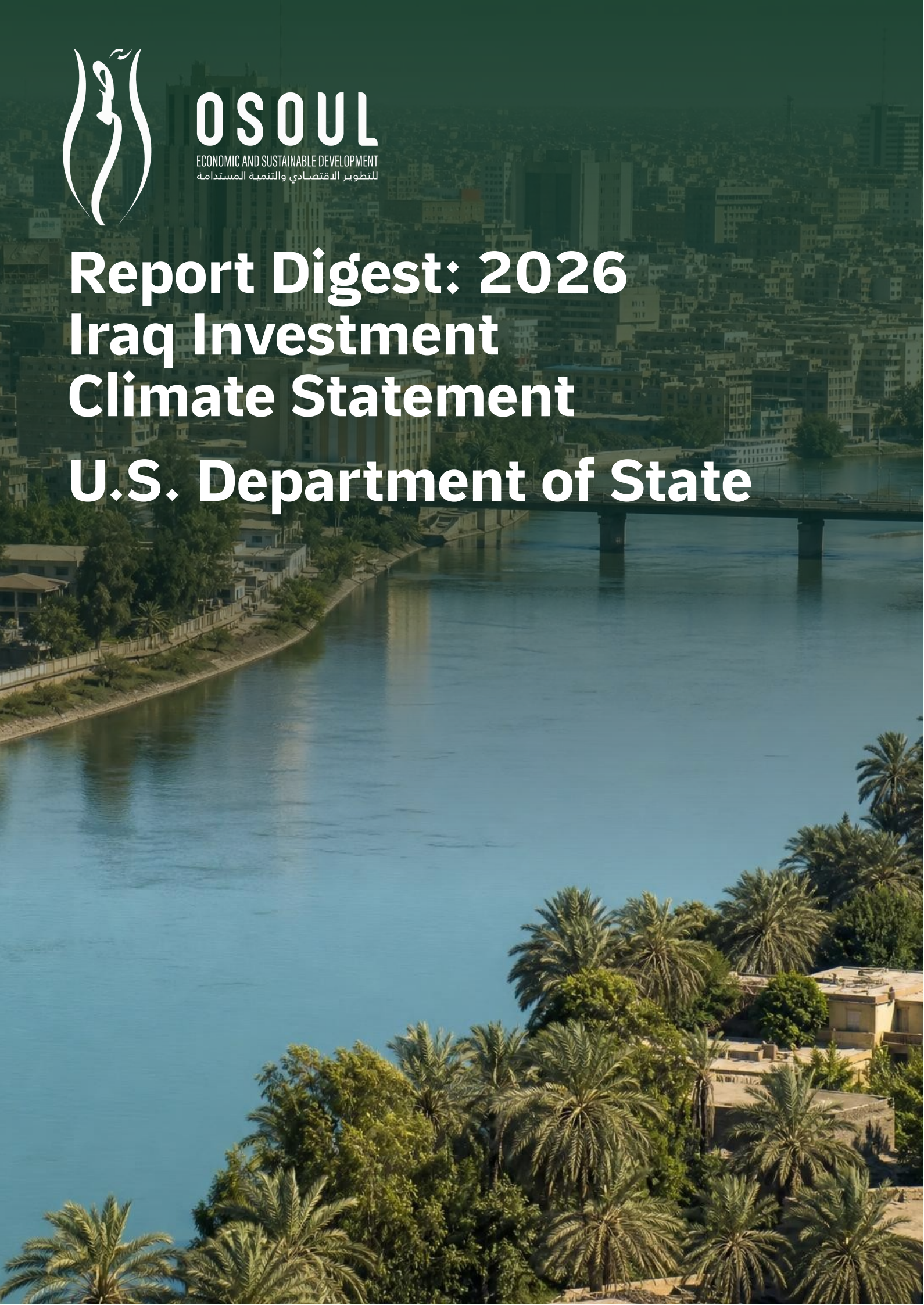
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Report Digest: 2026 Iraq Investment Climate Statement

U.S. Department of State



Report card

Item	Details
Title	2026 Iraq Investment Climate Statement
Publisher	U.S. Department of State
Published	September 2026
Length	35 pages
Coverage	Federal Iraq and the Kurdistan Region: investment law, registration, tax, courts, banking, state-owned enterprises, corruption and labour
Reading time	About 18 minutes for the full report, versus 7 minutes for this digest

