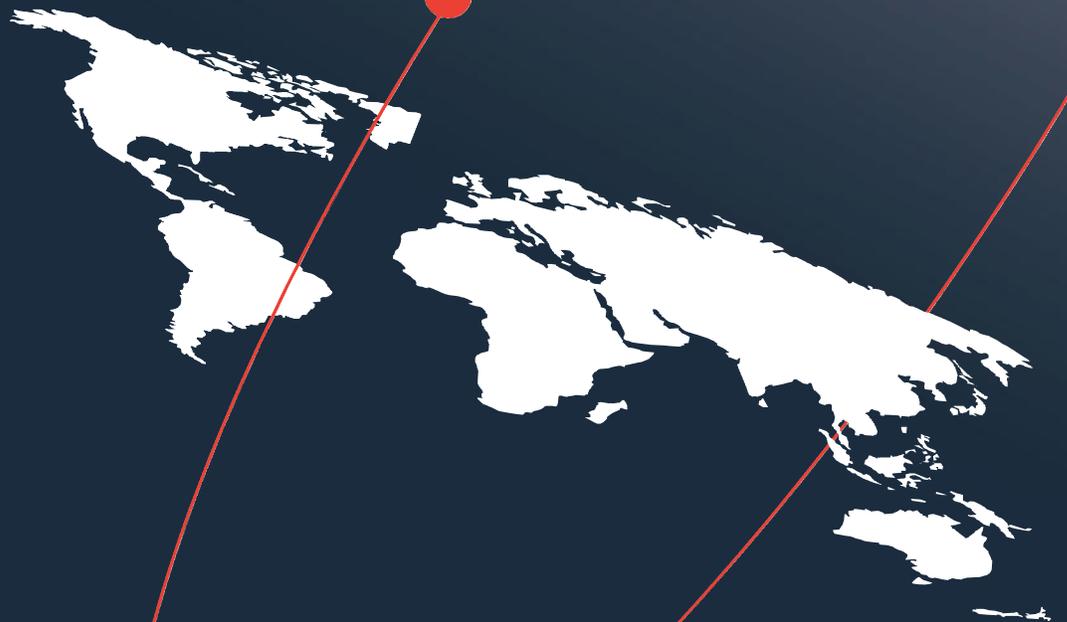


**B K R**  
INTERNATIONAL

Doing Business  
in Iraq/Kurdistan



# Doing Business in Iraq/Kurdistan

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## Preface

This information has been prepared to provide an overview of the business environment, forms of business entities, finance, taxation, and audit and accounting practices in Iraq/Kurdistan. It provides a broad summary of the prominent features of the topics discussed. This information is general in nature and should not be used as a substitute for detailed advice. Persons conducting, or planning to conduct, business in Iraq/Kurdistan are advised to obtain detailed information from experienced professionals.

This publication was written by **Abou Nasr & Associates** (Beirut) as of November 2013.



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# 1. General Information

## 1.1 Overview

	<b>Iraq</b>	<b>Kurdistan</b>
<b>Official Name</b>	Republic of Iraq	South Kurdistan
<b>Capital</b>	Baghdad	Erbil (Hewler)
<b>Total Area</b>	438,317 km <sup>2</sup>	40,643 km <sup>2</sup>
<b>Time Zone</b>	GMT + 3	GMT + 3
<b>Political System</b>	Federal Parliamentary Democracy	Parliamentary Democracy
<b>Languages</b>	Arabic And Kurdish	Arabic And Kurdish
<b>Religions</b>	Islam 95%	Islam
<b>Ethnic Groups</b>	Arabs 75%, Kurdish 20%, other 5%	
<b>Population</b>	32 Million	4.7 Million
<b>Urban Population</b>	66%	
<b>Population Growth</b>	2.345% (2012 est.)	
<b>Workforce</b>	8.9 Million	
<b>Literacy Rate</b>	82% for males and 64% for females	
<b>Calling Code</b>	+964	+964
<b>Currency</b>	Iraqi dinar	Iraqi dinar
<b>GDP</b>	155.4 Billion US Dollars	
<b>Imports/Exports</b>	Import \$ 56.89 Billion / Export \$88.27 Billion	
<b>Industries</b>	petroleum, chemicals, textiles, leather, construction materials, food processing, fertilizer, metal fabrication/processing	
<b>Legal System</b>	Mixed legal system of civil and Islamic law	
<b>Fiscal Year</b>	Calendar Year	Calendar Year
<b>Drives on the</b>	Right	Right
<b>ISO 3166 Code</b>	IQ	IQ
<b>Internet TLF</b>	.iq	.iq
<b>Land Boundaries</b>	3,650 Km	
<b>Coastline</b>	58 Km	
<b>Natural Hazards</b>	Dust Storms, Sand Storms, Floods	
<b>Medium Age</b>	Male 21. Female 21.2	
<b>Birth Rate</b>	28.19 births / 1,000 population	
<b>Death Rate</b>	4.73 deaths / 1,000 population	
<b>Major Cities</b>	Baghdad 5.751M, Mosul 1.447M, Erbil 1.009M, Basra 923K, As Sulaymaniah 836K	Erbil, Duhok As Sulaymaniah
<b>Sex Ratio</b>	1.05 Male / Female	
<b>Maternal Mortality</b>	63 Deaths / 100,000 live births	
<b>Infant Mortality Rate</b>	40.25 Deaths / 1,000 live births	
<b>Life Expectancy at birth</b>	70.85 years	
<b>Total Fertility Rate</b>	3.5 Children born / woman	
<b>Health Expenditures</b>	8.4% of GDP	
<b>Physicians Density</b>	0.69 physicians / 1,000 population	

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## 1.2 Geography

### 1.2.1 Iraq

The Republic of Iraq is located in the Middle East bordering the Arabian Gulf (58 km), between Kuwait (240 k), Iran (1,458 km), Jordan (181 km), Syria (605 km), Saudi Arabia (814 km) and Turkey (352 km).

Spanning 438,317 km<sup>2</sup>, (Land 437,367 km<sup>2</sup> and water 950 km<sup>2</sup>) it is the 58th-largest country in the world. Iraq mainly consists of desert, but near two major rivers.

The north of the country is mostly composed of mountains; the highest point being at 3,611m

### 1.2.2 Kurdistan

The Kurdistan Region is largely mountainous, with the highest point being a 3,611 m (11,847 ft) point known locally as Cheekah Dar (black tent). The mountains are part of the larger Zagros mountain range which is present in Iran as well.

There are many rivers flowing and running through mountains of the region making it distinguished by its fertile lands, plentiful water, and picturesque nature. The Great Zab and the Little Zab flow from the east to the west in the region. The Tigris River enters Iraq from the Kurdistan Region after flowing from Turkey.

The mountainous nature of Iraqi Kurdistan, the difference of temperatures in its various parts, and its wealth of waters, make Kurdistan a land of agriculture and tourism.

In addition to various minerals, oil in particular, which for a long time was being extracted via pipeline only in Kurdistan Region through Iraq. The largest lake in the region is Lake Dukan. In addition, there are several smaller lakes such as the Dohuk Lake.

In the western and southern parts of the Kurdistan Region, the area is not as mountainous as the east. It is rolling hills and sometimes plains that make up the area. The area however is greener than the rest of Iraq.

The term "Northern Iraq" is a bit of a geographical ambiguity in usage. "North" typically refers to the Kurdistan Region.

Center and South or "Center-South" when individually referring to the other areas of Iraq or the rest of the country that is not the Kurdistan Region

### 1.2.3 Disputed Areas

Disputed internal Kurdish-Iraqi boundaries have been a core concern for Arabs and Kurds, especially since US invasion and political restructuring in 2003. Kurds gained territory to the south of Iraqi Kurdistan after the US-led invasion in 2003 to regain what land they considered historically theirs. Currently, in addition to the three governorates of Iraqi Kurdistan, Kurds control parts of Ninawa, Kirkuk and Diyala governorates, which are also claimed by the Iraqi government; on the other hand, Iraqi government control parts of those three provinces which are also claimed by the Kurds.

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## **1.3 Climate**

### 1.3.1 Iraq/Kurdistan

Most of Iraq has a hot arid climate with subtropical influence. Summer temperatures average above 40°C (104°F) for most of the country and frequently exceed 48 °C (118.4°F). Winter temperatures infrequently exceed 21 °C (69.8 °F) with maxima roughly 15 to 19 °C (59 to 66.2°F) and night-time lows 2 to 5 °C (35.6 to 41 °F).

Typically precipitation is low; most places receive less than 250 mm (9.8 in) annually, with maximum rainfall occurring during the winter months. Rainfall during the summer is extremely rare, except in the far north of the country. The northern mountainous regions, along Iranian and Turkish borders, experience cold winters with occasional heavy snows, sometimes causing extensive flooding in central and southern.

## **1.4 Political System and Administration**

### 1.4.1 Iraq

The federal government of Iraq is defined under the current Constitution as a democratic, federal parliamentary Islamic republic. The federal government is composed of the executive, legislative, and judicial branches, as well as numerous independent commissions. Aside from the federal government, there are regions (made of one or more governorates), governorates, and districts within Iraq with jurisdiction over various matters as defined by law.

The Republic of Iraq is divided into 18 regional governments, or Mohafazat, namely: Al Anbar, Al Basrah, Al Muthanna, Al Qadisiyah, An Najaf, Arbil or Erbil (Arabic) Hewler (Kurdish), As Sulaymaniyah (Arabic) Slemani (Kurdish), Babil, Baghdad, Dahuk (Arabic), Dihok (Kurdish), Dhi Qar, Diyala, Karbala', Kirkuk, Maysan, Ninawa, Salah ad Din, Wasit.

### 1.4.2 Kurdistan

The Kurdistan Regional Government (KRG) is the official ruling body of the predominantly Kurds-populated Kurdistan Region in Northern Iraq. The KRG consists of a unicameral parliament with 111 seats known as the Iraqi Kurdistan Parliament (IKP).

The cabinet is selected by the majority party or list who also select the prime minister of the Kurdistan Region. The president of Kurdistan is directly elected by the electorate of the region and is the head of the cabinet and chief of state who delegates executive powers to the cabinet. The prime minister is traditionally the head of the legislature body but also shares executive powers with the president. The president of Kurdistan Region is also the commander-in-chief of the Peshmerga Armed Forces. Parliament creates and passes laws by a majority vote, and the president has the power to veto any bill.

## **1.5 Currency**

The dinar is the currency of Iraq (including Kurdistan). It is issued by the Central Bank of Iraq and is subdivided into 1,000 fils, although inflation has rendered the fils obsolete.

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## **1.6 International Relations**

### 1.6.1 Iraq

Iraq belongs to the following international organizations: Arab Fund for Economic and Social Development, Arab League, Arab Monetary Fund, Council of Arab Economic Unity, Customs Cooperation Council, Economic and Social Commission for Western Asia, G-77, International Atomic Energy Agency, International Monetary Fund, International Maritime Organization, Interpol, International Organization for Standardization, International Telecommunication Union, Non-Aligned Movement, Organization of Petroleum Exporting Countries, Organization of Arab Petroleum Exporting Countries, Organization of Islamic Cooperation, United Nations, Universal Postal Union, World Health Organization and World Bank.

Significant steps have been taken to restore Iraq's missions abroad since the April 2003 ban was lifted on all diplomatic and consular activities. Iraq now has diplomatic representation in 35 countries around the world, including 3 Permanent Missions to the United Nations in New York, the United Nations Commission on Human Rights in Geneva and the Arab League in Cairo. Thirty missions remain suspended.

### 1.6.2 Kurdistan

The Kurdistan Region is allowed to have oversight, to some degree, of its own foreign relations without referring to Baghdad.

Iraqi Kurdistan houses numerous consulates, embassy offices, trade offices and honorary consulates of countries that want to increase their influence and have better ties with the Kurdistan Regional Government. As of October 2010 there were 20 diplomatic representations in the Region, including Turkey.

The representative of the Kurdistan Regional Government to the United States is the youngest son of Iraqi president Jalal Talabani, Qubad Talabani.

The KRG's high representative to the United Kingdom is Bayan Sami Abdul-Rahman, daughter of Sami Abdul-Rahman who was killed in a terrorist attack on 1 February 2004

## **1.7 Economics**

### 1.7.1 Iraq

An improving security environment and foreign investment are helping to spur economic activity, particularly in the energy, construction, and retail sectors.

Broader economic development, long-term fiscal health, and sustained improvements in the overall standard of living still depend on the central government passing major policy reforms.

Iraq's largely state-run economy is dominated by the oil sector, which provides more than 90% of government revenue and 80% of foreign exchange earnings. Iraq in 2012 boosted oil exports to a 30-year high of 2.6 million barrels per day, a significant increase from Iraq's average of 2.2 million in 2011.

Government revenues increased as global oil prices remained persistently high for much of 2012. Iraq's contracts with major oil companies have the potential to further expand oil exports and revenues, but Iraq will need to make significant upgrades to its oil processing, pipeline, and

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export infrastructure to enable these deals to reach their economic potential.

Iraq is making slow progress enacting laws and developing the institutions needed to implement economic policy, and political reforms are still needed to assuage investors' concerns regarding the uncertain business climate, which may have been harmed by the November 2012 standoff between Baghdad and Erbil and the removal of the Central Bank Governor in October 2012.

The government of Iraq is eager to attract additional foreign direct investment, but it faces a number of obstacles including a tenuous political system and concerns about security and societal stability.

Rampant corruption, outdated infrastructure, insufficient essential services, skilled labor shortages, and antiquated commercial laws stifle investment and continue to constrain growth of private, nonoil sectors.

