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### RESEARCH ARTICLE

#### THE POLITICAL ENVIRONMENT AND ITS ROLE IN ATTRACTING FOREIGN INVESTMENT TO IRAQ

**Dr. Abdulrahman Najm Almashhadani**

Assistant Professor, Department of Economics College of Economics and Administration, Al-Iraqia University  
Baghdad –Iraq.

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#### Abstract

This study aims to assess the impact of political stability on foreign direct investment in Iraq. After 2003, the Iraqi government sought to attract foreign investment to address the growing disparity between available resources and increasing financial needs. The goal was to bridge the national resource gap, reduce the balance of payments deficit, and finance public investment to aid in the country's reconstruction and industrial advancement. To achieve this, Investment Law No. 13 of 2003 was enacted, accompanied by various policies, procedures, guarantees, incentives, and benefits to encourage foreign direct investment in Iraq and support economic development. However, despite these efforts, the inflow of investments did not meet expectations due to persistent political and security instability. This instability led to weak global rankings and deterred both foreign and local investments from Iraq between 2013 and 2022.

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#### Introduction:-

Today, foreign investment is gaining significant attention in both developing and advanced countries as a key factor in driving economic development. Developing nations are increasingly seeking foreign investment due to their limited financial resources and lack of access to technology. However, the institutional environment, including political risks and stability, remains a critical factor impacting the flow of foreign direct investment. Iraq is one such country whose need for funding has grown over the past decade, particularly after the onset of the COVID-19 pandemic and the subsequent decline in global oil prices. This led to a reduction in oil revenues, which make up over 90% of its annual federal budget and more than 60% of its gross domestic product.

The funding gap for the economic development and reconstruction of liberated areas is estimated to be in the tens of billions of dollars, which is challenging to fulfill domestically. Additionally, infrastructure in most Iraqi cities has deteriorated or been destroyed. The need for funds has increased. Two potential methods for funding include internal and external borrowing, which could increase external debt and its associated economic and political burdens, and opening up to foreign investments. The latter requires creating an accommodating climate for foreign investors.

**Corresponding Author:-Dr. Abdulrahman Najm Almashhadani**

Address:-Assistant Professor, Department of Economics College of Economics and Administration, Al-Iraqia University Baghdad - Iraq.

**Research Problem:**

The research is focused on the impact of political instability and corruption in Iraq on the investment climate and business environment. These factors have increased the costs of doing business, endangered investors, and hindered the attraction and retention of foreign investments.

**Research Hypothesis:**

Despite the implementation of Investment Law No. 13 of 2006, which aimed to provide favorable conditions for local and foreign investors, political conflicts and disputes in Iraq have created an environment that repels both local and foreign investments post-2003. This situation has led to a decrease in foreign investments in Iraq and an increase in local investments in neighboring countries

**Research Objective:-**

The research is focused on demonstrating the influence of political instability on attracting foreign investment in Iraq, a crucial aspect of the investment climate. The research is divided into the following sections:

1. Reference Review
2. Current state of foreign investment in Iraq
3. The role and significance of Iraq's sovereign ratings in attracting foreign investment
4. Corruption perception indicators and their impact on attracting foreign investment to Iraq
5. Iraq's business environment indicators and their importance in attracting foreign investment
6. The effect of political instability on attracting foreign investment
7. Conclusion

**First: Reference Review:**

The determinants of foreign direct investment have drawn the interest of researchers worldwide. While the impact of political stability on foreign direct investment flows is a topic of ongoing research, several studies have provided empirical analyses of the influence of economic, financial, and institutional factors on foreign direct investment flows.

Singh et al. (1995) found that political risks and the business environment are crucial factors for attracting foreign direct investment to countries with consistently high indicators. Conversely, countries with lower investment levels were found to be affected by social and economic conditions. Moreover, countries focusing on increasing their export volumes tended to attract more foreign direct investment.

In another study, Brunetti and Weder (1998) and Bevan et al. (2004) investigated institutional indicators affecting investment, such as political stability indicators, quantifying variables such as the frequency of revolutions, crime rates, acceptance and rejection of reforms, private property distribution, and armed conflicts. Similarly, Madr and Kouba (2015) concluded that political stability indicators had a significant impact on foreign direct investment in developing countries.

Other studies also confirmed the influential role of corruption, political stability, democracy, and freedom levels on foreign direct investment flows (Tintin, 2013; Daude, 2007; Benassy-Quere et al., 2007).

