

SUBJECT: SALARIES OF KURDISTAN FEDERAL GOVERNMENT EMPLOYEES

On 1 April 2020 the Secretariat General of the Ministry of Cabinet Affairs of the Federal Government of Iraq wrote to the Ministry of Finance of the Federal Government (ref: 8857/52) ordering the Ministry of Finance to stop funding federal government employees in the Kurdistan Region of Iraq (KRI).

I believe this order was legally wrong and, if implemented, would be grossly unfair to federal government employees in the KRI.

I should like to work constructively with you to resolve this issue. This letter sets out my position in detail to facilitate that.

1. The KRI's position within the Republic of Iraq is defined by the federal constitution. The payments issue must be resolved in a way which is compatible with the federal constitution.
2. The constitution is based on principles of equality and justice for all regions and citizens of Iraq. The order to stop funding federal government employees in the KRI when payments continue to employees in 15 other Iraqi governorates is an infringement of those principles.
3. The Secretariat General's letter references Fiscal Management Law no. 6 as a basis for its order. This is problematic for several reasons. First, as set out in Article 56 of the law, the law applies only in the financial year after its publication. So it cannot be used as a basis for decisions on 2019 payments. Second, the law defines a financial year as the period when a new federal budget comes into effect. Since the federal budget for 2020 has not yet been enacted the 2020 financial year has not yet started. Third, as set out in Article 54 of the law, the law can only be practically applied when the cabinet has passed the regulations required to implement it. Ministry of Finance representatives confirmed this in our meeting with them on 20 April 2020. And the cabinet has not yet passed the regulations.
4. Even if the law had come into effect and the financial year 2020 had begun, the law makes clear in Article 13 that until the 2020 budget is

approved the Finance Ministry is obliged to continue to pay salaries to federal employees in the regions at the 2019 rate, i.e. 1/12 of the total 2019 funding for each month until the 2020 budget is approved.

5. Finance Ministry payments for federal employee salaries for the calendar year 2020 should be 452 billion dinars per month, as per other governorates and as set out in the enclosed table (table no. 1). No payments have yet been made for the first three months of the year.

6. Article 10/2-C of the annual federal budget for 2019 sets out the required financial transfers from the federal government to the KRI for government expenses including employees' salaries. It also stipulates that should the KRI fail to deliver the agreed amount of oil to the federal government, the federal government can reduce its payments to the KRI accordingly. The financial transfers from the federal government to the KRI for 2019 for current account spending and investment should have been 9,783,025,811 million dinars. But the Finance Ministry has only paid a total of 5,448,000,000 million dinars, as set out in the attached table (table no. 2). It has not paid the rest of the salaries, including peshmerga salaries amounting to 816 billion dinars. The total sum of unpaid money for the region is therefore significantly more than the loss incurred to the federal treasury from the 250 thousand barrels a day shortfall in oil flow to the Somo company.

7. The Secretariat General's letter sets out Paragraph 5 of Article 27 of the Fiscal Management Law as the basis of its order to stop funding federal salaries in the KRI. This is legally problematic for the following reasons:

- i. Execution of Article 27 of the law is the responsibility of the Ministry of Finance and not the Cabinet Secretariat.
- ii. Article 27 of the law stipulates that the Ministry of Finance can deduct payments when regions fail to share revenues of oil and gas. But this deduction can only be made from the annual budget, not on a monthly basis. And this cannot happen until the 2020 budget has been issued.
- iii. The requirement for the Ministry of Finance to pay 1/12 the total 2019 payments monthly until approval of the 2020 budget is established until Article 13 of the Fiscal Management Law. And Article 27 of the law does not over-ride Article 13 of the law. In addition, there is no legal basis to reduce payments to align with decreased payments envisaged for 2020 under the new draft federal budget. The 2020 budget has not yet been agreed, and in any case the draft budget

balances decreased payments to the regions with reduced obligations on the regions for oil and gas deliveries to the federal government.