Iraq is considering a package of laws to establish a modern legal framework for the oil sector and a mechanism to equitably divide oil revenues within the nation, although these reforms are still under contentious and sporadic negotiation.

Under the Iraqi Constitution, some competencies relevant to the overall investment climate are either shared by the federal government and the regions or are devolved entirely to the regions.

Unemployment remains a problem throughout the country despite a bloated public sector. Encouraging private enterprise through deregulation would make it easier for Iraqi citizens and foreign investors to start new businesses. Rooting out corruption and implementing reforms - such as restructuring banks and developing the private sector - would be important steps in this direction.

### 1.7.2 Kurdistan

The Kurdistan region's economy is dominated by the oil industry (with potential reserves of around 45 billion barrels), agriculture and tourism. Due to relative peace in the region it has a more developed economy in comparison to other parts of Iraq.

Prior to the removal of Saddam Hussein, the Kurdistan Regional Government received approximately 13% of the revenues from Iraq's Oil-for-Food Program. By the time of the US invasion of Iraq in 2003, the program had disbursed \$8.35 billion to the KRG. Iraqi Kurdistan's food security allowed for substantially more of the funds to be spent on development projects than in the rest of Iraq. By the program's end in 2003 \$4 billion of the KRG's oil-for-food funds remained unspent.

Following the removal of Saddam Hussein's administration and the subsequent violence, the three provinces fully under the Kurdistan Regional Government's control were the only three in Iraq to be ranked "secure" by the US military. The relative security and stability of the region has allowed the KRG to sign a number of investment contracts with foreign companies. In 2006, the first new oil well since the invasion of Iraq was drilled in the Kurdistan region by the Norwegian energy company DNO. Initial indications are that the oil field contains at least 100 million barrels (16,000,000 m<sup>3</sup>) of oil and will be pumping 5,000 bbl/d (790 m<sup>3</sup>/d) by early 2007. The KRG has signed exploration agreements with several other oil companies, including Canada's Western Oil Sands and the UK's Sterling Energy and Gulf Keystone Petroleum.

The stability of the Kurdistan region has allowed it to achieve a higher level of development than

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other regions in Iraq. In 2004, the per capita income was 25% higher than in the rest of Iraq. The government continues to receive a portion of the revenue from Iraq's oil exports, and the government will soon implement a unified foreign investment law. The KRG also has plans to build a media city in Arbil and free trade zones near the borders of Turkey and Iran.

Since 2003, the stronger economy of Iraqi Kurdistan has attracted around 20,000 workers from other parts of Iraq. According to Iraqi president Jalal Talabani, since 2003 the number of millionaires in the Kurdish city of Silêmani has increased from 12 to 2000, reflecting the financial and economic growth of the region.

The Iraqi Kurdistan Region's (IKR) autonomous Kurdistan Regional Government (KRG) passed its own oil law in 2007, and has directly signed about 50 contracts to develop IKR energy reserves. The federal government has disputed the legal authority of the KRG to conclude most of these contracts, some of which are also in areas with unresolved administrative boundaries in dispute between the federal and regional government.

Investment in the IKR operates within the framework of the Kurdistan Region Investment Law (Law 4 of 2006) and the Kurdistan Board of Investment, which is designed to provide incentives to help economic development in areas under the authority of the KRG. Inflation has remained under control since 2006 as security improved. However, Iraqi leaders remain hard pressed to translate macroeconomic gains into an improved standard of living for the Iraqi populace.

Iraqi Kurdistan currently has the lowest poverty rates in Iraq. According to the KRG website, not a single coalition soldier has died nor a single foreigner been kidnapped since the 2003 invasion of Iraq in areas administered by the KRG.

## **1.8 Economic Sectors**

### **1.8.1 Iraq**

Since the lifting of UN sanctions in 2003, Iraq has been going through major reconstruction, with infrastructure, agriculture and oil sectors attracting the maximum investment. They have also emerged as the foundation for Iraq's trade.

The country's industrial sectors also leverage on the diverse natural resources and well-educated and trained population of Iraq.

Other major Iraq industry sectors include food processing, metal fabrication/processing, chemicals, textiles, leather and fertilizers.

The total workforce of Iraq as of 2008 was 8.175 Million.

### **1.8.2 Kurdistan**

Due to the devastation of the campaigns of the Iraqi army under Saddam Hussein and other former Iraqi regimes, the Kurdistan Region's infrastructure was never able to modernize.

After the 1991 safe-haven was established, the Kurdistan Regional Government began with projects to reconstruct the Kurdistan Region.

Since then, of all the 4,500 villages that were destroyed by Saddam Hussein's regime, 65% has been reconstructed by the KRG.

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Further, since the removal of the previous regime in 2003, the KRG has been able to scale up its service delivery and infrastructure, which has changed the economic landscape of the region and facilitated a number of investment projects.

## **1.9 Major Industries**

### 1.9.1 Oil

#### *Iraq*

Iraq's economy flourished on the oil industry until much of its oil reserves and pipeline were sabotaged during its war with Iran. It had Eight (8) oil refineries till 2004, as of 2009, oil industry stood at the following:

- Oil production: 2.42 Million BBL/Day;
- Oil consumption: 500,000 BBL/Day;
- Oil exports: 1.91 Million BBL/Day;
- Oil imports: 116,900 BBL/Day; and
- Oil proved reserves: 115 Billion BBL.

#### *Kurdistan*

The Kurdistan Oil and Gas Law was approved on August 6, 2007, by the Kurdistan National Assembly.

The Kurdistan Region Oil and Gas Law is consistent with the Iraq Constitution and requires the Kurdistan Region to share revenues with the Federal Government and other areas in Iraq.

In return, other regions share revenues with the Kurdistan Region. The Kurdistan Region receives 17% of all revenues from all oil production in all of Iraq.

The Kurdistan Regional Government's achievements include the completion of two refineries; a project to transfer reservoir gas to electricity thereby solving a substantial part of the Kurdistan Region's power needs; a constitutionally compliant Kurdistan Region Oil and Gas Law and a state-of-the art production sharing model contract for small blocks; three oil field discoveries so far, and more to come.

Currently, more than 30 foreign oil companies are working in the region.

The Kurdistan Region sits on vast oil resources, estimated at 43.7 billion barrels of proven oil and 25.5 billion barrels of potential reserves.

The region is capable of exporting over 100,000 barrels of oil per day.

Investment opportunities are vast, including: oil and gas drilling and production equipment; turbines, compressors and pumps for pipeline applications; measurement and process control equipment for pipeline applications; industrial automation, control and monitoring systems for refineries, gas processing and petrochemical plants; seismic processing and interpretation; petroleum software development; sulfur removal and disposal technologies; well stimulation; and field abandonment services.

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### 1.9.2 Agriculture

#### *Iraq*

Historically, Iraq had been blessed with abundant land and water resources leading to sumptuous agriculture production. However, the long ranging war in the country resulted in severe consequences in terms of low agriculture production.

The situation was worsened by the implementation of Oil-For-Food Program. A large portion of the population came to be dependent on imported food products government-financed food rations.

The situation has somewhat improved during the reconstruction phase. As of 2009, 9.6% of the country's total GDP came from agriculture with 21.6% of the workforce engaged in it. Major crops include wheat, barley, rice, vegetables, dates and cotton.

#### *Kurdistan*

Historical evidence points to the first domestication of sheep and goats as taking place in the Upper valleys of Mesopotamia which is now known as Kurdistan, revitalizing the Meat and Dairy industry will help Kurdistan live up to its historical roots.

Steps are being taken by the KRG to encourage former farmers to return to their rural areas by providing them with subsidies and grants to encourage them to once again return to farming and animal husbandry to help revitalize these sectors.

The Kurdistan region benefits facts:

- Arable land and fertile soil;
- Conducive climate;
- Strong human resources; and
- Plentiful water resources.

Need for modern technology and expertise also, agriculture will never lose its importance, the KRG is trying to protect agro-industries and also establish domestic food industries while protecting local products.

Steps to boost local production like: forestry, horticulture, plant and animal production, poultry products, animal husbandry, irrigation projects and research and development.

### 1.9.3 Energy

#### *Iraq*

Iraq's abundant oil resources were the backbone of its energy sector. Energy production costs were lower than many other countries. However, the war period from 1991 to 2003 severely impacted Iraq's energy production.

The Arabic Gulf War 1991 also destroyed almost 90% of the country's power generating and distributing systems. As of 2004, the demand for electricity (at 7,500 Megawatts) exceeded the country's power generating capacity (at 5,000 Megawatts).

Production gradually increased with the installation of new pipeline during the reconstruction period in 2007, hydrocarbon industries contributed 70% to the economy of Iraq and 95% of the government revenue. The status of the energy industry reads:

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- Electricity – production: 46.39 Billion Kwh;
  - Electricity – consumption: 52 Billion Kwh;
  - Electricity – electricity exports: 0 Kwh; and
  - Electricity – imports: 5.6 Billion Kwh.

#### *Kurdistan*

The Kurdistan Regional Government is increasing electrical energy output through foreign assistance and private investment projects and as a result, electricity capacity continues to grow.

The Kurdish provinces of Sulaymaniah, Erbil, and Basra are the highest rated provinces for supplying electricity in Iraq. The provinces meet anywhere from 83% to 99% of demand. The KRG also opened two new private plants and imports electricity from Iran and Turkey.

In 2009, the Dutch company Main wind BV installed two windmills in the Kurdistan Region to gather wind data, marking the first company to invest in wind energy in Iraq. The windmills are located in Karadaq and Haroota, and after evaluation, the Kurdish government will consider further windmill purchases.

The Dana Gas project in the Kurdistan Region supplies processes and transports natural gas to fuel local electricity generation, with the ultimate goal of supplying 300 million cubic feet per day. The project includes upstream development and production, processing with state-of-the-art LPG plants, and the transportation of natural gas through a new 180km pipeline.

The gas supplies power plants near Erbil and Sulaymaniah, which in turn provide 1,250 MW of electricity for over 4 million Iraqi citizens. The project also provides job opportunities for more than 2,000 Iraqi nationals and comprehensive training in oil & gas operations for Iraq's citizens.

The project is a part of "Kurdistan Gas City" – a major new gas-utilization industrial complex to be built over a 461 million square foot site, a joint venture between Dana Gas PJSC, the Middle East's first and largest regional private-sector natural gas company, and its partner Crescent Petroleum.

The project is designed to promote private sector investment in a variety of gas-related industries to further benefit the country's citizens through training, job creation, and to spark general economic activity.

In February 2010, GE signed a \$200 million contract to supply power generation equipment and services for two independent power projects in the Kurdistan region of Northern Iraq.

The two projects are designed to meet growing energy demands and advance the overall infrastructure in the area.

Located in the Dohuk and Sulaymaniah provinces of Kurdistan, both projects are being developed by Mass Global Investment Company, a developer of independent power plants.

#### 1.9.4 Construction

Iraq's construction potential has no bounds, in addition to building millions of new homes and repairing existing buildings, huge infrastructure renewal is required, mostly in the treatment and distribution of water, new sewer systems, roads, airports, rail systems and ports. Planned oilfield developments will also necessitate substantial investment in access roads, workers'

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accommodations, pipelines, storage and pumping stations. For the private sector there is major work stretching ahead for decades.

The development needs of Iraq run across the spectrum of construction projects; small to mega projects including new dams and considerable additional infrastructure.

Modern office buildings, industrial parks, new universities, sports stadiums, municipal buildings, port facilities, and regional development hubs are all part of the national development plans in Iraq.

There will be many prospects for pioneering innovation, where firms having access to new building technologies and design will be able to contribute to the rebuilding and development of Iraq's urban environment.

### 1.9.5 Housing

#### *Iraq*

Iraq is facing a serious housing shortfall due to High population growth rates and increasing urbanization as oil revenues and agricultural surpluses quicken the trend towards migration to the cities - especially Baghdad and Basrah.

Housing has become a major priority for the Iraqi people and will be a key driver of the construction boom with an estimated 85% of home building to be carried out by the private sector.

#### *Kurdistan*

The layout of housing in Kurdistan has transformed the face of major cities across the Region. Rapid changes since 2003, have witnessed copious architectural structures and large housing projects that have reshaped the landscape of its cities.

Certain aspects of Kurdistan's Development has fuelled the rise in the demand of housing, a booming economy, rates in economic growth in the region, relative safety in Kurdistan causing many citizens from surrounding areas of Kurdistan to move into the region. A rise in job opportunities from the creation of the housing projects along with ability to afford housing. The amount of international and local companies hiring from the local workforce has been on the rise.

One of the drivers of this economic growth in Kurdistan has been the construction boom that has been sweeping Kurdistan since the liberation of Iraq in 2003. This growth can be expected to expand to the central and southern sectors of Iraq once the security situation there becomes stable.

Facilitation of travel has also helped fuel economic growth in Kurdistan and the road system has been widened and improved, new highways have been built and Erbil International Airport will have a brand new terminal boasting one of the longest runways in the world.

78 housing projects in the region amounting around \$5.8 Billion, which is 42.9% of investment capital and 44.51% of investment land, distributed thus far making it the largest capital and land investment in any one sector in the region.

Healthy investment law has enabled this sector to flourish since 2003, the demand for such housing projects is phenomenal, and these houses provide 24 hours electricity, complete gas and irrigation systems along with 24 hours security which is vital for companies operating in Kurdistan making these projects both residentially and commercially attractive.