The study by Bitar et al. (2019) found that political risks have a significant impact on foreign direct investment in Lebanon. Meanwhile, Rogneda Groznykh et al. (2020, p. 82) concluded that developing economies aiming to attract foreign direct investment from advanced economies need to strengthen their political environment and provide favorable conditions for investing countries. They emphasized that improving the political stability of developing countries by one unit could increase foreign direct investment flows from advanced countries by \$0.022 million. Additionally, Souria and Ghani (2018) noted that increasing instability in the Middle East and North Africa region makes these countries more fragile, leading to economic deterioration and discouraging foreign investors. They confirmed that political risks affect foreign direct investment in OPEC countries and highlighted the absence of institutional quality and economic freedom in these member countries. Consequently, political risks for foreign investors have become an inherent factor in the MENA region.

In a study by Sissani, M., & Belkacem, Z. (2014), the relationship between political risks and financial risks and their effects on foreign direct investment in Algeria from 1990 to 2012 was examined. The study concluded that financial risks had a stronger negative relationship with foreign direct investment compared to political risks.

Another study by Krifa-Schneider, H., & Matei, I. (2010) focused on the relationship between political risks, business climate, and foreign direct investment flows in 33 developing countries and countries in transition from 1996 to 2008. This study found that lower levels of political risks are linked to increased foreign direct investment flows and that business operating conditions are an important factor influencing foreign direct investment flows. Additionally, a study by Busse, M., & Hefeker, C. (2007) analyzed data from 83 countries and found that government stability, internal and external conflict, corruption and ethnic tensions, law and order, democratic accountability of government, and bureaucratic quality are significant and highly influential determinants of foreign investment flows.

The literature on the impact of political risks on foreign direct investment presents mixed results for various countries but has not included Iraq. Despite facing political, security, social, and economic risks, Iraq has attracted foreign direct investments from major international companies in the oil sector with government support and protection. However, it has not been successful in attracting investments in other economic sectors such as agriculture, industry, or tourism. In fact, more investments left Iraq after 2013 than the foreign investments that entered the country, as reported by the Organization for Economic Co-operation and Development (OECD) in 2018. The report emphasized the vulnerability of the Iraqi state across its economic, environmental, political, security, and societal dimensions. This has hurt the investment environment and increased investor exposure to risks. The government's ability to mitigate, manage, or absorb these risks decreased, creating a source of potential negative outcomes, including violence, institutional collapse, displacement, humanitarian crises, and other emergencies. While foreign direct investment can enhance economic resilience in fragile and conflict-affected states, it can also be challenging for foreign investors to operate in this environment. The challenges that characterize fragile states deter foreign investors (OECD, 2018). In this paper, we aim to explore the impact of political instability in Iraq on the decline of foreign direct investment and the increase in outflow from the country.

### Second: The reality of foreign direct investment in Iraq

Iraq is currently in urgent need of foreign investment across all economic sectors. This need has arisen due to a decline in the contribution of real economic sectors to the gross domestic product, along with a deterioration of basic services such as drinking water, electricity, sewage networks, and healthcare and education services. Additionally, indicators show a rise in public debt, with the Iraqi government owing a total foreign debt of \$22 billion and an estimated internal debt of \$45 billion. This places the total public debt at \$77 billion by 2023 (Al-Obaidi & Almashhadani, 2022). Therefore, in order to address these challenges and improve the situation, it is imperative to seek foreign investment in various sectors of the economy.

The restructuring of the Iraqi economy and the improvement and growth of real economic sectors like agriculture, industry, tourism, and services require significant investments. The National Development Plan (2024-2028) estimates that more than \$185 billion will be needed, with the Iraqi and foreign private sectors contributing over \$64 billion (Ministry of Planning, 2024). Table No. 1 illustrates the decrease in the relative importance of productive sectors such as agriculture, manufacturing, construction, electricity, gas, and water in the gross domestic product, along with the increasing contribution of extractive industries, particularly crude oil production. Even though Article 25 and Article 26 of the Constitution emphasize the state's obligation to reform the Iraqi economy according to modern economic principles, ensuring the full utilization of its resources, diversifying its sources, and promoting the development of the private sector. Furthermore, it encourages investments in various sectors (Iraqi Council of Representatives, 2011). Additionally, the state has the authority to manage strategic sectors such as oil through state-owned or state-controlled companies.