8. Under the constitution, the Peshmerga are considered part of the Iraqi defense forces. And under federal budget laws since 2005 the Ministry of Finance and Economy had therefore been paying Peshmerga salaries and, since 2014, the expenses of the war against ISIS. But the Ministry of Finance and Economy has failed to pay Peshmerga salaries for the fiscal years 2019 and 2020, despite fixing their allocations within the sovereign expenditure schedule for the year 2019. This shortfall amounts to 68 billion dinars per month.

9. The KRI has been hosting more than a million refugees and IDPs since 2014. The KRG has borne the costs of these refugees and IDPs, including those from other governorates. This has included security, health and educational care costs. The federal government has made no contribution to this. (See enclosed report.)

10. Because of the failure of the federal government to meet its funding obligations to the KRI from February 2014 to 2019, the KRI has been forced to find other sources of finance and to cut expenditure. This has included borrowing and adopting austerity measures, such as reducing public expenditure and cutting the salaries of public sector employees.

I want to resolve these issues constructively and in accordance with the constitution and law. I therefore ask you to not implement the Cabinet Secretariat's letter, but instead to continue to pay salaries for KRI federal employees in line with salaries for federal employees in other parts of Iraq. I also ask that the federal government pays funds outstanding to the KRI for the period since 2014. I suggest we seek to reach a more stable settlement by forming a joint committee of both parties to work with the federal and KRI fiscal audit teams to identify the KRI's obligations and rights under the constitution and federal fiscal laws for the financial years 2014 [or 2004?] to 2019. I also take this opportunity to emphasize our commitment to reaching a joint understanding similar to that which we reached over the federal budget for 2020. I hope we can reach a viable solution through a comprehensive federal bill that includes oil, gas and revenue distribution.

Dr. Omed Sabah


President of Diwan of the Council of Ministers

The table of expenses in the Kurdistan Region for 2019

Amounts in Iraqi Dinar

| Allocation | Monthly average | Annually |
|---------------------|---------------------------|----------------------------|
| Employees' salaries | 895 billion IQD | 10,740 trillion IQD |
| Current expenses | 248 billion IQD | 2,976 trillion IQD |
| Investment expenses | 47 billion IQD | 564 billion IQD |
| Total | 1,190 trillion IQD | 14,280 trillion IQD |

Table No.2

| Independent Auditing of Oil & Gas Income & Expenditure | |  |
|--|-----------------------------|--|
| Document Title | Oil Related Payments | |
| Version Date | 26 th April 2020 | |
| Document Ref. | Period: 2019 | |

Summary of payment paid by the KRG for oil related activities in 2019

| | Q1'19 | Q2'19 | Q3'19 | Q4'19 | 2019 |
|--|----------------------|----------------------|----------------------|--------------------|----------------------|
| Payments made to oil producers by the KRG | 756,581,239 | 651,395,002 | 888,169,759 | 240,975,290* | 2,537,121,290 |
| Tariff payments to Turkish Energy Company (TEC) | 134,996,619 | 129,436,293 | 142,627,557 | 87,125,846 | 494,186,315 |
| Payments made to Kurdistan Pipeline Company (KPC) | 122,055,061 | 172,578,942 | 174,572,125 | 175,166,726 | 644,372,854 |
| Debt repayment to TEC and Turkish Petroleum International Company (TPIC) | 310,000,160 | 50,000,040 | 150,000,080 | 100,000,082 | 610,000,362 |
| Payments made to other parties by the KRG | 516,790,247 | 64,767,279 | 78,982,504 | 120,946,401 | 781,486,431 |
| Total | 1,840,423,326 | 1,068,177,556 | 1,434,352,025 | 724,214,345 | 5,067,167,252 |