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With further investment, new projects can be implemented that provide higher standards of housing, successful developments such as American Village saw the cooperation of local companies with foreign investors, this collaboration creates a healthy and stable environment of investment for both the local and foreign investors.

#### 1.9.6 Transportation

Iraq's untapped natural wealth, decades of under-investment, and a neglected infrastructure create numerous investment opportunities within the transportation industry.

As for Kurdistan region transportation infrastructure along road and air links is well developed. Various plans to achieve these improvements are at an advanced stage. The government developed a national transport strategy to upgrade the country's infrastructure, and enable Kurdistan to capitalize on its natural geographical advantages.

##### *Roads and Highways*

###### *Iraq*

As with most countries, roads and bridges are a primary lifeline for economic growth. Iraq has more than 44,000 km of paved highways, as well as an extensive rural unpaved road system. The highway and bridge system provides the primary surface transportation links connecting Iraq to its neighbors and serves as a catalyst for economic growth.

An integrated road network supports tourism and connects the country's population centers to essential services, while promoting internal commerce.

Many of the roads and bridges on the national highway system were paved and constructed in the late 1970s and early 1980s and were designed with a 20 year lifespan. Much of this infrastructure is in need of extensive rehabilitation and replacement.

In addition, new population centers have emerged, creating the need for expansion of the highway system on a national level. With funding necessary to rehabilitate or replace paved roads estimated at \$1M USD per kilometer, current investment requirements in Iraq's road infrastructure for rehabilitation exceed \$40B USD.

###### *Kurdistan*

The region has developing road connection that connects all over the country, connecting Kurdistan with all its neighboring regions. It has functioning roads between all cities and town but is on the path to creating extensive inner city road systems that create easy flowing traffic, such as the 100m road in Erbil and other highways in respective cities.

Currently construction has begins to create two sided roads between all major towns and cities such as the road between Erbil and Koya, to create better transportation and networking routes for companies and individuals.

##### *Civil Aviation*

###### *Iraq*

Iraq's civil aviation sector is moving toward compliance with International Civil Aviation Standards as Iraqi Airways continues to rehabilitate its aging fleet.

The Iraqi Civil Aviation Authority (ICAA) seeks to transform Iraq's civil aviation system into a results-based, value-driven organization of aviation professionals dedicated to excellence on the ground and in the skies.

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The critical success factor for this excellence will be an environment that promotes compliance with International Civil Aviation Organization (ICAO) Standards and Recommended Practices (SARPS).

The global economy is increasingly integrated. A robust civil aviation system would provide Iraq with increased access to world markets and links between businesses throughout the world.

Aviation enables the movement of people and goods and functions as a cornerstone of economic growth. Whether it is employing people, moving goods, or moving people, aviation is critical to economic growth.

According to the International Air Transport Association, “investment in air transport capacity in developing or transition countries, where connectivity is currently relatively low, will have a much larger impact on their productivity and economic success than a similar level of investment in a relatively developed country.”

As a developing country, Iraq’s potential is bright in the aviation industry. Investment in Iraq’s aviation system offers many opportunities, including airport operations and management, concessions, security, air traffic control and technical infrastructure.

#### *Kurdistan*

**Erbil International Airport:** The airport just went under major construction in the region of USD 400 million were spent, the new airport has 16 gates and is capable of carrying the world’s largest aircrafts.

**Sulaymaniah International Airport:** A smaller airport but has constant flights to international destination, airport is used for cargo as well as individuals.

#### *Ports*

Maritime ports serve Iraq as the primary gateway for the import and export of goods and also provide an entry point for passengers. The ports of Iraq are owned and operated by the Government of Iraq. The MOT and the General Company for Ports (GCPI) of Iraq envision the ports of Iraq as the connection bridging the Far East and the West while serving as an economic catalyst and providing for the welfare of the people of Iraq.

The ports of Iraq strive to operate efficiently and effectively, using sound business practices and meeting standards defined by the International Maritime Organization. Iraq’s ports are strategic national assets that contribute to national security, economic development and political stability. GCPI owns and controls the Iraqi ports of Umm Qasr, Khor Al Zubair, Abu Fulus and Al-Maqal. The ports are spacious and adaptable to further expansion.

GCPI has systems and procedures in place, though improvements in operational efficiency and infrastructure investment are needed. The Iraqi work force is able to handle current operational demands, but would benefit from additional training on modern port operating practices and procedures. Existing port infrastructure can be improved upon and modernized to handle the current and future work load.

In addition, the Ministry of Transport is interested in developing new port infrastructure on the Al Faw peninsula, estimated to cost, if fully developed up to \$15 billion. Estimated current infrastructure investment needs in current port infrastructure range from \$250MUSD to \$500M USD.

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### *Railways*

The Iraqi Republic Railroad (IRR) is one of the main modes of surface transportation for the import and export of goods and efficient hauling of bulk commodities and passengers within the country. The IRR is owned and operated by the government.

Iraq is focused on the safe transport of containers, bulk commodities and passengers in a cost efficient and safe environment while maintaining safety and operating standards defined by the International Union of Railways.

The MOT and the IRR hope the railroad will serve as a primary surface transportation option, connecting customers in Europe, the Far East and the Gulf States while also serving as an economic growth catalyst. The IRR consists of 2,405 kilometers of track, 109 stations, 31 locomotives and 1,685 units of rolling stock.

Recent investments (\$40M USD) in a state-of-the-art computer based train control and microwave communication system are the beginning of a broad modernization program for the rail system. Iraq continues intermittent negotiations concerning the establishment of rail links with Turkey, Kuwait and Saudi Arabia to complete a continuous Euro-Gulf rail route.

Investment in supporting facilities such as inter-modal container terminals and corporatization of operations under a unified management contract continue to be areas of interest for Iraq's rail system.

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## 2. Doing Business in Iraq/Kurdistan

### 2.1 Market Overview

The World Bank and the International Monetary Fund (IMF) predict GDP will grow by 12% in 2012 and 10% in 2013, driven primarily by rising oil production and higher oil prices over the forecast period. Economic growth will be buttressed by robust increases in government expenditures. Iraq's 2012 capital budget is up nearly 35% over the previous year, and with mounting pressure to provide basic services the government is expected to expend a larger proportion than this allocation.

Iraq's transition from a centrally-run economy to a more market-oriented one has been slow and uneven.

The World Bank's Doing Business survey ranks Iraq 164<sup>th</sup> of 182 economies evaluated.

According to Iraq's 2010-2014 National Development Plan, Iraq must mobilize \$186 billion in investment, create 3.5 million new jobs, and cut unemployment by half from 15 percent. Priority sectors include oil, electricity, agriculture, transportation, telecom, education, health care, construction, and the industrial sector.

Non-oil sector growth will be dependent on the reconstruction and development of decrepit infrastructure throughout the country. Improving electricity generation capacity, which currently stands at around 60% of estimated demand, is critical to non-oil sector growth.

### 2.2 Market Challenges

**Intellectual Property Protection:** IPR functions are spread across several ministries. For example, the patent registry and industrial design registry remain a part of the Ministry of Planning's Central Organization on Standards and Quality Control; copyrights are controlled by the Ministry of Culture and trademarks by the Ministry of Industry and Minerals.

Iraq is a member of the Paris Convention for the Protection of Industrial Property, the World Intellectual Property Organizations Convention, and the Arab Agreement for the Protection of Copyrights and the Arab Intellectual Property Rights Treaty.

Enforcement of intellectual property rights is difficult to achieve, however. There is widespread availability of counterfeit products in consumer goods and electronics, among others.

The Iraqi Government is committed to stopping counterfeit products due to consumer safety reasons.

In July 2011, the government implemented a new precertification requirement for most imported product categories. Products arriving at Iraqi ports are required to have a certificate of conformity issued by Bureau VERITAS at countries of origin.

**Corruption:** Iraq is ranked as the eighth most corrupt country in the world according to Transparency International. Problems in Iraq include bribery of public officials, kickbacks in

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public procurement, embezzlement of public funds, and the effectiveness of public sector anti-corruption efforts.

**Security:** While the 2012 security environment is markedly better than previous years in Iraq, violent acts against Iraqi people and institutions occur regularly. This continued violence slows economic development and discourages U.S. corporate security offices from approving travel to Iraq.

**Government Procurement:** The government's ability to tender projects is fundamentally weak. Across the board, there are institutional capacity issues with regard to due diligence, project award, approvals, implementation, financing and payment.

**Inflation** was not a major concern in Iraq in 2011, drifting slightly up to 5.5% in 2011 attributed to rising global commodity prices. The rate of inflation is not expected to change significantly in 2012.

**Commercial Disputes Settlements:** The enforcement of foreign arbitration awards for private sector disputes does not meet international standards. The Iraqi government is currently drafting an arbitration law based on UN International Commission on International Trade law relating to international commercial arbitration.

**Banking:** Iraq is developing the basic infrastructure needed for modern banking and financial markets. The Central Bank of Iraq (CBI) is the main financial regulatory agency for Iraq. There are 23 private sector banks, 11 Islamic Banks, and eight international banks operating in Iraq. Three state-owned banks, including the Rafidain, the Rasheed, and Trade Bank of Iraq (TBI), account for roughly 85 percent of Iraq's banking sector assets.

**Standards and Labeling:** The Ministry of Planning's Central Organization for Standards and Quality Control (COSQC) is charged with enforcing standards for imported products and acts as a consultant on quality control and standardization issues for government ministries and state-owned companies.

**Travel Advisories:** The security situation in the Iraqi Kurdistan Region (IKR), which includes the provinces of Sulaymaniah, Erbil, and Dohuk, has been more stable relative to the rest of Iraq in recent years, though threats remain.

## **2.3 Market Opportunities**

Iraq has vast infrastructure development needs. A Ministry of Planning study calls for \$186 billion on infrastructure, energy, education, health care, and agri-business projects for the five-year period from 2010 to 2014.

A third of the country's budget expenditure is earmarked for capital projects

The government has announced a national housing program to build one million new housing units. Agricultural development, education, and healthcare are also government priorities.

The Ministry of Higher Education and Scientific Research announced a new initiative to fund 10,000 graduate scholarships over two years for students from all provinces in Iraq, including students in the Iraqi Kurdistan Region.

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Over the next five to ten years, the total export value for the Iraqi defense market is estimated to be in the range of \$5 - \$10 billion.

With the departure of the US military, Iraq urgently needs to close its gaps in Intelligence, Surveillance, and Reconnaissance (ISR) capabilities.

The government's 2012 budget increases funding for the Ministry of Electricity (MOE) by 31%. Of the \$5.6 provided to the MOE, more than 70 percent is for capital investments. Iraq's goal is to increase power generation 33% by the end of 2012.

In the transport sector, the government has announced plans to develop several new railway lines by 2014 including cross-border links to Syria, Jordan, Kuwait, and Iran.

The government also plans to double Baghdad's airport capacity and build a number of new facilities, such as the Middle-Euphrates airport, to serve Karbala and Najaf. The government is planning to upgrade existing roads.

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### **3. Business Entities**

Foreign investors may establish completely foreign owned entities including subsidiaries. They may enter into joint venture agreements with domestic investors, acquire an existing investment or open branch offices.

Foreign investors are fully authorized to possess, use, transfer or dispose of their investment; and may manage or participate in managing a business organization. All funds as given below which are associated with the investment are transferable abroad:

- Shares, Profits or Dividends.
- Proceeds from the sale or disposal of an investment or a portion thereof.
- Interest, Royalty Payments, Management Fees, or any other Fees and Payments made under a contract and.
- Any other transfers approved by the Ministry of Trade.

#### **3.1 The Company in General**

The company is a contract binding two or more persons. Each person shall subscribe to the economic project by a quota of the capital or service in order to share the resulting profit or loss.

With the exception of the provisions of First Paragraph:

1. A company may be established by one natural person in accordance with the provisions of this law. Such a company will henceforth be referred to as a "sole owner enterprise."
2. A limited liability company may be formed with one owner in accordance with the provisions of this law.

Owners of capital in a company may not exercise their voting or other authority in the company to cause it to do or consent to acts that:

1. Harm or disadvantage the company to benefit themselves or those associated with them at the expense of other owners of the company.
2. Jeopardize the rights of creditors by causing withdrawal of capital or transfer of assets when insolvency is imminent or when prohibited by law.

The company shall acquire the corporate status in accordance with the provisions of this law.

#### **3.2 Types of Companies**

There are three types of companies that may be established, which are as follows:

- State Companies;
- Mixed Companies; and
- Private Companies.

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### 3.2.1 State Companies

State companies are government owned entities, registered with the Ministry of Trade.

### 3.2.2 Mixed Companies:

There are 2 types of Mixed Companies:

1. The mixed joint-stock company: shall be formed by not less than five persons, who will participate in it by owning shares through public subscription and will be responsible for the company's debts in so far as the nominal value of the shares to which they have subscribed.
2. The mixed limited liability company: shall be formed by no more than 25 natural or legal persons, who will subscribe to its shares and will be responsible for the company's debts in so far as the nominal value of the shares to which they have subscribed.

The mixed company shall be formed by the agreement between one or more persons from the state sector and one or more persons from outside this sector. The state sector's share in the mixed company's capital must not initially be less than 25 percent.

A mixed company may also be formed by two or more persons from the mixed sector. When the state sector's share falls below 25%, the company shall be treated as a private company.

The mixed company must have a unique name and must be registered with the Ministry of Trade. It must be competitive in its business operations as the Government will not compensate it any losses.

Most existing mixed companies are joint stock companies. The founders shall subscribe by not less than 30 percent and not more than 55 percent of its nominal capital and this must include the minimum 25 percent fixed for the state sector.