**Table (1):-** The relative importance of economic activities in Iraq's GDP for the period 2014-2022.

Economic Activities	2014	2015	2016	2017	2018	2019	2020	2021	2022
Agriculture, Forestry, Hunting & Fishing	4.91	4.16	3.84	2.83	1.95	3.53	5.88	3.29	2.84
Mining & Quaeeying	43.91	33.43	34.12	39.71	47.07	41.05	29.42	45.56	57.10
Manufacturing Industry	1.87	2.16	2.23	2.14	1.79	2.11	2.57	2.22	1.78
Building & Construction	7.15	6.38	6.17	5.97	4.26	6.61	5.20	4.09	2.28
Electricity & Water	2.19	3.02	3.25	2.89	2.93	2.63	2.55	1.60	1.35
Wholesale, retail trade, Hotel & others	7.83	10.87	9.35	8.93	7.78	8.23	9.03	6.84	6.05
Transport, Communications	7.28	10.6	11.38	10.68	10.63	8.66	10.45	10.0	8.69

&Storage									
Finance, Insurance, Real estate & Business services	1.17	1.34	1.66	1.78	0.51	1.76	1.73	0.70	0.58
Ownership of dwellings	6.54	7.03	7.29	6.79	5.85	6.19	8.09	5.88	4.25
Social & personal services	17.15	21.01	20.62	18.28	17.23	19.23	25.08	19.82	15.08
	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Republic of Iraq, Ministry of Planning, Central Statistical Organization, National Accounts Directorate, Annual preliminary estimates of GDP for 2014-2022

**Table (2):-** Inward and outward Foreign Direct Investment flows from Iraq (2010-2023) (Million Dollars)

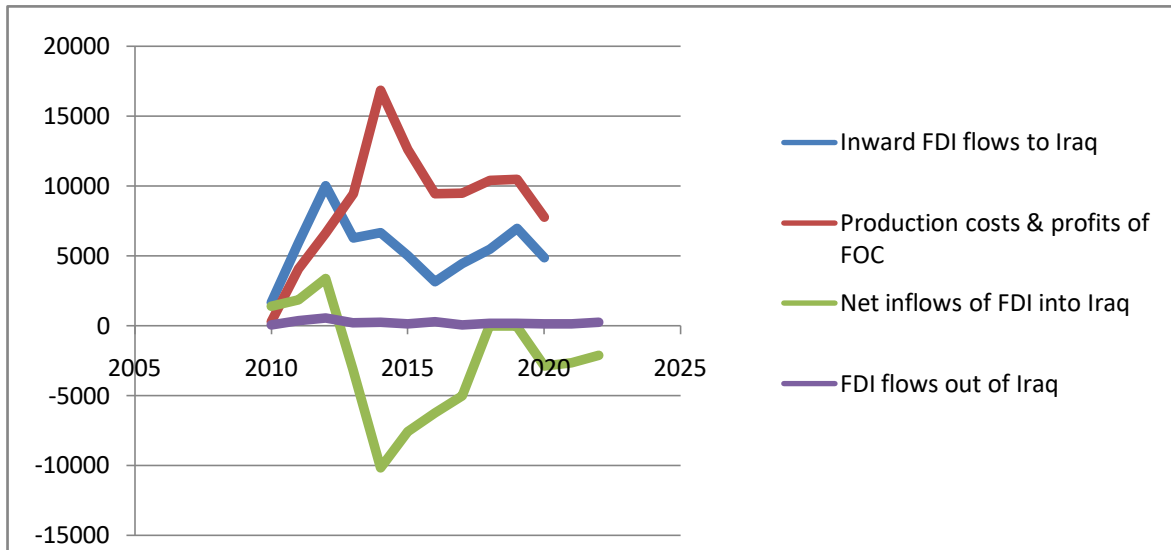
year	Net inflows of FDI into Iraq	FDI flows out of Iraq	Production costs & profits of FOC	Inward FDI flows to Iraq
2010	1396	72	286	1682
2011	1882	366	4075	5959
2012	3400	549	6640	10040
2013	-3120	227	9436	6316
2014	-10176	242	16851	6675
2015	-7574	148	12604	5030
2016	-6256	304	9443	3187
2017	-5032	78	9485	4453
2018	- 4885	188	10388	5503
2019	- 3508	194	10484	6976
2020	- 2859	147	7760	4901
2021	-2637	135	--	--
2022	-2088	238	--	--
2023	-5273	279	--	--