The 60-second summary

The report describes a state-directed Iraqi economy in which oil provides over 90% of the federal budget. The new government led by Ali al-Zaidi, as the report notes, has made revenue diversification a priority — a goal previous governments also set but failed to advance. Iraq offers real opportunities, particularly in electricity, gas and e-government, but investors face ten obstacles: contract disputes, corruption, frequently changing regulations, business registration, customs procedures, high tax liabilities, weak dispute resolution, electricity shortages, limited financing and security. The bottom line: governments have repeatedly declared their wish to attract investment, but have not reformed the procedures and regulations that hold it back.

Key findings

- **A good investment law on paper, weak in practice.** The law offers a 10-year tax exemption and duty-free equipment imports, but investors face hurdles such as depositing a significant share of capital in an Iraqi bank before licensing, and difficulty repatriating profits in practice.
- **Investment commissions without teeth.** The National Investment Commission offers a one-stop shop for visas, permits and customs, but suffers from unclear authority and limited budgets, and cannot resolve bureaucratic problems with other ministries.
- **An opaque regulatory environment.** The World Bank's 2024 B-READY report places Iraq in the bottom tier for regulatory framework, with an operational efficiency score of 46.79 out of 100. Internal ministerial regulations need not be published in the official gazette, and draft laws are not opened for public comment.
- **"Deemed" taxation worries companies.** Firms object to the deemed-profit method that applies prescribed profit rates to revenue rather than actual profit, and to social security contributions (5% employee, 12% employer) applied to foreign workers. Corporate income tax is 15%, and 35% for petroleum activities.
- **State companies crowd out the private sector through legal privileges.** The government owns about 192 SOEs employing 500,000–600,000 workers. A 2009 decision requires agencies to buy from SOEs; SOEs win tenders if within 10% of the best competing bid and are exempt from bonds. Their financial reports are not published.



Key findings

- **State banks dominate and credit is scarce.** The three largest banks (Rafidain, Rasheed and the Trade Bank of Iraq) are state-owned and hold about 85% of sector assets, many of them non-performing state loans. Most businesses rely on self-financing or informal funding.
- **Back on the grey list.** The Financial Action Task Force (FATF) returned Iraq to its list of jurisdictions under increased monitoring on 19 June 2026, citing AML/CFT deficiencies, particularly cash-related risks.
- **Corruption at every level.** It concentrates in procurement, licensing and customs, with reports of "ghost" employees on payrolls, extortion at ports and pressure to take on well-connected local partners.
- **Commercial courts and arbitration lag behind.** Arbitration still runs under the 1969 Civil Procedure Law; a new Arbitration Law has been before parliament since 2024; and no judicial reorganisation or liquidation case involving a corporate debtor closed in the previous three years.
- **A labour market short of skills.** Unemployment stands at 15.5%, the informal sector is large, and the shortage of skilled labour is among the main obstacles to investment, alongside a requirement that 80% of workers be Iraqi.

85% | **15.5%** | **80%**

Key figures

Indicator	Value	Year
Oil share of the federal budget	Over 90%	2026
Imports from the United States	USD 1.7 billion	2025
Operational efficiency (B-READY)	46.79 out of 100	2024
State-owned enterprises	≈ 192 companies, 500,000–600,000 workers	2026
Share of the three state banks in sector assets	≈ 85%	2026
Licensed banking institutions	71 (7 state, 23 private commercial, 28 Islamic, 13 foreign branches)	2026
Growth in commercial bank deposits	≈ 40% over two years	2026
Corporate tax: general / petroleum	15% / 35%	2026
Social security: employee / employer	5% / 12% of wages	2026
Unemployment	15.5%	2026

90%+ | **46.79** | **71**



Iraqi measures and reforms: what worked and what stalled

As the report is about Iraq, this section presents Iraq's own measures rather than other countries' experiences: what was done, with which tool, and what result the report records.