The remaining shares shall be offered for public subscription within 30 days from the date of the approval of the establishment of the company. The nominal value of the share shall be one Dinar.

### 3.2.3 Private Companies

There are 5 types of Private Companies:

1. The private joint-stock company: shall be formed by not less than five persons, who will participate in it by owning shares through public subscription and will be responsible for the company's debts in so far as the nominal value of the shares to which they have subscribed.
2. The private limited liability company: shall be formed by no more than 25 natural or juridical persons, who will subscribe to its shares and will be responsible for the company's debts in so far as the nominal value of the shares to which they have subscribed.
3. The joint liability company: shall be formed by not less than two and not more than 25 persons, each owning a quota of its capital. They shall jointly assume personal and unlimited responsibility for all of its obligations.
4. The sole owner enterprise: is a company formed by one person, who owns the one quota in it and assumes personal and unlimited responsibility for all of its obligations.
5. The simple company: shall consist of several partners, who are not less than two and not more than five and who have contributed shares to the capital. In such a company one or more may contribute services with the others offering funds.

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Companies engaging in any of the following activities must become joint-stock companies:

1. Insurance and re-insurance; and
2. Financial investment.

A juridical or natural person, foreign or domestic, has the right to acquire membership in the companies as founder, shareholder, or partner, unless such person is banned from such membership under the law, or due to a decision issued by a competent court or authorized governmental body.

The private company must have a unique name and must be registered with the Ministry of Trade.

The founders in the private joint-stock company shall subscribe by not less than 20 percent in its nominal capital.

The remaining shares shall be offered for public subscription within 30 days from the date of the approval of the establishment of the company. The nominal value of the share shall be one Dinar.

In the case of the joint-stock company and the limited liability company, the shareholder may transfer ownership of his/her shares to another shareholder or outsiders, while bearing in mind the following considerations:

- The lapse of at least one year since the establishment of the company;
- The distribution of dividends that are not less than five percent of the paid up nominal capital; and
- The shareholder from the private sector cannot transfer ownership of his or her shares:
  - If they are mortgaged, seized, or sequestered under a court decision;
  - If their certificate is lost and a replacement has not been issued;
  - If the shares to be transferred owe debts to the company; and
  - If the transferee is prohibited to own shares in the company under a law or a decision issued by a competent quarter.

### **3.3 General Rules**

The company's registered address shall be deemed the official address for correspondence and notification. The company must notify the Registrar about any change in the address within seven days of the change.

The company must state its full name and capital, with all its descriptions, in the head office, the branches if there are any, and the other businesses. These must also be printed on the letterheads, certificates, documents, and any statements that are issued by it. All these should be in Arabic. However, it is permissible to use a foreign language as an addition.

The company shall have a special seal with which to stamp its , businesses, correspondence, documents, certificates, and any other statements it issues. The stamp can only be used by an authorized person.

The company's contract is not considered valid until it has been endorsed by the Registrar in

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accordance with Article 19, except as otherwise provided in this law.

It is permissible to object to the decisions of the Registrar before the Minister of Trade within 30 days from the date of notification. The Minister's decision may be appealed as provided in article 24 of this law.

If the company members are less than what is stipulated in the law for its type, the number must be completed within 60 days from 52 the occurrence of the shortage. If this period expires and the Registrar does not grant a respite, the company must be transformed into a type that is permitted by the law.

The Registrar shall issue a special bulletin for the companies in which he will publish, at their expense, everything that pertains to their affairs in accordance with the provisions of this law.

The Ministry of Trade, in cooperation with the Ministry of Finance, the Financial Control Bureau, and the Planning Board, shall issue guidelines for the accounting system to be adopted by the companies and everything that pertains to their final accounts.

The minister of trade shall issue guidelines to facilitating the implementation of this law.

The Agency Registration Law No. 4 of 1999 shall be inapplicable to the registration of a company, and a company is not required to retain a commercial agent to register, though it may choose to do so. Furthermore, no certification of tax compliance or of the absence of tax delinquency shall be required for the registration of a company.

The Minister of Trade is hereby authorized to issue instructions to coordinate the activities of the Registrar of Companies and the Chamber of Commerce regarding the registration and approval of commercial trade names, notwithstanding anything to the contrary in The Law on Establishment of Chambers of Commerce No. 43 of 1989.

The fees for the paperwork pertaining to this law shall be charged in accordance with the chart attached to this law. The Ministry of Trade may amend the chart in accordance with changes in costs and to align the fees with processing costs.

### **3.4 Temporary Rules**

Within 90 days from the enforcement of this law, the economic projects stipulated in Article 10 of this law must take the form of a company. The competent sectorial quarters shall supply the Registrar with their lists of the registered economic projects that are subject to this law in the period between the publication of the law and its enforcement.

The branches and offices of foreign companies and establishments shall be subject to the provisions of CPA Order No. 39 and regulations and administrative instructions issued there under.

The penalties stipulated in Articles 216, 217, 218, and 219 shall apply to these branches, offices, and their officials for any proven 53 offense.

The provisions on bankruptcy due to insolvency wherever they occur in this law shall apply until the promulgation of the law on insolvency.

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### **3.5 Penal Rules**

Any economic project that does not take the form of a company shall be punishable by a fine of 1,000 dinars for every day of delay after the grace period stipulated in Article 210 of this law.

The punishment stipulated in paragraph First of this Article shall apply to every company branch or office that must be re-registered or liquidated, for every day of delay after the periods stipulated in regulations and administrative instructions issued under CPA Order No. 39.

If three months of daily fines elapse without the parties mentioned in Article 210 of this law taking the necessary steps to change or rectify their conditions, the Registrar shall approach the competent sectoral quarter in order to take the appropriate measures against the defaulting party, while continuing to levy the daily fine on it.

Anyone carrying out a business in the name of a joint stock company, limited liability company, joint liability company, or sole owner enterprise without obtaining registration of its establishment shall be subject to a fine of not more than 3,000,000 dinars, while taking into consideration the severity of the violations and the provisions of paragraph First of Article 210 of this law.

Anyone carrying out a business in the name of a branch or an office for a foreign company or economic establishment without obtaining the registration required shall be subject to the penalties provided in paragraph First of this Article unless otherwise provided in applicable legislation.

Any company that does not prepare the records stipulated under this law shall be subject to a fine of not more than 10,000,000 dinars, depending on the severity of the violation.

Any company failing to submit the required statements and information to a competent official quarter at the times fixed under the provisions of this law shall be subject to punishment of a fine of not more than 300,000 dinars for every day of delay, depending on the severity of the violation.

Any company official who purposely gives inaccurate statements or information to an official quarter on the company's business, results of operations, financial condition, member shares and quotas, and distribution of dividends shall be subject to punishment of imprisonment for a period of not more than one year, or a fine of not more than 12,000,000 dinars, or both, depending on the severity of the violation.

Any company official who bars a competent quarter from seeing the company's records and documents shall be subject to punishment of imprisonment for a period of not more than six months or a fine of not more than 12,000,000 dinars, or both, depending on the severity of the violation.

### **3.6 Fee Chart**

First: As provided in regulations to be issued by the Minister of Trade, the Registrar of Companies shall charge a fee of 200,000 dinars for the registration of a joint stock company, and a fee of 20,000 dinars shall be payable for all other forms of company.

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Second: As provided in regulations to be issued by the Minister of Trade, the Registrar shall charge a fixed fee of 200,000 dinars for the registration of branch for a foreign company or economic establishment.

Third: The Minister or Trade shall publish regulations or schedules of such other fees as he or she may deem appropriate for other services provided by the Registrar of Companies.

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## 4. Banking and Investment System

Following the deposition of Saddam Hussein in the 2003 invasion of Iraq, the Iraqi Governing Council and the Office for Reconstruction and Humanitarian Assistance began printing more Saddam dinar notes as a stopgap measure to maintain the money supply until new currency could be introduced.

The Banking Law was issued September 19, 2003. The law brings Iraq's legal framework for banking in line with international standards, and seeks to promote confidence in the banking system by establishing a safe, sound, competitive and accessible banking system.

Between October 15, 2003 and January 15, 2004, the Coalition Provisional Authority issued new Iraqi dinar coins and notes, with the notes printed using modern anti-forgery techniques, to "create a single unified currency that is used throughout all of Iraq and will also make money more convenient to use in people's everyday lives. Old banknotes were exchanged for new at a one-to-one rate, except for the Swiss dinars, which were exchanged at a rate of 150 new dinars for one Swiss dinar.

The Central Bank of Iraq (CBI) was established as Iraq's independent central bank by the Central Bank of Iraq Law of March 6, 2004.

The bank is in charge of:

- Maintaining price stability;
- Implementing monetary policy (including exchange rate policies);
- Managing foreign reserves;
- Issuing and managing the currency; and
- Regulating the banking sector for promoting a competitive and stable financial system.

The bank's head office is located in Baghdad with four branches in Basrah, Mosul, Sulaimaniyah and Erbil.

### 4.1 Financial Sector

The Iraqi financial system is dominated by the banks. Total assets of the banking system according to official figures amounted to ID 329 trillion (equivalent to 318 percent of GDP), dwarfing the market capitalization of the stock market of only ID 3.5 trillion.

These numbers are inflated by the inclusion of large exchange rate valuation losses on the banks' balance sheets and staff estimates indicate that bank assets only amount to ID 70.1 trillion (73 percent of GDP).

More in line with this lower asset figure, credit extension by banks amounts to only ID 9.4 trillion (10 percent of GDP) and is very low by international standards. Nevertheless, bank credit by far exceeds the stock market as the principal outside source of funding for companies (other than self finance). There are no private bonds issued. The size of the insurance market is very small; no asset size is available.

There are currently 46 banks operating in Iraq including 7 state banks. The state banks account

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for the bulk of assets and credits. Two of these, Rafidain Bank and Rasheed Bank are undergoing protracted reform efforts, including attempts to clean up their balance sheet.

There are 36 private banks, most of which are relatively small. Seven of these have foreign participation and nine operate according to Islamic principles. While banking practices are improving, many banks provide only limited services. Credit is mainly short term and trade related. Several banks have questionable financial strength.

In addition, the financial sector includes the following companies, but is believed to be relatively small:

- The Postal Saving Fund accepts public deposits and reinvests them in various fields. It has 640 branches, spreading over the various provinces.
- Exchange Companies were established in the eighties and are supervised by the CBI. Their only activity is selling and purchasing of foreign currency inside Iraq and its minimum new capital is ID 150 million. They amount to 308 companies, mostly in Baghdad, and a few at other provinces. CBI approved to grant new licenses for companies that have been established by the Registrar of Companies from 2003 till now, and was based on the Board of Director's decision adopted in its meeting which was held on January 10, 2010.
- Financial Transfer Companies are non-banking financial institutions that work according to the instructions issued by the CBI No. 93 of 2008. They are 32 companies and they perform the transfer and receipt process of funds from inside and outside Iraq, via opening an account in Iraqi banks.
- Financial Investment Companies are companies, whose main activity is to direct savings into Iraqi financial securities, including shares, bonds, treasury bills and fixed deposits. They are organized by the Financial Investment Company System No. 5 of 1998. 9 such companies are listed on the ISX. Average market capitalization is only US\$ 1.5 million.
- Companies providing small and medium loans, these are one of the newest institutions operating in the market and their capital is specified to lie within ID1 billion for limited companies, and ID 2 billion for joint stock companies. They are organized by instruction No. 3 of 2010, issued by the FINANCIAL SECTOR OVERVIEW CBI and published in the Official Gazette of Iraq No. 4164 on 20/9/2010. There is only one company, which is the Iraqi Company for Short-term Loans and there are other smaller institutions, including the Zakat Fund (Alms Fund) and Minors Care Fund.

## **4.2 Banking Sector**

The Iraqi financial sector is still dominated by the banking system, accounting for more than 75 percent of the financial assets.

There are currently 46 banks—seven of which are state-owned. Private commercial banks are generally quite small and 20 have been established relatively recently, in the period following the second Gulf War (Appendix, Table 1).

Seven of the private banks have foreign participation. As of end- 2010, total assets of the system amounted to ID 329 trillion—ID 285 trillion (87 percent) and ID 13 trillion (4 percent), belonging to Rafidain Bank and Rasheed Bank respectively. Official figures indicate that private bank assets only amounted to 3 percent of total assets, but this understates the real picture.

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Total assets according to official figures are very large in relation to GDP when compared with the average for MENA countries (318 percent of GDP compared to 130 percent for the MENA average) however, as explained below, official numbers significantly overstate the real picture.

When looking at the banking system it is important to keep the general political/economic environment in mind. The difficult security situation imposes certain costs on banks (security, transport, and communication).

Moreover the legacy of prevailing state intervention has not yet been fully addressed. Full transition to a market oriented system is still a long way off, requiring liberalization of large parts of the real sector from state control. Both of these factors impact on the ability of banks to find creditworthy clients.

The comparison between state-owned and private banks is significantly skewed because the two large state-owned banks' balance sheets are inflated by public sector assets and liabilities accumulated under the previous regime, which has not yet been fully cleaned up.

#### 4.2.1 State-Owned Banks

The Government of Iraq has embarked in February 2009 on a two-phase Banking Sector Reform Strategy (2008-2012) with the support of the World Bank, with the objective of modernizing its banking system.

Financial sector work in Iraq has thus far focused on strengthening the two state-owned banks and on improving the overall regulatory framework.