-UNCTAD, World Investment Report, 2010-2024

- Natural Resources Transparency Commission, Transparency Report Oil, Gas, and mining, 2010-2021

Iraq has seen a significant increase in foreign investments from 2007 to 2022, with a major focus on the oil sector. The Iraqi Ministry of Oil signed agreements for four licensing rounds with international oil companies, which also hired private security firms to protect their investment projects. These agreements provided the companies with the advantage of seeking legal recourse in international or home country courts in case of any disputes with the Ministry of Oil or the Iraqi government. (Almashhadani, 2011). However, despite the influx of new foreign investment projects in Iraq, the overall foreign investment flows appear to be negative. Between 2003 and 2022, 378 new foreign investment projects were initiated in Iraq, accounting for 2.62 percent of the total number of investment projects in Arab countries. When excluding the transfers of foreign oil companies, it is evident that Iraq still attracts foreign investments, but they do not fully meet Iraq's actual needs or match the volume of transferred funds as shown in table( 2) and figure (1 ).

Figure (1):- Inward and outward Foreign Direct Investment flows from Iraq (2010-2022) Million Dollars.



Scour: Table 2

**This discrepancy is attributed to:**

1. Transfers made by foreign companies operating in the oil sector on profits and funds spent on development operations have fluctuated over the years. In 2014, these transfers increased from \$286 million to \$16,851 million. However, due to the decline in global oil prices, they decreased to \$9,443 million in 2016. The transfers then increased to \$10,484 million in 2019, but decreased to \$7,760 million in 2020 due to the outbreak of the Corona pandemic, the decline in global demand for oil, and the deterioration of global oil prices.
2. The government postponed the payment of companies' dues due to the government's need for funds to finance operations to liberate the lands occupied by terrorist organizations, then increased to \$10,484 million in 2019, then decreased to \$7,760 million in 2020 due to the global economic and health crisis.
3. Reverse migration of foreign and local investments as a result of the poor security situation in most Iraqi cities, which reached (10,176) million dollars in 2014, in addition to the migration of national capital from Iraq to other countries, which amounted to (2,930) million dollars for the period 2008-2022. - The withdrawal of major international companies from important and guaranteed investments in Iraq, such as the withdrawal of Shell from three projects to invest in oil fields and the Nebras petrochemical project in February 2023, under the pretext of shifting its activities to invest in clean and renewable energy.

During the period from January 2013 to December 2017, foreign investments in Iraq were distributed among various sectors as per Table 3. The data shows that the oil and gas sector accounted for 68% of the total investments, followed by the real estate sector at 16%.

**Table (3):-** Distribution of investments among investment projects according to economic sectors For the period January 2013 and December 2017 (Million dollars).

	The productive sector	Investment size	%
1	Coal, oil & natural gas	13442	67.6
2	Real estate	3193	16.0
3	Construction & building materials	782	4.0
4	Hotels & tourism	685	3.4
5	Metals	667	3.3
6	Telecommunications	327	1.6
7	Financial services	317	1.6
8	Storage	294	1.5
9	Business services	117	0.6
10	Cars	84	0.4

Total	19908	100%
<b>Scour:</b> The Arab Investment & Export Credit Guarantee Corporation, Investment climate in Arab countries, investment attractiveness guarantee index 2018, Kuwait, P70		

### Third: The role and importance of Iraq's sovereign ratings in attracting foreign investment:

The sovereign credit rating or solvency or worthiness is an independent assessment issued by specialized international agencies that evaluates the economic and political environment of the country and its creditworthiness, giving markets and investors their vision of the level of various risks associated with investment transactions and international trade with that country and the possibility of exposure to losses as a result of the realization of specific risks, in addition to assessing the extent of the country's ability to fulfill its financial obligations on time in full, as it provides a common and transparent global language for investors and other market participants, companies and governments that become an important part of decision-making processes at all levels. (The Arab Investment & Export Credit Guarantee Corporation, 2023)

Iraq's rating in the most important indicators that measure the investment climate for the year 2022 was negative for all global indicators: Fitch, Moody's, Standard & Poor's, the Political Risk Group (PRS), the Credino country risk index related to commercial transactions, and the Coface assessment of direct investment risks. Iraq's credit rating by Fitch and Standard & Poor's remained at B- with a stable outlook since 2015 (epub.prsgroup.com), while Iraq's rating at Moody's was Caal stable since 2017 and only got 23 points out of 100 for these ratings (tradingeconomics.com). "Iraq's most significant ratings in global indicators included:"

