

مركز البيدر للدراسات والتخطيط

Al-Baidar Center For Studies And Planning



Report Summary

The Work of International Organizations in Iraq

Between Commitment to Financial Sovereignty and the Risk of Overstepping National Legislation

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Iraq is undergoing a critical economic phase where financial challenges and developmental pressures intersect, rendering resource management exceptionally vital for the state's stability and future. Within this framework, international organizations emerge as key actors, with roles ranging from technical support and outlining developmental paths to providing financial and in-kind grants and assistance. However, this role involves practices that raise serious concerns; some organizations—leveraging their legal personality and international immunities—execute large-scale projects and incur substantial expenditures, or introduce material aid and equipment, without prior disclosure of the volume of these resources or adherence to official channels represented by the Ministry of Finance, regulatory bodies, and relevant sectoral ministries.

The danger of this approach transcends administrative frameworks to affect the core of Iraq's economic sovereignty and weaken sound financial planning, opening the door to developmental imbalances and the potential exploitation of resources for political agendas, as well as fostering an environment for financial and administrative corruption. Researcher Simona Foltyn¹, in her investigative report published in the British newspaper "The Guardian," confirmed these concerns, revealing corrupt practices within a major international organization in Iraq, which included employees soliciting bribes amounting to £1.5 billion for a single project. The investigation also questioned the efficacy of the declared developmental roles, such as sewing training projects where it was discovered that clothing was imported from outside Iraq rather than being produced locally, while further challenging the organization's claims that its programs improved the lives of approximately 9 million Iraqis. In any case, the decisive issue in this matter remains the following:

1. Simona Foltyn, UN staff on £ 1.5 Iraq paid project 'demanding bribes' 22 January 2024 <https://www.theguardian.cdevelopmentprogramme-undp-bribery-claims-iraq-aid-project>

- International donors face difficulties in tracking the impact of funds spent on developmental activities and identifying the tangible results of these expenditures.
- Relevant government parties are consulted regarding international projects; however, deviations in implementation occur due to factors related to changes in government officials, shifting governmental priorities, and diverging opinions.
- In some instances, international organizations employ non-specialized experts who lack familiarity with the developmental context in Iraq, leading to the loss of the ability to achieve objectives and creating additional financial waste of the funds granted to Iraq.
- Organizations tend to deduct a significant portion of the allocated funds for programs and activities that do not ultimately serve the public interest but rather cater to the narrow interests of certain partners; according to preliminary unofficial estimates, the volume of funds and aid entering Iraq annually through channels not subject to the general budget ranges between \$500 million and \$1 billion, a figure that, if properly directed through governmental channels, would be sufficient to finance dozens of vital infrastructure and basic services projects or tangibly reduce the budget deficit, as the continuation of this path outside of official oversight not only poses a risk to spending efficiency but also threatens to undermine long-term economic and social stability.

First: The Legal Framework for the Work of International Organizations.

According to the rules of general international law, international organizations enjoy an independent legal personality, a capacity that empowers them to exercise various powers such as concluding contracts, owning movable and

immovable property, entering into agreements, and resorting to the judiciary; the International Court of Justice affirmed this principle in its famous 1949 advisory opinion regarding the assassination of Count Bernadotte, stating that the United Nations and other international organizations are “legal persons of a special nature” enjoying legal capacity independent of member states. However, this independence is not absolute and does not grant international organizations immunity from obligations toward the host state, particularly in matters affecting national sovereignty and public fiscal policy, as the exercise of any activity within the territory of a sovereign state must be within the framework of the principle of the rule of internal law stipulated in national constitutions, including the Constitution of the Republic of Iraq of 2005, which stated in Article (1) that “the Republic of Iraq is a fully sovereign and independent state,” and in Article (110) that the management of fiscal and customs policy is among the exclusive competencies of the federal authorities.

Consequently, the legal relationship between international organizations and the host state—in the Iraqi case—is governed by the work agreement or cooperation protocol concluded between the Iraqi government and the organization, which defines the scope of granted immunities and privileges, as well as coordination and oversight mechanisms to ensure that externally funded projects and financial resources are subject to national monitoring; any circumvention of these frameworks constitutes a violation of the headquarters agreement or cooperation protocol, granting the host state the right to demand rectification or take regulatory measures based on the principle of respecting the sovereignty of internal law over the territory. In recent years, Iraq has witnessed notable cases confirming the danger of absent institutional coordination in managing international grants and aid, as some organizations have disbursed financial and in-kind grants in the health and relief sectors outside the framework of the state’s general budget and without

the supervision of competent authorities, particularly the Ministry of Finance and the Ministry of Planning, resulting in an overlap of powers and the duplication of projects in certain provinces while depriving others of such support.