The assessment of the state-owned banks is complicated by shortcomings of data; some data has been lost because of the conflict and the reliability of others is questionable. Little work has focused on enhancing the (small) private banks and the non-bank financial sector, and it is unclear to what extent the new regulatory framework has succeeded in enhancing the viability of financial institutions.

#### 4.2.2 Private Commercial Banks

The strength and business expertise of the 36 small private banks appears to be improving. However, the range of services provided by many of many of them is still limited, and the financial strength of a few of them is weak. Foreign banks have shown increasing interest in conducting business in Iraq. Seven banks have foreign participation, including a 70 percent share by HSBC in Bank of Dar el Salam. Nine banks operate according to Islamic principles. None of the private banks have country-wide branch networks, but many are increasing their networks. One bank has 61 branches; three banks have more than 30, and 9 banks between 10 and 20. In total, private banks have 383 branches, or roughly the same number as the state-owned banks.

The private banks compete on an unlevel playing field with the state-owned banks. State-owned enterprises and government agencies are not permitted to do business with the private banks, which is a major impediment to the development of a viable private banking sector. Government, government agencies, and state owned enterprises are not allowed to place deposits with private banks. Nor can state owned enterprises receive loans from private banks. Moreover, payments to the government (taxes and other payments) cannot be effected by check drawn on a private bank.

The large state-owned banks benefit from an implicit government guarantee on deposits. In contrast, depositors in the private banks are not protected. Discussions are under way among private banks to set up a self-funded deposit guarantee fund, but these do not appear to be at an

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advanced stage. Private Banks has very little access to the lucrative business of issuing letters of credit for imports by the government and state owned enterprises. Several banks are now able to issue such letters of credit.

The state-owned TBI was set up explicitly to handle trade finance and has a monopoly on issuing letters of credit to the government and State-owned enterprises. In principle, the TBI may delegate letters of credit of less than \$ 5 million to one of the private banks. In practice it does so only for LCs less than \$2 million. Procedures for doing so are not fully transparent.

A review of the web sites of private commercial banks indicate that they offer an increasingly wide range of services, In the area of business lending, banks generally offer trade financing, including letters of credit, guarantees, bills discounting, working capital and project lending, domestic and external settlements, and foreign exchange transactions. The bulk of loans are short term, although some banks offer project financing and several banks are granting SME financing at up to 3 years maturity. Also some Islamic banks provide funds of longer maturity. As private banks are relatively small they are not able to take on large projects as syndication of loans is not yet used.

Many banks have introduced, or are in the process of introducing, retail lending services. Retail loans offered by some, but not all, include car loans, appliance loans, vacation loans, and unspecified personal loans. A number of banks also offer real estate loans; most real estate funding, however, appear to be for construction of housing projects. So far only a few banks have issued credit cards and ATM cards. In spite of the increased sophistication, interviews with banks and market participants, as well as available statistics, indicate that the services of most banks are still generally rather limited, and that trade financing, foreign exchange dealings, and payments services continue to constitute the bulk of banking business. The amount of retail loans is relatively low, albeit growing fast from a very small base.

### **4.3 Acquisition of Real Estate by Foreigners**

The ownership of Government land depends on many factors. A large proportion of the land is owned by the Ministry of Finance but certain Ministries control certain types of land.

In this area, the roles of the Governorates and Municipalities are important and must be considered by the investor.

#### **4.3.1 Identifying Land**

Investors have several choices with respect to locating land for industrial and commercial projects in Iraq. Investors with industrial projects may lease land in government industrial estates and free zones.

Investors with non-industrial projects may lease land within a free zone, or government land outside the industrial estates via an auction process. Iraqi investors may purchase government land for non-industrial projects via an auction process.

Iraqi investors may purchase or lease property for non-industrial projects from the private property market.

While foreign investors may lease property for non-industrial projects from the state or private property market, ownership of private property is still not allowed except for housing projects as

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stated in Law No. 13 for 2006, Regulations No.2 for 2009, and Regulations No. 7 for 2010

#### 4.3.2 Government Land

##### *Leasing Government Land in Industrial Estates:*

No single agency manages Iraq's industrial estates. Instead, a number of ministries and government agencies play a role in the country's industrial estates.

- Ministry of Industry and Minerals (MoIM), through its Industrial Development Authority and General Establishment of Geological Exploration for Mining and Quarrying.
- Ministry of Labor and Social Affairs (MoLSA), through its Directorate of Labor and Social Security, which is responsible for industrial services projects.
- Amanat of Baghdad (Mayoralty) and governorate and municipal governments are responsible for utilities such as water and sewerage and licenses for site development within the country's industrial estates.

##### *Leasing Land in Government Free Zones*

Iraqi legislation treats free trade zones differently than industrial estates. The following legislation governs free trade zones in the country:

- Free Zone Law No. 3 of 1998;
- Instruction No. 4 of 1999 on the Administration of Free Zones; and
- Regulations of investors' activities in free zones.

Law No. 3, Article 1 identifies the General Commission of Free Zone Administration under the Ministry of Finance as the competent Free Zones Authority Instructions No. 4, 1999; Article 4(4) permits investment in Free Zones for industrial, commercial, and service projects.

##### *Leasing Government Land outside of Industrial Estates and Free Zones*

Investors covered by Investment Law No. 13 of 2006 shall enjoy the privilege of renting or leasing lands needed for the project for a period not to exceed (50) fifty years renewable, other investors not covered by the said Investment Law may lease government land outside of Iraq's industrial estates for residential, commercial, or agricultural purposes.

Law No. 32 of 1986, "The Law of Sale and Lease of State Properties," as amended governs the purchase or lease of this land. Iraqi and foreign investors may lease government land outside industrial estates

##### *Purchasing Government-Owned Land*

The government also sells land outside industrial estates through a public auction process. Since Iraqi law forbids foreigners from purchasing government land only Iraqi citizens have access to sale auctions.

The committee sets an auction date and advertises it in the relevant local newspaper. In the advertisement the committee describes the property, notes its assessed value, and indicates the auction day, time, and venue. The advertisement includes an explanation of participation procedures.

As with lease auctions, industrial zoned property is excluded from the sale auction process since industrial projects may only locate in Iraq's industrial estates.

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Purchasing or Leasing Land from the Private Property Market Iraqi investors have the right to buy and/or lease property from the private real estate market for residential, commercial, or agricultural use, while foreign investors may only lease property from the private real estate market.

Twenty percent of Iraqi land is in the private property market, the majority of it residential. According to current law, foreigners may lease property in the private market for a period not to exceed 50 years renewable. Iraq does not yet host large international real estate companies; however, there are numerous small real estate agents in the country.

#### **4.4 Foreign Direct Investment**

Iraq has changed. As normal life begins to resume, economic activity has revived. Demand for all types of goods and services are growing fast. The focus is on reconstruction as the government rebuilds essential infrastructure, from power and water utilities and transport infrastructure to residential housing. At the same time, the government is investing in the essential economic infrastructure; including oil fields and the mid- and downstream pipeline, petrochemical, and fuel distribution sectors.

Iraq presents a huge commercial opportunity across a broad range of sectors. After five years when security was the dominant issue in Iraq, the country has now entered a new, positive phase. As the Iraqi government and security forces have stepped up their capacity, the environment for trade and investment has transformed for the better.

Millions of Iraqis now have the freedom to live, to trade, to work and to travel. Security improvements are now substantial and tested. There have been notable improvements in the regulation of the business environment.

The private sector has grown more important and, for the first time in decades, Iraq is open to foreign investment. These factors combine to create opportunities for trade and investment on an unprecedented scale.

To attract foreign investment into Iraq, generous benefits, guarantees and exemptions have been set out in Iraqi investment laws. Qualifying investments are eligible to:

- Receive 10 years exemption from taxes;
- Repatriate investment and profits from investments;
- The right to employ foreign workers when needed;
- Obtain three years exemption from import fees for required equipment; and
- The guarantee that the government will not nationalize or confiscate investments.

#### **4.5 Bilateral Investment Agreements**

Iraq is a signatory to some form of investor protection agreement or memorandum of understanding with thirty-five bilateral partners and nine multilateral groupings. However, none of the agreements is as all encompassing as a U.S. Bilateral Investment Treaty (BIT). The agreements include arrangements on Investments Promotion and Protection (IPPA) within the Arab League, as well as arrangements with Afghanistan, Bangladesh, India, Iran, Japan, Jordan,

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Kuwait, Germany, Mauritania, Republic of Korea, Sri Lanka, Syria, Tunisia, Turkey, the United Kingdom, Vietnam, and Yemen.

In 2010, Iraq concluded BITs with France, Germany and Italy, although these treaties are still awaiting ratification by the Iraqi Council of Representatives. These agreements include general provisions on promoting and protecting investments, including clauses on profit repatriation, access to arbitration and dispute settlements, fair expropriation rules and compensation for losses. However, the Iraqi government's ability and willingness to enforce them remains unknown.

In addition, Iraq has bilateral free trade area (FTA) agreements with the following eleven countries: Algeria, Egypt, Jordan, Lebanon, Oman, Qatar, Sudan, Syria, Tunisia, Yemen, and the United Arab Emirates. Iraq is also a signatory to several multilateral agreements, including the "Taysir" agreement with Arab countries.

On July 11, 2005, Iraq and the United States signed a Trade and Investment Framework Agreement (TIFA) as a first step toward increasing trade and investment cooperation between the two countries. The Iraqi Parliament has yet to ratify this agreement.

#### **4.6 Foreign-Trade Zones/Free Ports**

The Free Zone Authority Law No. 3/1998 (FZL) permitted investment in Free Zones (FZ) through industrial, commercial, and service projects. This law operates under the Instructions for Free Zone Management and the Regulation of Investors' Business No. 4/1999 and is implemented by the Free Zones Commission in the Ministry of Finance.

Under the law, capital, profits, and investment income from projects in an FZ are exempt from all taxes and fees throughout the life of the project, including in the foundation and construction phases. Goods entering into Iraqi commerce from FZs are subject to Iraq's five percent tariff; no duty is levied on exports from FZs.

Activities permitted in Free Zones include:

- Industrial activities such as assembly, installation, sorting, and refilling processes;
- Storage, re-export and trading operations;
- Service and storage projects and transport of all kinds;
- Banking, insurance and reinsurance activities; and
- Supplementary, auxiliary professional and service activities.

Prohibited activities include actions disallowed by other laws in force, such as weapons manufacture, environmentally polluting industries and those banned because of place of origin.

Four geographic areas are currently designated as Free Zones. The Basrah/Khor al-Zubair Free Zone is located 40 miles southwest of Basrah on the Arab Gulf at the Khor al-Zubair seaport. This area has been operational since June 2004. The Ninewa/Falafel Free Zone is located in the north, near roads and railways that reach Turkey, Syria, Jordan and the Basrah ports. The Al-Qa'im Free Zone is on the Iraqi-Syrian border. Although it is not currently operational, there is a project to rehabilitate it to its pre-2003 state. An undeveloped zone in Fallujah is in the planning stages.

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In the Kurdish area, a separate zone is being developed in Sulaymaniyah, to be led by private master developers. Two other zones are in the discussion stage in the region: Erbil and Zakho. However, none of these areas is operating as a significant focal point for investment or trade, and only the Ninewa/Falafel zone has businesses operating in it.

The Free Zone Commission lacks capacity and is further inhibited by its being placed under the Ministry of Finance, which lacks specific focus on developing the FTZs.

#### **4.7 Competition from State-Owned Enterprises**

The Iraqi government currently operates over 176 state-owned enterprises (SOEs), a legacy of the central planning system of Iraq's former regime. These firms employ over 700,000 Iraqis, many of whom are underutilized. As a result of years of sanctions and war, most of these SOEs suffer from underinvestment or damage.

Many of them are non-viable, although some have adapted and are producing goods—some with foreign partners. Many goods in Iraq, ranging from foodstuffs to apparel to light-industrial products, are imported—a result of both the poor state of Iraq's industrial base and the opening of Iraq's borders in 2003.

The GOI proposed an increase in import tariffs in 2010, scheduled for June 1, 2012, that would provide tariff protection for some SOEs. In addition, the 2012 budget requires the government to purchase goods and services from SOEs even when imported goods or locally produced goods would be cheaper.

In 2010, Prime Minister Maliki approved a policy to corporatize Iraq's SOEs, based on a "Road Map" derived from international best-practices. This program, which is likely to unfold over a period of up to ten years, is designed to help SOEs develop business and investment plans and operate on a more commercial basis.

In addition to being a significant economic reform, this program, over the long term, may open additional opportunities for foreign investors. A handful of Iraqi SOEs already have foreign investors as partners; this number is expected to grow in the coming years.

The degree to which SOEs compete with private companies depends on the sector. For example, the Ministry of Communications has sought for many years to create a fourth, state-owned mobile operating company, to compete with the three existing private mobile operators.

However, the Ministry of Electricity, in response to Iraq's chronic power shortages, initiated in 2010 a policy of tendering independent power producer projects (IPPs), privately-owned power generating companies which will contribute to Iraq's electricity grid along with the existing state-owned companies. The IPP initiative has the potential to attract significant investment.

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## 5. Taxation

This section deals with taxation for projects not governed by Investment Law No. 13 for 2006 and Industrial Investment Law for Private and Mixed Sectors No. 20 for 1998 as amended. Investment projects governed by the said laws are exempt from payment of taxes for several years mentioned in the said laws.

There are four types of taxes in Iraq: corporation tax; personal income tax; real estate tax; and leased land tax. All taxes due are a legally binding obligation on the taxpayer. The tax assessment and payment process is usually initiated by the tax liable individual reporting his income during the proceeding year on pre-printed returns to the taxation department in the area where his work or business activity is located.