What delivered tangible results

Measure	Tool	Result
Private bank reform	Relicensing programme with the U.S. Treasury and the New York Fed, run by Oliver Wyman: minimum capital by end-2025, Basel III standards, evaluation cycles 2026–2028	Compliant private banks have established direct correspondent relationships with U.S. and European banks
Ending the currency auction	Platform closed on 2 January 2025; trade finance moved to an electronic tracking platform	A growing share of dollar trade finance shifted from the black market to regulated, auditable channels
Electronic payment and dinar use	E-payment mandated for government and businesses (2023); domestic commercial transactions and government contracts in dinar (2024)	Commercial bank deposits up about 40% over two years
Online business registration	Online Single Window on UNCTAD's platform (2021; open to foreigners since 2023)	Fewer registration delays and fewer opportunities for corruption
Customs automation	ASYCUDA automated customs system since 1 January 2026	Computerised customs management, with temporary difficulties for Kurdistan-only registered firms
Attracting oil companies	Shift from technical service contracts to profit-sharing agreements in recent licensing rounds	More attractive terms after major companies exited
Kurdistan Region: foreign ownership	Companies and Industry Laws amended (January 2022)	100% foreign ownership allowed (versus generally 49% in federal Iraq); registration fee cut from USD 6,000 to 3,000

What stalled or remains pending

Measure	Status
Restructuring failing state companies	Repeatedly announced, no timeline; patronage networks tie them to ministries
Restructuring Rafidain and Rasheed	Limited results; a 2026 proposal to split Rafidain into a "Sovereign Treasury Bank" managing the Treasury Single Account for over 1,000 spending units and "Rafidain One", a mixed joint-stock company
Public–Private Partnership law	Bill sent to parliament in April 2025
New Arbitration Law	Under parliamentary review since 2024
Consolidating intellectual property bodies	Approved by the Council of Ministers after February 2023, then stalled in parliament
Consumer Protection Council	Not yet established despite the 2010 law
WTO accession	Revived; requires extensive regulatory reform
Kurdistan Region single window	Pending electronic signature and online payment

What separates what worked from what stalled? What worked came with fixed deadlines, a committed external partner and a digital tool — private bank reform, the transfer platform and ASYCUDA. What stalled required legislation through parliament, or touched entrenched interests in state companies and banks. In Iraq, an administrative decision backed by a tracking platform moves faster than waiting for a new law.

What investors are asking for

The report does not set out explicit recommendations to the Iraqi government, but its obstacles translate directly into concrete demands:

1. **Empower investment commissions in practice:** clear authority, budgets and standard procedures, and the power to resolve problems with other ministries — not a one-stop shop in name only.
2. **Regulatory transparency:** publish all internal ministerial regulations, open draft laws to public comment, and give reasonable notice before any change takes effect.
3. **Tax actual profit:** move away from deemed profits, define "petroleum activities" clearly, and set clear social security rules for foreign workers.
4. **Competitive neutrality:** end SOE preferences in public procurement, publish their financial reports, and make their boards independent of ministries.
5. **Modern commercial courts and arbitration:** enact the new Arbitration Law on the UNCITRAL model, and a clear bankruptcy and liquidation mechanism.
6. **Access to finance and transfers:** complete state bank reform, ease profit repatriation and exit the grey list.
7. **Federal–regional co-ordination:** reciprocal company registration instead of double registration, a unified customs system and settlement of arrears to suppliers.

Osoul's recommendations: an indicator for every problem



International investors read indicators, not intentions. Osoul therefore matches each obstacle the report identifies with a specific recommendation, and ties each recommendation to a measurable indicator with a known baseline, so that reform is held to account by numbers rather than impressions.