Part of these issues is linked to historical roots, as the diplomatic disruption experienced by Iraq following the American occupation in 2003 created an institutional vacuum and a state of chaos in regulating the activities of international organizations within the country, requiring lengthy periods to re-establish the control of Iraqi agencies over their activities and organize their communication and funding channels in a manner consistent with national sovereignty. Furthermore, the experience gained from the “Rapid Reconstruction Project” after the liberation of areas in 2017 demonstrated that the absence of an effective oversight system for international financial flows allowed resources to be directed toward secondary projects or those not considered a national priority, and in some cases, raised suspicions of corruption and political exploitation; this was discussed within the debates on the Federal General Budget Law for the years 2023–2025, emphasizing the urgent need to establish more stringent legal and regulatory frameworks. Therefore, commitment to the legal framework requires:

1. All financial operations and aid implemented by international organizations must be registered and documented with the Ministry of Finance and the Central Bank, in accordance with Article (6) of the Federal Revenue Allocation Oversight Commission Law No. 55 of 2017.
2. All projects must be carried out according to a national plan approved by the Ministry of Planning to prevent duplication or the unfair distribution of resources.
3. International organizations must adhere to the terms of the headquarters agreement or the cooperation protocol as the binding legal reference; any violation

thereof authorizes the Iraqi government to take the necessary corrective measures to safeguard its financial and administrative sovereignty.

The enhancement of this legal framework is not merely a procedural matter, but a necessity to protect Iraq's economic sovereignty and ensure the integration of international support with the national strategy, away from interventions or deviations that might weaken state efficiency and affect its financial and social stability.

Second: The Problematic Issue of Grant Disbursement Without the Supervision of the Ministry of Finance and Regulatory Bodies.

1. **Absence of Financial Coordination:** The independent management of funds and aid by certain international organizations within Iraq without the knowledge of the Ministry of Finance represents a serious breach of the "Unity of the General Treasury" principle. Disbursing grants for specific projects or target groups outside the framework of the national plan may lead to:

- **Duplication in funding and implementation.**
- **Concentration of spending in certain areas over others.**
- **Distortion of national development priorities.**
- **Difficulty in tracking funds and assessing impact.**

2. **Impact on the Public Budget:** These funds are not integrated into the state's official accounts, effectively placing them beyond the jurisdiction of oversight bodies, such as the Federal Board of Supreme Audit and the Federal Commission of Integrity. This undermines the principle of fiscal transparency and complicates the process of fiscal policy formulation. This is particularly critical as the Iraqi Federal Budget is structured on a fixed allocations basis and fails to account

for informal financial flows from international entities, despite the regulatory frameworks established by the Federal Financial Management Law of 2019 to address such considerations.

3. Disruption of Geographical and Sectoral Distribution Fairness: When an organization disburses grants within the education, health, or agriculture sectors in one governorate over another based on its own criteria, it deepens the developmental gap between regions. In the absence of unified standards or local oversight, these resources may leak to ineligible parties or be transformed into a means of political or partisan influence.

Third: The Iraqi Context.

Since 2003, the structure of the Iraqi state has undergone a radical transformation accompanied by a broad influx of international organizations and United Nations agencies amidst an administrative and legislative vacuum that limited the ability of national institutions to regulate these activities for years. With successive economic crises and fluctuating oil revenues, the role of these organizations in executing projects has expanded, giving rise to the phenomenon of parallel funding. This reality consists of financial and in-kind flows managed independently of the state's official financial system and the Treasury Single Account, as they are subject to the direct supervision of donor parties through private banking accounts, isolated from mandatory central oversight systems.

The practical application of framework agreements and memorandums of understanding signed between the Iraqi government and international agencies, most notably the United Nations Development Programme, has revealed tangible institutional gaps resulting from the execution of projects without full coordination with the relevant ministries. This has led to overlapping jurisdictions,

the duplication of projects in certain areas at the expense of others, and a conflict with national planning priorities. This situation presents the state with a dual challenge; the first involves the necessity of protecting financial sovereignty and ensuring that all foreign resources are subject to official channels, while the second lies in regulating the relationship with international organizations to ensure the integration of their work with state programs and to prevent the emergence of a parallel economy outside government oversight, thereby avoiding negative consequences for the state's financial and social stability.

Fourth: Economic and Financial Risk Dimensions.

1. Disorder in Databases and Planning: When an international organization implements an educational project in a specific area without the knowledge of the Ministry of Education or the Ministry of Higher Education and Scientific Research, it deprives Iraqi authorities of an accurate understanding of the scale of implemented projects and the number of beneficiaries. Consequently, this hinders the ability to determine whether there is a need to expand or replace such initiatives.

2. Imbalance in Central-Provincial Relations: In certain instances, these organizations engage directly with provincial authorities or local administrations, bypassing sovereign ministries. This practice weakens the centralization of decision-making and encourages the trend of “unregulated funding” or what is commonly referred to as the “humanitarian gray economy.