### 5.1 Registration to Pay Taxes

Companies are issued a taxpayer ID number upon being licensed by the Office of Companies Registration. Companies receive a separate tax ID number for each tax. Tax registration normally must occur within one month of starting operations. Taxes are due three months after the close of the fiscal year.

### 5.2 Sources of Taxable Income

Tax shall be imposed on the following sources of income:

- Profits from commercial activity or from activity having a commercial nature, vocations and professions, including contracts, undertakings and compensation for non-fulfillment thereof if not for making good a loss sustained by the taxpayer;
- Interest, commissions, discount and profit arising from trading in bonds and securities;
- Rentals of agricultural land;
- Profits arising from transfer of ownership or usufruct of immovable property, even only once, by any mean whatsoever of acquiring ownership or usufruct or transfer thereof, such as sale, exchange, compromise, renunciation, donation, partition, liquidation of waqfs, and long-leases;
- Salaries, pensions, bonuses, wages for specified work in a limited period of time, allowances for workers including payments in cash or allowances for the taxpayer against his services, such as housing, food and accommodation; and
- Any other source not exempted by law and not liable to any tax in Iraq, provided that dividends, notwithstanding what is contained in this Article, are not income liable to tax if a company has deducted or is entitled to deduct tax. However, distributed dividends by Limited Liability Companies which are not exempted by the Law of Promoting and Organizing Industrial Investment must be taken into consideration as a base to determine the graduated tax rates applicable on other income.

### 5.3 Exemptions

The following income shall be exempted from tax:

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- Agricultural income arising to cultivators and cattle breeders from agricultural and animal products, including cattle breeding;
  - Real estate income which is subject to Real Estate Tax Law;
  - Income of Al-Awqaf, places of worship, religious institutions, which are legally recognized, charitable and educational establishments formed for the public interest, if such income has not arisen from a vocation, profession, or trade;
  - Salaries and allowances paid by foreign diplomatic delegations to their diplomatic officials, whereas payments to their non-diplomatic officials who are not Iraqi may be exempted by decision of the Council of Ministers, provided there is reciprocal treatment;
  - Income of pensioners or the children thereof arising from the following sources:
    - Pension salary;
    - Pension bonus;
    - End-of-service indemnity; and
    - Salaries for annual leave;
  - Salaries and allowances paid by the United Nations from its own budget to its officials and employee;
  - Profits of establishments and enterprises, including municipalities and Local Government, of the socialist sector;
  - Any lump-sum paid as remuneration or compensation to the family of a deceased person or any compensation paid to the taxpayer for injury or death;
  - Any income exempted from tax by a special law or an international agreement;
  - Income of owners or lessees of means of marine transport provided, if these means of transport are used for oil transport;
  - Income of cooperative societies;
  - Income of DeLuxe and First Class hotels erected in Baghdad, during their construction and within the first 5 years of business. Similar hotels erected outside the City of Baghdad the exemption period is 7 years from the state of business, provided that places attached to those hotels and which are not connected to the hotel business, such as shops and show-rooms, shall not benefit from the exemption, whether these places are leased by the hotel owner or exploited by him directly;
  - Commissions arising in Iraq for local banks correspondents abroad which exempt Iraqi banks from tax on commissions arising for them in their countries, upon confirmation of the competent Iraqi Bank;
  - Income of individuals arising from interest on their deposits and accounts in Iraqi banks and savings funds;
  - Income of aviation organizations, wholly or partly, by decision of the Minister, provided reciprocal treatment and the existence of an air route or interest to Iraq in the country to which such organizations belong;
  - Income of Arab and International Organizations working in Iraq in respect of their deposits and accounts in Iraqi banks and savings funds, whether these deposits are kept in Iraqi currency or in foreign currencies;
  - Incentive rewards granted by the Government to citizens;
  - Profit arising to the taxpayer from poultry farms which he owns or manages;
  - Amounts paid by the government or socialist sector for writing, translation, copyright or typing assistance;
  - Surrender of share transactions, which take place among the martyr's inheritors, who eventually own the dwelling house or apartment for dwelling or piece of

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- residential land, which has been given to the martyr's family;
  - Income of non-Iraqi owners of land transport with agreements with the General Establishment for the transport of oil and gas into and out of Iraq;
  - Amounts due to Iraqi beneficiaries as a result of expropriation of real estate and the rights of usufruct and its other original material rights regardless of its kind or category, whether this was called expropriation, compulsory purchase, replacement or write off, or any other similar expression;
  - Donation to public institutions and charitable, cooperative, cultural, and scientific associations;
  - Bakeries which produce bread of the weight 120 gm. And 165 gm. respectively after being baked; and
  - Children's day nurseries.

Supplementary exemptions added by Section 5 of CPA Order 49:

- The CPA, Coalition Forces, forces of countries acting in coordination with Coalition Forces, and departments and agencies of Coalition Forces' governments, are not liable for any tax or similar charge within the territory of Iraq.
- Governments and international organizations are not liable for any tax or similar charge within the territory of Iraq.
- Foreign (non-Iraqi) employees and foreign (non-Iraqi) contractors and subcontractors of the CPA, Coalition Forces, forces of countries acting in coordination with Coalition Forces, and departments and agencies of Coalition Forces' governments, that are providing technical, financial, logistical, administrative or other assistance to Iraq, and foreign employees of such contractors and subcontractors, shall not be liable to pay any tax on income or similar charge within the territory of Iraq on income from foreign sources or on income from or paid on behalf of the CPA, Coalition Forces, forces of countries acting in coordination with Coalition Forces, or departments or agencies of the governments of Coalition Forces.
- Foreign (non-Iraqi) employees and foreign (non-Iraqi) contractors and subcontractors of foreign (non-Iraqi) governments, international organizations, and non-governmental organizations registered pursuant to CPA Order Number 45, that are providing technical, financial, logistical, administrative or other assistance to Iraq, and foreign employees of such contractors and subcontractors, shall not be liable to pay any tax on income or similar charge within the territory of Iraq on income from foreign sources or on income from or paid on behalf of such governments, international organizations, and non-governmental organizations.
- In addition to the foregoing, the following persons shall be exempt from payment of income tax:
  - Members of foreign diplomatic missions to Iraq, as well as members of their households, if they are not citizens of Iraq.
  - Members of consular offices, as well as members of their households, if they are not citizens of Iraq.
  - Honorary consuls of foreign countries, but only for income received from the country that has appointed them honorary consul.
- In accordance with administrative guidance to be issued by the Ministry of Finance, non-governmental organizations registered pursuant to CPA Order Number 45 and non-profit organizations that are not required to register as non-governmental organizations that are not engaged in political activities are not liable for tax on income or similar charge within the territory of Iraq.

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Supplementary exemptions added by Section 10 of CPA Order 17 as amended on June 27, 2004:

- The MNF, Sending States and Contractors shall be exempt from general sales taxes, Value Added Tax (VAT), and any similar taxes in respect of all local purchases for official use or for the performance of Contracts in Iraq.
  - With respect to equipment, provisions, supplies, fuel, materials and other goods and services obtained locally by the MNF, Sending States or Contractors for the official and exclusive use of the MNF or Sending States or for the performance of Contracts in Iraq, appropriate administrative arrangements shall be made for the remission or return of any excise or tax paid as part of the price.
  - In making purchases on the local market, the MNF, Sending States and Contractors shall, on the basis of observations made and information provided by the Government in that respect, avoid any adverse effect on the local economy.
- Contractors shall be accorded exemption from taxes in Iraq on earnings from Contracts, including corporate, income, social security and other similar taxes arising directly from the performance of Contracts.
  - MNF Personnel, CPA Personnel, Foreign Liaison Mission Personnel and International Consultants shall be accorded exemption from taxes in Iraq on earnings received by them in their capacity as such Personnel and Consultants.

#### **5.4 Deductions**

There shall be deducted from income all expenses incurred by the taxpayer in order to produce that income during the year. These expenses, which must be confirmed by acceptable documents, include the following:

- Interests paid on money borrowed and invested in the production of the income or its increase;
- The rental of the place occupied for earning income;
- Depreciation of the building owned by the taxpayer and used by the taxpayer to earn income. The estimated rental shall be exempted from the Real Estate Tax [Note: Law #162];
- The annual cost of superfiary which includes the cost of the rental of the lands and cost of the buildings constructed on them if the building occupied for earning income is being build on leased land. The estimated rental shall be exempted from the Real Estate Tax [Note: Law #162];
- Amounts expended for the maintenance of machinery and equipment or for replacement of tools and parts;
- The proportion, determined by regulation, of the cost of tangible fixed assets (excluding buildings and lands), such as machinery and other equipment, for depreciation or consumption by reason of their use during the year in which the income has arisen;
- Debts related to the source of income if the Financial Authority is satisfied that they cannot be recovered during the year, even if they were due before its commencement. The recovered bad debts during a year shall be taxed during the year of recovery. The provisions of this paragraph do not include amounts which may be recovered through insurance or other contract;
- Taxes and fees actually paid except Income Tax and Real Estate Tax [Note: Law #162];
- Pensions, salaries and contributions decided by Pension and Social Security Laws;
- Donations paid in Iraq to the Government and Socialist Sector departments and to

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scientific, cultural, educational, charitable and spiritual organizations which are legally recognized, provided that the Minister of Finance shall issue a list containing the names of these organizations, when necessary. Also contributions by virtue of subscriptions allowed by the Government shall be accepted;

- The legal alimony ordered by a competent court and paid in cash by the taxpayer to the person for whom the taxpayer is not entitled to the allowance;
- Life insurance premiums paid during the year, provided that they do not exceed ID 2000 per annum and ID 500 in respect of other insurance premiums (which are not related to the source of income) and provided that insurance is made with an Iraqi insurance company; and
- Amounts of amortization of intangible assets not exceeding the cost incurred by the taxpayer and in accordance with the limits specified in the depreciation regulation.

It shall not be allowed to deduct more than ID 15000 paid as salary, allowances, rewards, and commissions to the company's director which are subject to tax in limited liability companies.

### **5.5 Allowances**

A resident person shall be granted the following allowances per each year of assessment on the basis of his status in the year in which the income has arisen:

- ID 2,500,000 for the taxpayer himself or herself, if she is unmarried (other than a widow or divorcee) or if her income is not added to her husband's income) and ID 2,000,000 for his wife, or wives, if she is a housewife and has no income or if her income is added to his income;
- ID 200,000 for each of his children irrespective of their number; and
- ID 3,200,000 for the widow or divorcee herself and ID 200,000 for every child lawfully maintained by her, regardless of the number.

If the resident is non-Iraqi, then he is granted the allowance entitled to him for the year in which the income has arisen in the proportion of the complete months resided in Iraq to the complete months of the year, except those with whom the Government has contracted or employed to teach in Iraq for an academic year who will be granted the legal allowances in full.

The term "child" shall include daughters legally maintained by the taxpayer, as well as sons unable to earn their living due to mental or physical infirmity, even if they are more than 18 years old. Allowances granted to children, who have completed 18 years but are still continuing their studies at a secondary or a higher school, shall continue until the child has completed his studies or completed 25 years, whichever is shorter.

If the widow or divorcee gets married, and her income has been added to the income of her husband, the legal allowance shall be denied her only in the proportion of the complete months remaining in the year in which the income has arisen and the marriage concluded, to the whole year; fractions of the month shall be ignored; allowances for her children shall be granted according to the specified limits and conditions.

The taxpayer shall be granted an additional allowance of ID 300,000 if his age is more than 63 years of age, in addition to allowances granted to him in other sections of this Article.

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Allowance shall not be granted for children who have completed the age of 18 years and have an independent income exceeding ID 200,000 per year, even if they are continuing their studies.

If the taxpayer gets married or a child is born to him during the year in which the income arises, the allowance he is entitled to for the wife and the child shall be added to the other allowance in the proportion of the complete months remaining in the year in which the income has arisen and the marriage or the birth took place to the whole year. Fractions of a month shall be ignored. If the taxpayer is separated or one of the children dies for whom an allowance was granted, the allowance shall be reduced by the proportion of the complete months remaining in the year to the whole year. Fractions of months shall be ignored. If the amount of an allowance includes a fraction of a dinar, the amount shall be rounded up to a dinar.

## **5.6 Corporation Income Tax**

The tax rate applied on the net income earned by all corporations after April 1, 2004 is a flat rate of 15%. As provided for in Income Tax Law 113 of 1982, the rate is levied on the income of all private sector companies, including the income of foreign companies operating in Iraq (except those exempt according to the new Investment Law).

## **5.7 Tax Chargeable on Companies**

Tax shall be charged on the income of a company before any payment thereof is made to shareholders. The company and its director shall be personally financially responsible to deduct the tax and pay it to the Financial Authority, as well as submitting the accounts and necessary documents and all other matters required by the provisions of this Law.

- Companies registered in Iraq may deduct the tax paid or payable on their aggregate income, in accordance with this Law, from the dividends they pay to shareholders. This deduction is restricted to dividends on which tax was paid or is due to be paid by the company.
- If the companies distribute dividends, part of which is chargeable under of this Law, the company shall then be entitled to deduct tax from each part at the rate paid or payable on that part of income from which said dividends have been paid.
- Shareholders when paying dividends, with a certificate showing the amount of dividend paid to each of them and the amount of tax which has been deducted or is entitled to be deducted from the said dividend. Limited liability companies shall furnish the Financial Authority with a copy of this certificate.