#### A- Iraq's rating in the Fitch Index for 2022

The Fitch Index measures country risk (CRI) and the relative strength of the policies of 201 countries around the world and the extent of their vulnerability to shocks across three dimensions: economic, political, and operational risks. The index classifies country risks with a composite score from zero for the highest risk score to 100 for the lowest risk score. The Fitch Index comprises several key indicators for sub-risks, including long-term political risks that assess governance characteristics, societal characteristics, state scope, and political process continuity. Additionally, the Short-Term Political Risk Index (STPRI) evaluates political risks related to investment climate stability based on indicators that focus on the policy-making process, social stability, security, external threats, and political process continuity.. As for short-term and long-term economic risks, the Short-Term Economic Risk Index (STPRI) identifies current vulnerabilities by assessing the status of economic growth, monetary policy, fiscal policy, and external factors, as well as the performance of financial markets in the short term.

The Long-term Economic Risk Index (LTERI) assesses vulnerabilities by evaluating long-term economic growth, monetary and fiscal policy, external factors, financial markets, and structural characteristics. The Operational Risk Index measures the quality of the business environment in the labor market, trade, investment, logistics, crime, and security. Investors consider these factors important when deciding where to invest their money in different countries. Certainly! "In the case of Iraq," the indicators were not encouraging and showed high risks, especially political risks, which impact investment. In 2022, Iraq's ranking in the Operational Risk Index was 158 out of 201 countries with a score of 35.3 out of 100, which increased to 37.4 in 2023. The political risk indicators for the long and short term were 182 and 183, respectively. Short-term political risks increased from 35.8 points in 2022 to 40.0 points in 2023. For Iraq, the long-term economic risk index ranking was 120, and the short-term economic risk index ranking was 61. However, the score for short-term economic risks decreased from 59.8 in 2022 to 55.4 in 2023. This assessment impacted Iraq's credit rating, which obtained a B- with a stable outlook.

**Table (4):-Global Rank of Iraq in Fitch Country Risk Index 2021- 2022.**

Indicator	2021	2022	Des 2022	Des 2023
Sovereign Ratings of	B-	B-	B-	B-
Operational Risks	159	158	35.3	37.4
Long Term Economic Risks	130	120		
Short Term Economic Risks	69	61	59.8	55.4
Long Term Political Risks	180	182		
Short Term Political Risks	186	183	35.8	40.0
Composite Index 2022	172	167	42.0	42.8

Number of Countries	200	201	202	202
Source: <a href="https://www.fitchratings.com/research/sovereigns/sovereign-data-comparator-june-2024-pdf-27-06-2024">https://www.fitchratings.com/research/sovereigns/sovereign-data-comparator-june-2024-pdf-27-06-2024</a>				

### B. Evaluating Iraq in Political Risk Group (PRS) index:

Iraq's assessment is included in the Political Risk Group (PRS) index, which covers 141 countries and is based on three main indicators. The first indicator, the political risk index, accounts for 50% of the overall index and is calculated based on sub-indicators such as government stability, military involvement in politics, social and economic conditions, religious tensions, investment status, rule of law and order, internal conflict, ethnic tensions, external conflict, accountability and democracy, corruption, and bureaucracy. The economic risk index and financial risk index each contribute 25% to the overall index. After calculating the sub-indicators, a composite index is produced, ranging from zero to 100, and categorized into different risk levels. According to the risk index, countries are categorized based on their scores: very low-risk countries (80-100), low-risk countries (70-79.9), medium-risk countries (60-69.9), high-risk countries (50-59.9), and the most dangerous countries (0-49.9) (The PRS Group, 2018).

In 2022, Iraq's composite risk index score decreased from 70.5 to 61.3 in 2023, remaining within the category of low-risk countries. However, the political risk index placed Iraq in the high-risk category, with the index dropping from 52 in 2022 to 49.5 in 2023. This decrease was due to political instability and ongoing demonstrations demanding basic services.