Indicator dashboard: where we start

Indicator	Current value	Source
Business Conditions Index (composite)	34.4 out of 100 (contraction zone)	Osoul Business Outlook Survey
Confidence gap (expected − current)	−8.4 points	Osoul Business Outlook Survey
Regulatory Burden Index	61 out of 100; 96.4% of firms face at least one burden	Osoul Business Outlook Survey
Impact of new taxes and fees	Losses at 97% of affected firms vs 72% of others	Osoul Business Outlook Survey
Fully formal firms	Only 34%; 66% lack at least one formal indicator	Osoul Business Outlook Survey
Firms avoiding banks	37%	Osoul Business Outlook Survey
Full adoption of electronic payment	8.2%; 14% blocked from it	Osoul Business Outlook Survey
AI Adoption Readiness Index	32.4 out of 100; 36.4% of firms use AI	Osoul Business Outlook Survey
Firms that cut employment	55%, and 54% expect further cuts	Osoul Business Outlook Survey
Margin squeeze: input vs output prices	84.1 vs 73.2	Osoul Business Outlook Survey
Unemployment	15.5%	U.S. State Department report
Regulatory operational efficiency (B-READY)	46.79 out of 100	World Bank, 2024
Net foreign direct investment	+USD 0.4 billion (2025) after −USD 7.46 billion (2024)	UNCTAD

Recommendations

1. **Restructure the tax law from scratch.** A new income tax law built on actual, documented profit rather than "deemed profit" and assessment, with a narrow, clear definition of "petroleum activities", stable rules for foreign workers' social security, and a broader base rather than a heavier burden on existing taxpayers. *Baseline:* firms affected by new taxes record losses at 97% versus 72% for others. *Measured by:* the narrowing of this gap, the number of registered taxpayers, and the non-oil share of revenue.
2. **An investment commission with binding powers and published deadlines.** Empower the National Investment Commission to hold ministries to deadlines, after which silence counts as approval, with a practical benchmark of project licensing within 72 hours. *Baseline:* a B-READY operational efficiency score of 46.79 out of 100. *Measured by:* days from application to licence, published for each commission.
3. **Binding regulatory transparency.** Publish all internal ministerial regulations in a single electronic register, apply no unpublished procedure, open draft laws to public comment, and give reasonable notice before any change takes effect. *Baseline:* a Regulatory Burden Index of 61 out of 100, with an average of about 5 simultaneous burdens per firm. *Measured by:* an annual fall in the index and the number of regulations published.
4. **Unify fees and speed up customs.** A single published fee in place of multiple local levies, a maximum clearance time through ASYCUDA, and a review of tariffs on production inputs. *Baseline:* 77% of firms are affected by customs duties, 65% by multiple levies and 52% by clearance delays, and the input price index stands at 84.1. *Measured by:* clearance time in hours and the number of levies per shipment.
5. **Competitive neutrality between public and private companies.** Abolish the 10% margin granted to SOEs in tenders, or grant the private sector the same privileges, and publish the financial statements of the 192 SOEs. *Measured by:* the share of SOEs publishing audited accounts, and the private sector's share of the value of public procurement.
6. **Formality through banks and electronic payment.** Simplify account opening and transfer rules, link tax incentives and finance to banked transactions, and complete the FATF action plan to exit the grey list. *Baseline:* only 34% of firms are fully formal, 37% avoid banks, and full adoption of electronic payment is 8.2%. *Measured by:* a rising share of fully formal firms, and exit from the grey list by a set date.
7. **Commercial courts and arbitration with deadlines.** Enact the new Arbitration Law on the UNCITRAL model, establish specialised commercial courts, and set a clear mechanism for bankruptcy and liquidation. *Baseline:* no reorganisation or liquidation case of a corporate debtor closed in three years. *Measured by:* average time to resolve commercial disputes and the number of cases closed.
8. **Digital procurement and licensing without contact.** Move tenders and licences to open electronic platforms that publish their results, since corruption concentrates where investors meet officials. *Measured by:* the share of tenders published electronically, and the share of transactions completed without an in-person visit.
9. **Skills instead of rigid quotas.** Link the local-labour requirement (80%) to training and knowledge-transfer programmes that investors commit to, and launch a regular national index of skilled labour. *Baseline:* unemployment of 15.5%, and 55% of firms have cut employment. *Measured by:* the share of firms citing skills shortages as an obstacle, and the number of trainees actually hired.