## **5.8 Tax Rates**

- Income of limited liability companies, at a fixed rate of 15%.
- Income of private joint-stock companies, at a fixed rate of 15%.
- Income of joint-stock companies, at a fixed rate of 15%.

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### 5.8.1 Foreign Oil Company Tax

The income realized in Iraq from contracts concluded with foreign oil companies, their branches or offices, and subcontractors working in Iraq in the oil and gas production sector and related industries are taxed at a rate of 35%.

The withholding/retention applicable to the oil and gas business and related sectors will be double than those that are normally applied for other business sectors.

## **5.9 Personal Income Tax**

Under CPA Order 49 of February 20, 2004, corporate and personal income taxes have been capped at significantly reduced rates of no more than 15%. Employees are entitled to basic personal income exemptions which were significantly increased in 2004, and rate bands range from 3% to a maximum of 15%.

Tax shall be imposed on the taxpayer in respect of each year of assessment at the following rates:

- Iraq: Income of resident individual and non-resident individual after granting the allowance:
  - At the rate of 3% on amounts up to ID 250,000;
  - At the rate of 5% on amounts over ID 250,000 and up to ID 500,000;
  - At the rate of 10% on amounts over ID 500,000 and up to ID 1,000,000; and
  - At the rate of 15% on amounts over ID 1,000,000;
- Kurdistan: Income of resident individual and non-resident individual after granting the allowance:
  - At the rate of 3% on amounts up to ID 2,000,000;
  - At the rate of 5% on amounts over ID 2,000,000 and up to ID 4,000,000;
  - At the rate of 10% on amounts over ID 4,000,000 and up to ID 6,000,000; and
  - At the rate of 15% on amounts over ID 6,000,000.

Administrative requirements with regard to collection, appeals and penalties for late payment or nonpayment of income taxes are as established in 1982 and remain in force.

## **5.10 Real Estate Tax**

Taking into account the exemptions mentioned below in this law:

A basic tax is assessed and collected that is 10% of the annual revenue for all real estate including the subject's living share from the real estate (other than income from sales of real estate).

The annual revenue is discounted by 10% for each real estate for expenses and maintenance before assessing the tax on that real estate.

### 5.10.1 Real Estate Tax Exemptions

- Real estate that belongs to the public institutions and departments if not rented.
- Real estate of Amanat Baghdad, municipalities and subdivisions that are financed by the central government.
- Real estate prepared to store corps, agricultural machines, cattle and farmer's residence

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who owns the real property located inside the farm itself, the village or the center of the quarter in which the land is located.

- Unrented real estate that is dedicated to legally approved mosques, churches and the detached real estate used for the residence of the people who serve those religious institutions.
- Real estate owned by legally approved religious groups and charitable foundations and used by them as schools, hospitals, medication centers, orphanages, or senior residences or similar activities.
- Real estate tax exempted permanently or temporarily due to special laws, treaties or agreements between the government and foreign governments or international commissions.
- Real estate owned by foreign states and used as a residence for their political representatives or as their formal offices provided that the Minister approves the exemption based on reciprocity.
- Real estate owned by ministries or religious organizations the revenue or any other rights of which belong to it.
- Real estate whose revenue is dedicated to legally approved formal or semi-formal foundations, charities or scientific foundations provided that the real estate is occupied by those foundations.
- Real estate owned by legally approved political parties, committees, unions, societies of public concern, and athletic clubs provided that the real estate is used for purposes that directly meet the activities of those foundations.
- Real estate dedicated to economic activity provided that the owner of that activity is subject to the income tax on that activity.
- The residence or flat occupied by the owner for up to one year is exempted from this real estate tax.
- One residence or flat is exempted from tax when it is occupied by the owner's parents (or parent) or his married son (or sons) provided that neither the parents or the son and his wife own a residence or flat independently.
- A widower son, a divorced daughter, a widow sister, and a divorced sister, if they have children, are treated the same as a married.
- Recently constructed residences and flats are exempted from the basic and additional tax for a period of (5) five years starting from the date of completion of construction, which is assigned by the estimation tribunals.
- The residences constructed by state foundations and general companies, societies or legal persons for the purpose of housing their employees or giving them ownership through rent-to-own either if they were registered in the real estate registration foundations by the employee's names or by the names of those employers or persons on the condition that there should be a sale contract between the two sides marked in the concerned real estate registration foundations.
- If the real estate is continuously empty for (3) three months or more, then it is exempted from this tax for a period of not more than (6) six months. The real estate owner must report that his real estate is empty and it is considered as such from the first day of the month that follows the date of report. The Financial Authority must be informed when the real estate becomes occupied.
- If it is proved that the real estate which was claimed empty was not empty or if the real estate that was empty becomes occupied and the owner did not inform the Financial Authority, the Financial
- Authority may assess not more than double the annual basic tax in addition to the tax assessed at the first case [claimed empty but not empty] and what is not more than the

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amount of the annual basic tax for the period from the date of real estate occupancy and the date of the notification of the Financial Authority for the second case [property becomes occupied].

- The Minister or his procurator may extend the period of this item another (6) six months if he finds that there are reasons preventing its occupancy.
- The annual revenue of religious organizations is exempt from the additional tax.

### **5.11 Withholding Tax**

Under the tax law, the amount due from any residing taxpayers to a non-resident, whether the payment is made in cash or credited to the account, is subject to withholding tax at the rate of 15% if such amounts are related to interest on debentures, mortgages, loans, deposits and advances, as well as annual allowances, pension salaries, or other yearly payments.

### **5.12 Double Taxation Treaties**

Iraq has entered into double taxation agreements with only certain countries, including Egypt, Jordan, Libya, Somalia, Sudan, Syria, Tunisia and Yemen. However, CPA Order 49 includes a tax credit provision by which, subject to certain provisos, "income tax paid to a foreign country on income earned in that country may be credited against tax paid to Iraq."

This double taxation provision has not yet been successfully invoked - it may be that it is simply not followed by the General Commission of Taxation. However, it shows that Iraqi law does, at least in theory, cater for the double taxation concerns of a non-Iraqi investor. It is the application of the law that is often not reliable.

### **5.13 Divergent Treatment in Kurdistan**

As with many issues in the federal Iraqi system, taxation issues are dealt with slightly divergently in the Kurdistan region. Specifically, expatriate employees in Kurdistan must first qualify as tax residents in Iraq in order to be taxed in Iraq.

According to the Kurdish Income Tax Law, a resident is "any person residing in Iraq during the year in which the income arose, for a total period of not less than six months, or he/she resides in Iraq for a period of not less than four consecutive months."

A "non-resident" is a person who does not meet the residence qualifications state, even if income has arisen for him/her in Iraq from any source.

Thus, once a person is deemed to be a tax resident, expatriates working in Kurdistan are subjected to the following rules:

- Income of a tax resident which arises in Iraq is taxable; and
- Income of a tax resident which does not arise in Iraq is not taxable.

However, the tax authorities in Kurdistan currently consider income paid outside Iraq as income derived outside Iraq, for which no tax will apply. This practice, although established among the

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Kurdistan authorities, is not based on any publicly available written statutes or regulations and could therefore change at any time and without notice.

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## 6. Import/Export Procedures

### 6.1 Introduction and Overview

The principal Customs law in Iraq is derived from the Iraqi Customs Law 23 of 1984 combined with CPA Orders 16 (Temporary Control of the Iraqi Borders), and 26 (Creation of the Department of Border Enforcement). Under CPA Order No. 26 the responsibility to monitor and control the movement of persons and goods in and out of Iraq rests with the Ministry of Interior's Department of Border Enforcement.

### 6.2 Import Regulations and Procedures

In accordance with Orders No. 38 and 54, as amended by Order No. 70 the government of Iraq collects a 5% reconstruction levy on the total taxable invoiced value of all goods imported into Iraq from all countries, effective April 15, 2004.

Exceptions to the levy are food, medicines, clothing, books, humanitarian goods, Coalition forces, reconstruction contractors, NGOs, international organizations, diplomats and Coalition governments, and goods imported under the Oil-for-Food contracts.

All persons crossing the Iraqi borders must undergo a process consisting of a visit to the Passport office and an inspection at the Customs inspection point. Imports are subject to review of the Bill of Lading and inspection of goods.

### 6.3 Tariff Structure

As mentioned in the previous page, Iraq, currently imposes a 5% "Reconstruction Levy" on all imported goods except food items, medicines, books, clothing and items pertaining to humanitarian assistance.

Also exempted are the coalition forces, NGOs, foreign governments and companies undertaking reconstruction work and international organizations and agencies providing assistance.

All other customs tariffs, duties, import taxes and surcharges remain suspended; the only exception is the vehicle entry inspection fee of \$30 per truck.

The new Law on customs tariff, ratified by the Iraqi Council of Representatives on 12/1/2010 contained schedule of fees on imported goods according to the rates set forth in the tariff schedules and agricultural calendar thereto.

#### 6.3.1 Customs Valuation

The reconstruction levy is assessed ad valorem in accordance with Article VII of the General Agreement on Tariffs and Trade 1994 (GATT), which is adopted in CPA Order 54.

#### 6.3.2 Pre-Shipment Inspection

Iraq does not require pre-shipment inspections.

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### 6.3.3 Rules of Origin

Under the Law of Customs No.23 (1984), the Director General of Customs may require a separate certificate of origin. The practice is to require such a certificate, certified by the Chamber of Commerce or similar body in the country of origin.

### 6.3.4 Export Regulations and Procedures

The law applicable to exports is contained in Iraq's Customs Law Number 23 (1984) and CPA Order 54. Exports must be by license issued by the Ministry of Trade, Department of Planning, and Import Export Section.

### 6.3.5 Tariff

There are no export tariffs other than a \$35 per ton levy on scrap metal.

### 6.3.6 Transit Trade

As all customs duties are presently suspended, no duties are applicable to goods in transit.

Furthermore, according to CPA Order 54, the Reconstruction Levy does not apply to goods in transit.

## **6.4 Performance Requirements and Incentives**

The NIL offers equal incentive to both domestic and foreign investors. However, the lack of precedent or implementing regulations to the NIL continues to result in uncertainty regarding the application of the articles contained therein.

The NIL allows for investors to take out capital brought into Iraq, and its proceeds, in accordance with the law. Foreign investors are able to trade in shares and securities listed on the Iraqi Stock Exchange.

In principle, the law also allows investors who have obtained an investment license to enjoy exemptions from taxes and fees for a period of ten years.

Hotels, tourist institutions, hospitals, health institutions, rehabilitation centers and scientific organizations also are granted additional exemptions from duties and taxes on their imports of furniture and other furnishings.

The exemption increases to fifteen years if Iraqi investors own more than fifty percent of the project.

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## 7. Employment Law

### 7.1 Worker's Pensions and Social Security

Before commencing operations all companies must register with the Ministry of Labor and pay a deposit toward social security withholdings based on the number of employees and estimated payroll for three months.

Under the Social Security Law, each employer in the private or public sector is obliged to cover its employees with Social Security, the social security deductions are based on the employee basic salary earned in January of each year provided that the wage (basis for deduction) is not less than the minimum wage.

The investor then obtains a receipt from the Ministry indicating that payments have been made. The receipt includes the company's social security number. Social security payments are then made on a quarterly basis. Social security amounts to 17% of employee salaries.

The employer's contribution is 12% and the employee's is 5%. Payments are made by employers through certified checks to the Worker's Pension and Social Security Organization. The initial step of registering with the Ministry of Labor and obtaining the letter takes about one week. There are fees associated with this procedure.

For completeness, we note that if the foreign employee is capable of demonstrating that he is covered under a state Social Security system in his country of origin while working in Iraq, the requirement for Social Security may be waived.

### 7.2 Labor Law

This Labor Law is comprehensive in dealing with the rights, duties and commitments involved in all aspects of production (for employers and employees) and in establishing a balance between them.

The government is represented by The Ministry of Labor, sponsoring and supporting both parties (I.e. employers and employees) in this Law. There are 18 Chapters and 170 Articles, starting with Chapter One (Definitions) to Chapter 18 (Work Trial). Those who examine the detail of the Law will observe that its purposes are to protect and support both the work force and employers; to help the workers to find appropriate work through training; to help employers to recruit the right workers for the right job; to protect the Trade Unions and Workers Associations; and to organize the foreign workers who are interested in working in the Republic of Iraq.

This draft labor law ensures that public sector workers in all the government departments have the right to belong to and join unions.

#### 7.2.1 The Basic Principles

The worker who is subject to this article is entitled to an annual salary increase, beginning when the worker completes a full year with the employer, and continuing on that anniversary each year thereafter; and the percentage increase is specified by the Minister.

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It is also stated in this Chapter that the freedom of work is protected and it is not permissible to restrict or deny working rights. It is the policy of the State to legislate and reinforce full employment and production and to respect the principles and rights under this Law, specifically the following:

- The right to form and belong to Trade Unions and to organize for collective bargaining;
- To eliminate all forms of compulsory labor and child labor;
- To forbid discrimination in service, professions and training;
- To forbid the tying of an employee to a particular work; and
- To promote equality in wages and specify the minimum wage for the particular job.

### 7.2.2 Work and Professional Training

A Higher Committee for Planning and Employing Workers' is formed by a decree from the Prime Minister, headed by the Minister and including representatives of all related Ministries and with a majority of representatives from workers organization and employees organizations.

These will take part in drawing up the general policy for work and professional training, and the duty of the Job Centers, which is: to offer workers and the unemployed a free service to find them a job according to the available opportunities, and to collaborate with the private sector, co-operative sector, public sector and mixed sector.