Iraq is considered to have very low financial and economic risks but very high political risks. According to the Credino index of export and direct investment risks, Iraq received a very high-risk evaluation across all six indicators, including political and commercial risks, political violence, and currency transfer restrictions. Starting in 2023, Iraq faced strict measures from the US Federal Reserve, including restrictions on dollar transfers and external currency transactions, affecting its international trade. Additionally, 28 local banks and over 200 commercial companies were punished by the US for money laundering and terrorism financing. And dealing with sanctioned countries such as Iran (Hassan, 2024). Therefore, we find that Iraq obtained low ranks in this indicator, as shown in Table (5)

**Table (5):-** Global Rank of Iraq in Political Risk Group ( PRS) Risk Index 2022.

Indicator	2021	2022	Des 2022	Des 2023
Economic Risks Index	49	16	30.0	42.0 Very Low Risk
Financial Risks Index	40	4	43.0	47.0 Very Low Risk
Political Risks Index	119	120	52.0 High Risk	49.5 Very High Risk
Composite Index	95	61	70.5 Low Risk	61.3 Low Risk
Number of Countries	141	141	141	141
Source: <a href="https://epub.prsgroup.com/products/political-risk-services">https://epub.prsgroup.com/products/political-risk-services</a>				

**C- Iraq's evaluation in the Credino index** of export risks to the country and direct investment risks to it, which includes six indicators, the most important of which are the political and commercial risks index in the short and medium term in export transactions, the political violence index represented by confiscation of property and government procedures, and then the currency transfer restrictions index. Iraq's evaluation in all of these six indicators was among the very high-risk countries. For example, in the currency transfer restrictions index, Iraq has been suffering since the beginning of 2023 from strict measures by the US Federal Reserve to restrict the process of transferring the dollar to Iraq, as well as imposing strict restrictions on the process of transferring currency abroad to finance its commodity trade, in addition to punishing 28 local banks and more than 200 commercial companies from dealing in the US dollar and conducting external transfers on charges of money laundering, financing terrorism, and dealing with sanctioned countries such as Iran.(Hassan,2024). Therefore, we find that Iraq obtained low ranks in this indicator, as shown in Table (6).

<b>Table (6):-</b> Credendo Iraq Export Risk & Investment Risk Index.		
Risk Index	Des 2022	Des 2024
Iraq in Cerdendo Short Term Political Risk Index Concerning Export	6	7 Very High Risk

Transactions		
Iraq in Cerdendo Commercial Risk Index Concerning Export Transactions	C	C Very High Risk
Iraq in Cerdendo in the Business Environment Risk Index	G	G Very High Risk
Iraq in Credendo Expropriation and Government Action Risk Index Concerning Direct Investment	6	7 Very High Risk
Iraq in Credendo Rating in Currency Inconvertibility and Transfer Restriction Risk Index Concerning Direct Investments	6	7 Very High Risk
Iraq in Credendo Political Violence Risk Index Concerning Direct Investments	6	7 Very High Risk
Source: <a href="https://credendo.com/en/country-risk/iraq">https://credendo.com/en/country-risk/iraq</a>		

#### D- Evaluation of Iraq in other indicators:

Iraq's evaluation in other indicators: Iraq's evaluation in the Allianz Trad, Coface, OECD, NEXI, Dun & Bradstreet, and Atrdius business risk indicators was not better than the previous evaluations, but all indicators indicated the high risks that Iraq obtained, as shown in Table 7.

<b>Table (7):-</b> Iraq's assessment in AlianzTrad, Coface, OCED, NEXI, Dun& Bradstreet, Atrdius.		
Risk Index	Des 2022	Des 2024
Iraq in Allianz Trade Risk Assessment in Medium Term	D	D High Risk
Iraq in Allianz Trade Risk Assessment in Short Term	4 High Risk	4 High Risk
Iraq in Coface Country Risk Index	E Very difficult business climate	E
Iraq in Coface Country Index for Business Climate Assessment	E	E
Iraq in OCED Country Risk Index in Commercial Transaction	7 Very High Risk	7
Iraq in NEXI Japanese Risk Index for Trade	H Very High Risk	H
Iraq in Dun& Bradstreet Country Risk Rating	6 High Risk	6
Iraq in Atrdius Country Risk Index	Very High Risk	Very High Risk
Source: <a href="https://www.allianz-trade.com/content/dam/onemarketing/aztrade/allianz-trade.com/en_gl/erd/map/country-map/2024/Q22024countryriskratings-EXT.pdf">https://www.allianz-trade.com/content/dam/onemarketing/aztrade/allianz-trade.com/en_gl/erd/map/country-map/2024/Q22024countryriskratings-EXT.pdf</a> <a href="https://www.coface.com/news-economy-and-insights">https://www.coface.com/news-economy-and-insights</a> <a href="https://www.nexi.go.jp/cover/en/index">https://www.nexi.go.jp/cover/en/index</a> <a href="https://public.tableau.com/app/profile/liz.nguyen4329/viz/CountryRiskRatings/DunBradstreetCountryRiskRatings">https://public.tableau.com/app/profile/liz.nguyen4329/viz/CountryRiskRatings/DunBradstreetCountryRiskRatings</a> <a href="https://group.atradius.com/publications/trading-briefs/risk-map.html">https://group.atradius.com/publications/trading-briefs/risk-map.html</a>		