Recommendations

10. **Digital transformation and AI in the private sector.** AI literacy programmes for SMEs, removal of barriers to electronic payment, and digital infrastructure. *Baseline:* a readiness index of 32.4 out of 100, only 36.4% of firms using AI, and 14% blocked from electronic payment. *Measured by:* a rise in the readiness index in each survey round.
11. **Policy certainty to restore confidence.** A published timetable for reforms, and ex-ante assessment of the impact on firms of any tax or regulatory decision before it is adopted. *Baseline:* a Business Conditions Index of 34.4 out of 100, a confidence gap of −8.4 points, and net FDI of only USD 0.4 billion. *Measured by:* the Business Conditions Index crossing the 40 threshold out of the contraction zone, and the confidence gap turning positive.
12. **A single national platform to track transactions across departments.** Each transaction carries one number from department to department, recording when it enters and leaves each step and the reason for any stoppage from a standard list, with results shown on an open public dashboard. It then becomes clear who is holding a transaction up, which department, and why. Chile cut the share of late agency responses on environmental permits from 33% to 3% within four months simply by making delays visible to all, according to the OECD's Government Unstuck report. *Measured by:* average transaction time in each department, the share of transactions exceeding the set deadline, and the most frequent reasons for stoppage.
13. **A government programme: "You ask, we answer".** A public platform where investors, citizens or business owners post a question or problem, and the responsible body must answer publicly within a set deadline. The published answer becomes an authoritative interpretation applied to all similar cases, rather than leaving it to an individual official's discretion, and a recurring question signals a regulation that needs fixing. *Measured by:* the share of questions answered within the deadline, average response time, and the number of regulations amended because of recurring questions.
14. **Publish all government data in open formats.** Regulations, fees, licences granted, tender results, budget execution and SOE financial statements, all published in analysable formats and updated regularly. The more transparency, the less corruption and extortion — which the report records in customs, ports and licensing. *Measured by:* the number of datasets published, regularity of updates, and the share of bodies complying with publication.

32.4

34.4

33% → 3%

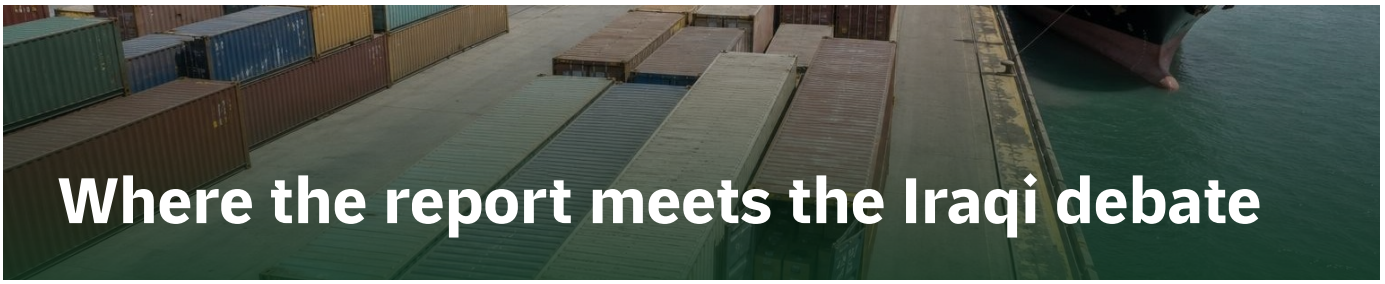
What does it mean for Iraq?

The party most concerned is the foreign investor, but domestic investors face the same obstacles even more acutely. What the report records from the perspective of U.S. firms matches what Osoul's indicators measure from within: 96.4% of firms face at least one government burden, 37% avoid banks, and only 8.2% have fully adopted electronic payments. This lends Osoul's figures added credibility, as an independent external source reaches the same diagnosis.

96.4% | **37%** | **8.2%**

At the macro level, weak investment means continued oil dependence. With oil revenue down 53% in the first seven months of 2026 and a deficit of about IQD 43 trillion in the draft 2027 budget, domestic and foreign private investment is the only route to the government's target of raising non-oil revenue to 45% within ten years. The return to the grey list raises the cost of transfers and pressures trade finance at a time when the exchange rate is sensitive.

