iraq is not free.²⁰

20 The author would like to acknowledge the contributions of Fred McMahon, Fraser Institute Resident Fellow and holder of the Dr. Michael A. Walker Research Chair in Economic Freedom. Without his help, experience, and insight, this study would not have been produced. Any omissions and mistakes remain the sole responsibility of the author.

Appendix: Data Sources

Area 1. Size of Government

This Area includes four components: 1A. Government consumption; 1B. Transfers and subsidies; 1C. Government enterprises and investment; 1D. Top marginal tax rate.

Data sources: KRG-Ministry of Finance and Economy; KRG-the General Directorate of Income Tax; KRG-Statistics Office; and World Bank reports.

Area 2. Legal System and Property Rights

This Area includes eight components: 2A. Judicial independence; 2B. Impartial courts; 2C. Protection of property rights; 2D. Military interference in rule of law and politics; 2E. Integrity of the legal system; 2F. Legal enforcement of contracts; 2G. Regulatory restrictions on sale of real property; 2H. Reliability of police.

Data sources: KRG-Real Estate Department; personal interviews with jurists and agencies for buying and selling real estate and land.

Area 3. Sound Money

This Area includes four components: 3A. Money growth; 3B. Standard deviation of inflation; 3C. Inflation: most recent year; 3D. Freedom to own foreign-currency bank accounts.

Data sources: Central Bank of Iraq (CBI); KRG-Ministry of Planning.

Area 4. Freedom to Trade Internationally

This Area includes four components: 4A. Taxes on international trade; 4B. Regulatory trade barriers; 4C. Black-market exchange rates; 4D. Controls of the movement of capital and people.

Data sources: KRG-Ministry of Trade and Industry-General Directorate of Customs in the Kurdistan Region; Chambers of Commerce in the KRI.

Area 5. Regulation

This Area includes three components: 5A. Credit market regulations; 5B. Labor market regulations; 5C. Business regulations.

Data sources: 5A.—Kurdistan Bank, Cihan Bank, and Al-Thiqa for Microfinance. 5B—KRG-Ministry of Labor and Social Affairs; personal interview with trade unions in the KRI. 5C.—KRG-Board of Investment; KRG-Company Registration Department; Chambers of Commerce in the KRI.

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