* IOC invoices unpaid for November 2019 and December 2019

Table of the Kurdistan Region's financial dues In accordance with the Iraqi federal budget for the financial year of 2019

| No | Amount by Iraqi dinar | Allocation | Legal backing |
|----|-----------------------|------------|---------------|
|----|-----------------------|------------|---------------|

| | | | |
|--|----------------------------|--|---|
| 1 | 5 billion and 448 billion | Employees' salaries numbering (682,31000 employees) | Table (أ) budget estimate according to the main accounts and table (ج) the employees of ministries and central-funded directorates for the year of 2019 |
| 2 | 2 trillion and 752 billion | Current expenses (excluding employees' salaries) | Table (ب) expenses in accordance to the ministries for 2019 |
| 3 | 1 trillion and 584 billion | Funding for investment projects | Table (ب) expenses in accordance to the ministries for 2019 |
| 4 | 592 billion | Sovereign expenses | Table (د) sovereign expenses for 2019 |
| 5 | 816 billion | Salaries of Peshmerga forces within the expenses of Iraq's Defense Ministry, in the table of sovereign expenses | Article 10/2 nd /B (ب) |
| 6 | 507 billion | 12.67% of extra revenues generated from increase of oil sales estimated at 4 trillion dinars | Article 5/B (ب) |
| 7 | 302 billion | Financial dues of petro-dollar allocations for oil-producing governorates, in accordance to the 5% of generated revenues from the Kurdistan Region's shares of exports (which amounts 250,000 barrels per day) | Article 2/1 st /5 |
| 8 | 480 billion | The Kurdistan Region's dues from the redistribution of 50% of customs revenues | Article 19/3 rd |
| 9 | 360 billion | Projects of license contracts / Kurdistan Region | The table counting the Kurdistan Region's share from the total federal budget for 2019 |
| Total financial dues of the Kurdistan Region | | 12 trillion, 841 billion dinars | |

Table No. 4



The table of total damages inflicted by the former dictatorship regime during the years of 1963 – 2003

July 2013

Content:

| | | |
|---------------|------------------|------------------|
| 03 | 04 | 05 |
| Summary | Human casualties | Material damages |
| 06 | 07 | 11 |
| other damages | Notes | Sources |

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Summery

| Type of damages | Cost (with the USD) |
|---|----------------------------|
| Human casualties | 306,849,950,000 |
| Material damages | 32,848,352,600 |
| Environmental damages (opening an exclusive fund) | 5,000,000,000 |
| Indirect damages (opening an exclusive fund) | 5,000,000,000 |
| Damages intentionally inflicted on the infrastructure | 30,000,000,000 |
| Reconstruction | 5,000,000,000 |
| | |
| Total | \$ 384,698,302,600 |

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Human casualties

| Human casualties | Number of casualties | Estimated financial cost for each victim | Total |
|--|----------------------|--|------------------------|
| Victims of Anfal genocide campaigns | 200,000 | 300,000 | 60,000,000,000 |
| Victims of crimes against humanity and war crimes | 65,000 | 300,000 | 19,500,000,000 |
| Estimated damage inflicted on family of the victims (two persons per each family) | 530,000 | 90,000 | 47,700,000,000 |
| People disabled as a result of genocide campaigns and wars | 18,700 | 150,000 | 2,805,000,000 |
| Political prisoners during the former regimes | 10,000 | 100,000 | 1,000,000,000 |
| Forced displacement (according to Article 140) | 516,899 | 50,000 | 25,844,950,000 |
| Forced displacement and deportation by the former regimes (600,000 families registered so far) | 600,000 | 250,000 | 150,000,000,000 |
| Total | | | 306,849,950,000 |

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Material damage

| Material damage | Number | Average * | Total number | Estimated financial cost for each | Total |
|---|--------|-----------|--------------|-----------------------------------|----------------|
| Center of districts, sub-districts, villages, that are damaged, | 5,003 | 50 | 250,150 | | 12,507,500,000 |

| | | | | | |
|---|------------|--|------------|--|----------------|
| burned or affected | | | | | |
| Schools | 834 | | 834 | | 291,900,000 |
| Worshipping sites | 1,667 | | 1,667 | | 688,471,000 |
| Health center | 350 | | 350 | | 73,500,000 |
| Farms for each house | 250,150 | | 250,150 | | 12,507,500,000 |
| Animals | 23,734,980 | | 23,734,980 | | 4,746,981,000 |
| Police and civil defense stations | 65 | | 65 | | 32,500,000 |
| Other services (communications, electricity, water, roads, bridges) | | | | | 2,000,000,000 |
| Total | | | | | 32,848,352,600 |