This collaboration is meant to organize the labor market aims to achieve full employment and to safeguard it, to develop human resources, to help the workers to find suitable jobs and also to help employers to find suitable workers.

In the same Chapter there are some articles relating to professional training. This is targeting youth training through pre-employment training as well as re-training for the unemployed and for those who are at risk of unemployment in order to develop their skills and potential as well as increase their professional efficiency and productivity.

In such cases the Job Centre plays the role of offering advice about the skills required and the appropriate training programs. This is all to be given to the general and private professional training centers, who also organize work opportunities after the training.

The Job Centre will take over arranging employment following training, and there is a new principle for training which allows the related Ministry to train its employees in private companies or nongovernmental organizations as long as they have a permit from the Ministry of Health which ensures that they are subject to scrutiny and monitoring to check their suitability.

The law also grants the Minister the right to grant the trainee financial support during their training period. The amount is specified by the Minister for this purpose.

### 7.2.3 Concerning Expatriates

It is forbidden for the Departments and the employers to employ any foreigner, no matter whoever he or she is, to join any position before they have a permit issued by the Ministry.

The law also states that the employer is committed to providing the worker whom they brought into the country with a return ticket to their country of origin unless the employee has had a lot of illegitimate absence during the period of his contract.

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The employer is responsible in the event of the death of the foreign employee for the cost of repatriating his body to his home or place of residence if his people request it, and if that is not possible the specified Trade Union will take responsibility then will be reimburse what is allowed by law.

The law authorizes the Council of Ministers to issue a decree to bring in or employ foreign workers upon a request from the Minister (The Minister of labor).

#### 7.2.4 The Contract of Employment

These sections deal with the individual employment contract: signing the individual employment contract and terminating the employment contract. The individual employment contract must be written with 3 identical signed copies and must include the following:-the name and address of the employer, and the nature of the work; the name of the employee, his date of birth, qualifications,

place of residence and nationality; the nature and type of the work, the length and the starting date of the contract; the principal salary plus any allowances, any extras or increases, benefits or awards which he (the worker) is entitled to; the agreed place and the time of payment; and the number of working hours agreed upon and how they are organized.

Termination of employment will occur in any of the following cases:

- The death of the employee;
- Imprisonment of an employee by a court for more than one year;
- In the case of imprisonment for less than one year then the employee should be returned to work, but without payment for the period of his absence through imprisonment or arrest;
- The death of the employer if it is a private company and if it is impossible for the heirs to renew the contract as part of the inheritance;
- In case of liquidation of the business, either by a court or at the employers' own request, with the Minister's agreement;
- If both employer and employee agree, in presence of the worker's representative;
- termination if it is specified in the contract;
- Resignation of the employee on condition that the employee should give the employer at least 30 days notice prior to the day of termination; and
- In the event of unavoidable circumstances.

The employer can dismiss the employee in the following cases:

- If the employee becomes ill, to the extent that his capacity to work is reduced by 75%, and this is certified by an official medical report;
- If the employee becomes ill to the extent that he will not recover for 6 months from the start of the illness, and this is certified by an official medical report;
- If the employee reaches retirement age;
- If the work project or contract shrinks in size and if this is confirmed by the Minister;
- If the employee breaks the terms of his contract or fails in his duties;
- If the employee uses a false name or identity or has forged documents;
- If the employee does not pass his probation period, and
- If the employee commits a major fault, resulting in a substantial loss or delay in production for the company.

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### 7.2.5 Working Hours

This means the times that the employee must be available to the employer for work; this does not include break times or meal times (lunch, dinner or supper); and working hours should not exceed 8 hours a day.

### 7.2.6 Holidays

This states that the worker should have leave time and be able to enjoy all official public holidays.

Employees should get full wages for this, except for Saturdays, and they should get one paid day off per week.

It is possible to require the worker to work during holidays and public holidays, apart from the weekly day off, but this must be on double payment. The employee is entitled after one year's service to 20 days paid holiday per year.

### 7.2.7 Discipline at Work

This part states that the employer who regularly has ten or more employees must set out their own internal rules about the time that work starts, the working hours, break times, the weekend break, holidays, basic wages, and overtime conditions.

### 7.2.8 Fees and Salaries

Salaries are to be paid in Iraqi currency unless stated otherwise in the contract. Salaries are paid by cheque or Bank Transfer, and are paid during the working week. They are paid weekly or monthly and in the work place.

There must be equality in salary between men and women for work of the same nature. All outstanding salary due to any employee who dies will be paid into his estate in line with legal requirements.

The law forbids the employer from limiting the employee's freedom in using his expenses the way the employer chooses, for example, through forcing the employee to buy goods from the employer.

The employer must provide the employees with essential goods and the services at subsidized prices where these are lacking.

It is not permitted to reduce salaries or wages, or to freeze them, except where a court of law decrees it.

A committee should be set up by the Minister to review the minimum wage for unskilled employees on a regular basis. This committee should include the following:

- General Manager of the Department of Work and Professional Training - Chair or President;
- Representative of Pensions Department and the Department of Work & Social Security – Member;
- Representative of Department of Work and Professional Training-Member;
- Representative of Ministry of Planning – Member;
- Representative of trade union organization, from the most widely subscribed workers

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- organization—Member;
  - Representative of federation of employers, from the largest employer group; and
  - Two expert members with relevant experience and specializations in areas such as salaries and politics. These would be chosen by the Minister.

#### 7.2.9 Protection of Women Workers

The law states that any employer who employs one or more women workers must adhere to the state regulations set up to protect women workers. The law forbids obliging pregnant women workers to perform work that is deemed by the health authorities to be harmful to the health of the woman or her unborn child.

It is not allowed to ask women workers to do night work, except for women working in management, the commercial or health sectors, entertainment or transport and communication. The law guarantees women workers 72 days of paid maternity leave per year.

The law guarantees women workers the right to return to their original position, or a similar position on the same wage, following their maternity leave. The law guarantees women with young children free time to feed their infants but this must not exceed one hour in one working day. This baby feeding hour is considered a full working hour.

#### 7.2.10 Protection of Young Children

The law prohibits the employment of children in jobs that are deemed unsuitable and may result in damage to the child's health or safety. These jobs include working underground or underwater or in dangerously high place or in confined work places or operating heavy machinery or handling dangerous materials or carrying heavy weights. Children are allowed to work in permitted jobs but only after these jobs have been properly examined and approved by a medical committee who will confirm the physical suitability/unsuitability of the work, and the children's capacity or lack of capacity, to perform such jobs. This shall remain under such scrutiny until the children reach the age of 18 years.

#### 7.2.11 Protection of Miners, Stone or Mineral Quarry Workers

This part deals with the following specialized matters:

- Research, exploration and discovery of mineral and stone materials;
- Extraction, condensation or processing the mineral deposits whether they are above ground or underground;
- It is not permitted to employ a worker in these jobs without the prospective worker undergoing a medical test to determine that he or she is fit and healthy enough to carry out the duties of the particular job; and
- A medical examination should be carried out on persons employed in these roles before termination of their contracts, to ensure that the employee did not suffer any damage to his health due to the nature of the job.

#### 7.2.12 Professional Health and Safety and Inspecting Work

This states that it is essential for employers and employees to cooperate fully in the matter of health and safety and in all efforts to improve working conditions in terms of the projects and the pace of work.

The law states that it is the duty of the workers while at work to cooperate with their employers to enable them to fulfill obligations in the area of Health and Safety at work.

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Part two of the same Chapter relates to the inspection procedures for projects and places of work, both of which are subject to the Labor Law.

It is stated that that work projects and premises should be inspected under the supervision of the Ministry to ensure that the Law is applied to conditions of work and that it protects the employees and protects their principal rights while performing their duties.

The inspection committee (health and safety) is formed from the state headed by an official from the Ministry, with the title of 'Inspector of Work'; a representative of employers, the most representative one and a representative of trade union; and a representative from the national health and safety centre.

The Work Inspector must be a graduate with a specialist Bachelors degree and an additional qualification in health and safety approved by the ministry.

The inspector, the employees' representative and the trade unions representatives must take an oath in front of the Minister or his representative before starting their job.

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## 8. Accounting System and Audit Requirements

The uniform accounting system (Iraqi GAAP) was first introduced to make available the minimum level of information necessary for the beneficiary parties particularly the shareholders and the employees of the company itself as well as taxation authorities.

The Iraqi GAAP was mainly applicable to the organizations in the social sector, however it is now the main source for the preparation of companies' covered by Iraqi law accounts.

The Iraqi GAAP specifies the types of records and books and the way of recording in them, and what they must contain from financial information and explanations.

Financial accounts prepared according to the Iraqi GAAP are to be adopted as a minimum standard for general requirements and the company may use additional information system including cost accounting and any statistical information in light of its needs and requirements of the sectorial parties.

When computers are used in the preparation of accounts, the company must make available the required accounting information and explanation in accordance with Iraqi GAAP ensuring the possibility of checking and auditing in the regular methods.

By the application of regulations No.2 of 1985, relating to records for tax purposes, certain categories of tax payers are required to keep the following books and records:

- Journal;
- General Ledger;
- Inventory Stock Cards; and
- Correspondences Logbook.

These books and records should be kept in the Arabic language, and should be maintained for a period of not less than seven (7) years in Iraq.

Books and records should be kept at the tax payer physical location within Iraq.

Applicable accounting standards books and records may be kept electronically provided that the journal is kept in a certain sequence, and the extracts of the system used is by way of schedules.

The tax authorities may examine these records at any given time; the inspection is usually carried at the tax person's physical location.

The journal should be attested by a notary public.

The categories of tax person's that are subject to these regulations include:

- Companies registered in accordance with the Iraqi Law;
- Branched of foreign companies registered in Iraq; and
- Trade representative offices of foreign companies registered in Iraq.

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## 9. About BKR International

BKR International is a leading global association of independent accounting and business advisory firms representing the expertise of more than 135 member firms with over 300 offices in over 70 countries around the world.

Partners in member firms are experts in the accounting and taxation requirements of their own countries, and consider direct partner contact with clients to be the key to successful professional relationships.

BKR International is represented by member firms in each of the following countries:

Albania	Guatemala	Pakistan
Angola	Honduras	Palestine
Argentina	Hungary	Panama
Australia	India	Peru
Austria	Indonesia	Poland
Azerbaijan	Ireland	Portugal
Belgium	Israel	Puerto Rico
Brazil	Italy	Romania
Bulgaria	Japan	Russia
Cameroon	Jordan	Saudi Arabia
Canada	Korea	Serbia
Central African Republic	Kuwait	Singapore
Channel Islands	Lebanon	South Africa
Chile	Liechtenstein	Spain
China	Luxembourg	Sweden
Colombia	Malaysia	Switzerland
Congo	Malta	Taiwan
Cyprus	Mauritius	Togo
Czech Republic	Mexico	Turkey
Denmark	Montenegro	Ukraine
Dominican Republic	Morocco	United Arab Emirates
Ecuador	Nepal	United Kingdom
Egypt	Netherlands	United States of America
France	New Zealand	Uruguay
FYR Macedonia	Nigeria	Venezuela
Germany	Norway	Vietnam
Greece		

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## 10. BKR International Members in Lebanon

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### 10.1 About Abou Nasr & Associates

Established in 1967 in Beirut, Lebanon, Abou Nasr & Associates developed from a sole proprietorship into a leading partnership offering top-notch audit, taxation, and business consultancy services.

From the outset, Abou Nasr & Associates has always been able to meet the ever-changing needs of their clients. Along the way, they have managed to build a solid and reliable reputation based on a highly professional approach and total commitment to their clients' requirements, combined with unwavering levels of quality work and international standards.

Abou Nasr & Associates earned international recognition through a proven successful track record, which paved the way for acceptance as an independent member of BKR international, a worldwide association of independent accounting, taxation, and business advisors for Lebanon.

Such international recognition with, and commitment to, their clients and their success has clearly paid off and has translated into solid ties with a large number of leading businesses in Lebanon.

### 10.2 Communication

The old saying went, "he who has information has power." Today, it has become "he who has information FIRST has power."

Abou Nasr & Associates believes that only by having the right information at the right time, can their clients succeed and stay at the forefront of their businesses, no matter how difficult times are.

With the right information at the right time, business leaders have time to react to changes in the market and adapt accordingly.

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Abou Nasr & Associates takes their communication skills seriously. They have introduced the following measures to keep their clients abreast of the latest developments on all fronts:

- E-mail reminders and circulars;
- Quarterly bulletin on the latest developments in accounting and taxation;
- Regular conferences and seminars keeping everyone in the field well informed;
- The “Doing Business In” brochure and the “Europe & Middle East Tax Facts” prepared by BKR International; and
- Personal follow-up by partners.

### **10.3 Quality Control Procedures**

BKR International requires its member firms to adhere to their Quality Control Guidelines. These guidelines require member firms to design, implement, and monitor an effective system of quality control.

Regular peer reviews by the Audit & Standards Committee of BKR International are carried out to insure the application of the quality control system. These quality control guidelines by far exceed the local requirements and are in line with the International Quality Control Standards on auditing.

Abou Nasr & Associates has always believed in delivering nothing short of genuine and quality service.

They were more than delighted to adopt BKR International’s standards since they were in sync with their philosophy.

Their Quality Control System deals with and monitors issues such as:

- Independence from the client;
- Objectivity and integrity in the mandates executed;
- Only working with clients who enjoy integrity and business ethics;
- Hiring and employing the most qualified personnel while managing their career and employment advancement;
- Reviewing files and work by qualified staff and partners; and
- Monitoring the development of the quality control system.