#### Fourth: Corruption perception indicators and their importance in attracting investment to Iraq:

Corruption presents a significant challenge for investment in Iraq. Despite the country's substantial investment opportunities, corruption persists as a major hindrance. Foreign investors are likely to encounter various forms of corruption, including bribery, commissions given to companies associated with political leaders, and pressure to work with local partners with political connections to navigate bureaucratic obstacles. Reports from Transparency International revealed Iraq as one of the most corrupt countries in the world organizationshown in Table (8). The theft of \$2.5 billion in tax deposits in 2021 and 2022, carried out with official involvement and collusion with government employees, underscores the pervasive corruption in the country half of which was smuggled out of the country and in an official manner through the currency sales window at the Central Bank of Iraq . As a result, the US Federal Reserve imposed economic sanctions on the Iraqi banking sector and 28 banks were penalized from dealing in US dollars ([www.alhurra.com](http://www.alhurra.com)). Which led to a weak investment climate and a decline in the role and contribution of the local private sector in reconstruction and contribution to rebuilding the national economy? Therefore, the continued growth of the phenomenon of corruption in Iraq led to the reluctance of many of those who continued to enter the Iraqi market, despite the fact that Iraq is a promising investment environment and a large consumer market.(Almashhadani,2023)



**Table (8):-Iraq's ranking in the Corruption Perceptions Index at the global level.**

Year	Number of Countries in the index	Iraq ranking	Transparency index ratio %
2013	177	171	16%
2014	174	170	16%
2015	176	161	16%
2016	176	166	17%
2017	180	169	18.5%
2018	180	168	20%
2019	180	162	20%
2020	180	160	21%
2021	180	157	23%
2022	180	157	23%
2023	180	154	23%

Source: [https://www.transparency.org/news/pressrelease\\_Corruption\\_Perceptions\\_Index](https://www.transparency.org/news/pressrelease_Corruption_Perceptions_Index)

**Fifth: Iraq's indicators in the business environment and their importance in attracting investment:**

Still Facing Investors in Iraq face extremely difficult challenges in resolving issues with Circles the Government of Iraq, including disputes related to procurement, receiving timely payments, and winning public tenders. Difficulties related to corruption, registration, customs regulations, irregular and high tax obligations, unclear visa and residence permit procedures, arbitrary application of regulations, lack of alternative dispute resolution mechanisms, electricity shortages, and lack of access to finance remain common complaints from companies operating in Iraq. Fluctuating and unevenly enforced regulations also create additional burdens for investors Table (9) shows that Iraq obtainedA low-level location does not encourage attracting foreign investments. According to the World Bank's 2020 Ease of Doing Business report, Iraq ranked 172 out of 190 countries, with a score of (44.7%) in 2020, which is similar to previous years in the Ease of Doing Business Index.

**Table (9):- Business Environment Indicators in Iraq 2017-2020.**

Indicator	2018				2020			
	Number of procedures	Time (Days)	Evaluation score	Iraq's rank in the index	Number of procedures	Time	Evaluation score	Iraq's rank in the index
Starting a Business	8.5	26.5	75.8	154	8	26	77.3	154
Dealing with construction permits	11	167	67.7	93	11	167	67.3	103
Getting Electricity	5	51	61.6	116	5	51	61.9	131
Registering Property	5	51	59.9	101	5	51	57.3	121
Getting Credit	-	-	0.0	186	-	-	0.0	186
Protecting Minority investors	-	-	46.7	124	-	-	46.0	111
Paying Taxes	15	39	63.5	129	15	39	63.5	131
Trading Across Borders			25.3	179	-	-	25.3	181
Enforcing Contracts		520	48.0	144		520	47.0	147
Resaving in solvency			0.0	168			44.7	172

Source: World Bank Grope, Doing Business 2018-2020, <https://archive.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-2020-Full-Report.pdf>

**Sixth: the political instability in Iraq has contributed to the weak attraction of foreign and local investments.**

The Global Peace and Security Index, prepared by the Institute for Economics and Peace in its annual reports, studies the state of global peace and security in (163) countries and consists of (24) indicators with scores ranging between (0.4) for countries that enjoy high levels of stability and security and (4.5) for countries with the worst levels of security and stability from the political stability indicators. Global-Peace-Index, 2018), Iraq was one of the dangerous countries, politically and security-wise unstable, and its position among the countries of the world did not improve throughout the period 2008-2023, but rather continued to decline year after year, as shown in Table (10).