3. Potential Exploitation of Aid for Political Agendas: Certain parties may exploit these projects to consolidate social, sectarian, or even electoral influence, particularly in disputed areas or regions suffering from a weak governmental presence. In such cases, international funds are transformed from a developmental

tool into a political lever that operates outside of constitutional regulations.

Fifth: International Comparative Examples:

Reports from the World Bank and the International Monetary Fund indicate similar cases in countries such as Yemen, Sudan, and Afghanistan, where the lack of coordination between national authorities and international organizations has been a primary reason for:

- **The decline in the effectiveness of international aid.**
- **The exacerbation of local corruption.**
- **The loss of control over developmental spending tools.**

In some cases, it was revealed that organizations transferred funds to fictitious local organizations or financed projects that were never actually implemented, which sparked widespread debate regarding the feasibility of the absence of national oversight.

Sixth: The Iraqi Constitutional and Institutional Framework:

According to its law and mandates, the Ministry of Finance is responsible for:

- **Supervising the preparation of the public budget.**
- **Managing public debt, grants, and loans.**
- **Coordinating with international and financial entities.**

Furthermore, the Financial Management Law of 2019 emphasizes in its articles the necessity of centralized public fund management and requires the approval of the Ministry of Finance for any external obligations. Similarly, the Federal Board of Supreme Audit is mandated—under Article 103 of the Constitution—to monitor

all public funds wherever they are located. However, the lack of coordination with international organizations renders this provision devoid of substance in many instances.

Seventh: Strategic Recommendations for Regulating International Funding

1. Establishing a “Central Platform for International Aid”: It is proposed to establish a unified digital platform within the Ministry of Finance or the General Secretariat of the Council of Ministers, where all grants and aid that international organizations intend to provide are registered. This platform should be linked to all sectoral ministries.

2. Amending Agreements and Cooperation Protocols: It is necessary to renegotiate with all international organizations operating in Iraq to amend signed agreements, ensuring they include:

- **The condition of financial transparency.**
- **Defining priorities in coordination with the state.**
- **The obligation of financial disclosure and subsequent audit.**

3. Subjecting Organizations to the Oversight of the Federal Board of Supreme Audit and the Federal Commission of Integrity: Through cooperation protocols that obligate any organization receiving or spending funding within Iraq to submit quarterly financial reports to the regulatory authorities, whether in the form of cash funds or in-kind assistance.

4. Linking International Project Managements to the Ministry of Planning: International organizations shall not operate independently in selecting projects or target areas; rather, this must be conducted through national planning mechanisms.

5. Issuing a National Law for International Aid: This law would regulate the entry and expenditure of international aid, define the oversight powers of national authorities, and activate the principle of economic sovereignty over every dollar spent within Iraq.

International organizations constitute a fundamental pillar for supporting Iraq in both humanitarian and developmental aspects; however, their added value is exclusively tied to institutional management based on prior coordination, oversight, and transparency. The independent action of these organizations in managing grants away from the Ministry of Finance and the Ministry of Planning undermines national economic policies and the efficiency of public resource management, thereby directing support toward non-urgent priorities. The impact of lacking coordination is not limited to an administrative gap, but extends to creating developmental imbalances and project duplication, in addition to weakening citizen trust in the state and creating loopholes for corruption and illicit political influence through unregulated funding paths. Therefore, Iraq's endeavor to build a robust economy requires ending the phenomenon of parallel aid to ensure that international resources are invested as a genuine lever for comprehensive national development.

The government, through its presidency and sovereign ministries, must consolidate the principle that no funding shall exist without the state's knowledge, and no project shall operate outside the national planning system. This requires obligating international organizations to adhere to the country's laws and economic plans, as this serves as a guarantee for protecting financial sovereignty, achieving fairness in resource distribution, and maximizing the economic impact of aid in a manner that serves both current and future generations.

Research Identity

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About center

Al-Baydar Center for Studies and Planning is a non-governmental and non-profit organization established in 2015 and registered with the NGO directorate in the general secretariat of the council of ministers in Baghdad.

The center seeks to contribute to developing the state and its institutions, by proposing ideas and practical solutions to the main problems and challenges facing the state, including improving public sector management, policies, and strategic planning, using reliable data and best practices. The center engages the relevant authorities in the state with regular meetings to support this objective and utilizes the support of international organizations dedicated to assisting Iraq's development. The center also seeks to support economic reforms, and sustainable development and provide technical assistance to the public and private sectors. The center also seeks to support the development of the private sector to provide job opportunities for citizens through training and upskilling, in a way that reduces dependence on government institutions and contributes to supporting and diversifying the country's economy.

The center aims to utilize the vast amount of potential in Iraq's human resources by organizing programs to prepare and develop promising young people, including leaders capable of proposing, adopting and implementing visions and future plans that advance society and preserve its value-system based on the commitment to a high moral standard and rejection of all types of corruption.

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