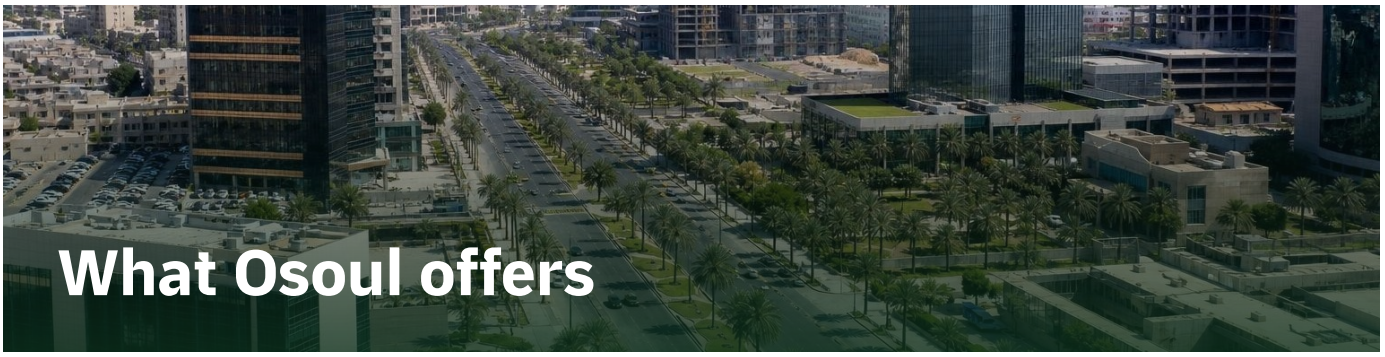
53% | **43** | **45%**



Where the report meets the Iraqi debate

- **The one-stop shop:** the report says investment commissions cannot resolve problems with other ministries. This was also echoed by Mr Khaled Al-Jabri, Chairman of Osoul Foundation for Economic Development and Sustainable Development, since 2022: the investment law is sound in its text, but the one-stop shop does not do its job; his practical benchmark is a factory licence within 72 hours.
- **Deemed taxation:** U.S. firms' complaints about deemed profits align with Al-Jabri's view that the current law rests on a "pay first, assess later" logic and on assessors, and that the answer is a new income tax law rather than piecemeal amendments.
- **SOE privileges:** the report documents SOE preferences in procurement. Al-Jabri calls for removing these privileges in trade and industry, or granting the private sector the same ones.
- **Regulatory burden:** what the report calls "a generally heavy bureaucratic burden that raises the cost of doing business" Al-Jabri describes as a "shadow tax" that drives investment away.

Where the perspectives differ: the report views Iraq through the eyes of a U.S. exporter, highlighting government contracts and energy opportunities more than the development of the domestic private sector. It treats the 80% local-labour requirement as a cost to investors, whereas in Iraq it is a tool against 15.5% unemployment. The middle ground is one the report itself points to: linking local employment to training and knowledge-transfer programmes rather than rigid quotas.



What Osoul offers

Osoul Foundation for Economic Development and Sustainable Development places its methods and data at the service of the National Investment Commission and provincial investment commissions, the Ministerial Council for the Economy, and legislative and oversight bodies, as well as domestic and foreign investors:

- **Business Outlook Survey:** diffusion indices based on the PMI methodology covering firm conditions, prices, employment, regulatory burden and economic formality — measuring from within what this report observes from outside.
- **Public Service Gap Burden Index:** measures what households pay to compensate for weak public services, by service and income bracket.
- **Daily monitor and weekly Observatory:** tracking government decisions and market indicators, including the path out of the grey list and state bank reform, and comparing them with international reports and experience.
- **Advisory and technical services for major companies and government agencies:** including a practical investor guide to registration, tax and labour, feasibility studies, reviews of economic models, and the design of one-stop-shop procedures.

Outputs of the Foundation are available on its official website **www.ofesd.com** and its social media accounts.

Source

U.S. Department of State (2026), ***2026 Investment Climate Statement: Iraq***, September 2026, 35 pages. Pages drawn on in this digest: summary and oil (pp. 1–4); investment law, registration and customs (pp. 2–7, 14–15); regulatory environment, tax, courts and arbitration (pp. 8–13, 16); intellectual property (p. 21); banking, e-payment and the grey list (pp. 22–28); state-owned enterprises (pp. 28–30); corruption (pp. 30–31); labour market (pp. 33–34)

Sources for the Iraq links: Osoul Business Outlook Survey (June 2026); Al-Marsad, Issue 1 (30 October 2026); **QNA, 14 October 2026**; **Al Jazeera, 4 July 2026**.