**Table (10):- Iraq in the Global Peace & Security Index.**

Year	Number of Countries in the index	Iraq ranking	Iraq Peace Index
2008	138	138	3.370
2009	143	143	3.370
2010	148	148	3.500
2011	153	151	3.342
2012	158	155	3.227
2013	162	159	3.245
2014	162	159	3.377
2015	162	161	3.444
2016	163	161	3.570
2017	163	161	3.556
2018	163	160	3.408
2019	163	159	3.369
2020	163	161	3.487
2021	163	159	3.257
2022	163	154	3.006
2023	163	156	3.577
2024	163	152	3.045

Source: Global-Peace-Index-Report, Institute for Economics & Peace, Sydney, June 2018.-2024

In the 2024 report, Iraq's position in the global peace and security index remained relatively unchanged, ranking 156 out of 163 countries. In terms of the ongoing local and international conflict index, it ranked 142 with a score of 3.152. The militarization of society index decreased from 146 in 2021 to 141 in 2024. The economic cost of violence also decreased from \$82,010 million in 2023 to \$67,503 million in 2024, which accounts for about 10.57% of the gross domestic product, down from 15% in 2023 as shown in Table (11) This decrease could potentially be directed towards investment in various economic sectors, leading to economic restructuring and increased contribution to the GDP, resulting in job creation and reduced unemployment rates.

**Table (11):- Sub-Indicators of the Peace & Security index in Iraq 2021-2024.**

Indicators	2021		2023		2024	
	RANK	SCORE	RANK	SCORE	RANK	SCORE
Safety & Security domain	159	3.257	156	3.577	156	3.61
Ongoing Domestic & International Conflict domain	147	3.162	147	2.926	142	3.152
Militarisation Conflict domain	146	2.346	141	2.174	141	2.214
Economic Cost of Violence ( million US\$)	19	79,634	19	82,010	31	67,503
Per Capita affected by violence (US \$)		1,984		1,823		1,483
Economic cost of violence as a percentage of GDP		15%		14%		10.57%

Source: Global-Peace-Index-Report, Institute for Economics & Peace, Sydney, 2021-2024

**Seventh: Conclusion:-**

The report highlights the political environment as a critical factor in attracting foreign investments, emphasizing that political stability surpasses other economic factors in importance. The evaluation of global rating agencies indicated

a decline in political and security stability rates in Iraq, negatively impacting the investment climate. The country's annual budget approvals are being hampered by ongoing political conflict and security instability, which is hindering government spending on development projects. Additionally, corruption has become a widespread social issue. These factors, along with increasing rates of internal and external migration due to violence, terrorism, and law enforcement weaknesses, have led to influential individuals and political parties encroaching on allocated land for investment, preventing the issuance of investment licenses, and threatening investors.

All these factors and more have led to challenges for foreign investors in Iraq, such as bureaucratic obstacles, corruption, a weak banking sector, and a lack of banking services. The banking culture in Iraq has some issues, such as mismanagement of the banking system and complex procedures for attracting and retaining individual funds outside of the banking system. According to the Central Bank of Iraq, more than 93% of the issued currency, totaling around \$87 billion US dollars, is held by the public. This hinders the successful conclusion of investment deals. In order to enhance the local and foreign investment environment, it is vital to reinforce the rule of law, ensure state control over weapons, and offer adequate assurances to Iraqi and foreign investors to encourage them to invest and maintain their investments in Iraq. Foreign investments in Iraq are estimated to exceed \$300 billion, with a potential availability of \$30 billion if measures are implemented to safeguard them from corruption. It is also essential to strengthen oversight bodies such as the Integrity Commission and the Financial Supervision Bureau to combat corruption. Additionally, electronic applications should be used to streamline administrative procedures and minimize face-to-face interactions to reduce the risk of extortion and bribery.

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