*average of house units

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Other damages

| Damages | Total |
|---|--------------------------|
| Environmental damages (creating an exclusive fund) | 5,000,000,000 |
| Environment climate factors | |
| Indirect damages (opening an exclusive fund) | 5,000,000,000 |
| Social, economic and other damages | |
| Intentional damage to the infrastructure | 30,000,000,000 |
| Airports, highways, universities, institutions and public centers | |
| Reconstruction | 5,000,000,000 |
| Total | \$ 45,000,000,000 |

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Notes 1

| Human casualties | Notes |
|--|---|
| Victims of genocide campaigns | Includes campaigns of Anfal, Barzanis, chemical attacks on different Kurdistan areas, Failis and other cases |
| Victims of crimes against humanity and war crimes | Fallen civilians and fighters of the Kurdistan liberation movement |
| Estimated damage of family of the victims (two persons per a family) | Includes permanent impairments, psychological disorder and chronic diseases that the family of the victims had suffered |
| Political prisoners | |
| Forced displacement (according to Article 140) | Includes disputed Kurdistan areas in accordance to the constitution |
| Forced displacement and deportation during the rule of former regimes (600,000 families registered so far) | Includes those who were directly and indirectly displaced from their areas inside and outside of Iraq |

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Notes 2

| Material damage | Notes |
|-----------------|-------|
|-----------------|-------|

| | |
|--|--|
| Damaged, burned, affected districts, sub-districts, villages | Includes residential properties in villages, sub-districts and districts. There are areas that came under attack on different times repeatedly |
| Schools | |
| Worshiping sites | Includes mosques, churches and shrines |
| Health center | Includes all health centers |
| Farms for each house | Includes gardens, farms, fruit trees and other trees |
| Police and civil defense stations | |
| Other services | Includes communication and networking stations, power plants and their distribution networks, wells, water pipeline and purification systems, roads, local streets, different types and sizes of bridges |

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Notes 3/4

| Environmental damages (opening exclusive fund) | Notes |
|--|--|
| Environment and climate factors | Includes natural forests, rivers, springs, forestation, temperature, raining |
| Archeology | The costs, damages can be indicated by agreement |

| Indirect damages (opening exclusive fund) | Notes |
|---|---|
| Economic, social and other loses or damages | Includes fragmentation of families and loss of communication between members of families, spread of shock and negative effects, loss of mutual trust, feeling humiliated and losing the sense of first class citizenship, poor economic situation, decrease of people's productivity, reliance on foreign aid, increase of unemployment, and lack of services for the public. |

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Notes 5/6

| Damages of intentional negligence of the infrastructure | Notes |
|---|---|
| Airport | Establishment of airports in the Kurdistan Region provinces |
| Highways | Main roads, local roads and train |
| Universities and institutions | Establishment of universities in large cities and institutions in districts |
| Public centers | Includes tourism and trade centers, factories for producing animal and agricultural products and other public centers |

| Reconstruction (opening exclusive fund) | Notes |
|--|---|
| Reconstruction (compensation for reconstruction) | Includes communication stations and its networks, power plants and distribution networks, wells, water distribution pipe system and water treatment projects, roads, bridges. |

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Sources:

Sources:

Sources:

- 1- Ministry of Martyrs and Anfal Affairs
- 2- Ministry of Planning – Board of Statistics
- 3- Ministry of Peshmerga

- 4- Ministry of Interior – Directorate of Migration and Displacement
- 5- Board of Disputed Areas (Article 140).



**Ministry of Interior
Joint Crisis Coordination Centre**

**Expenditure of services provided to the IDPs and refugees in the Kurdistan
Region, Iraq
From 2014 to 2020**

Report No. (8) April 27, 2020

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1- Summary:

After the start of the Syrian civil war in 2011, a large number of Syrian civilians fled to neighbouring countries. Approximately 250,000 Syrian refugees fled to the Kurdistan Region and have remained under the KRG's protection ever since. Today, 37% reside in nine refugee camps in the Erbil, Duhok and Slemani governorates of the Kurdistan Region; the rest are hosted within local communities. These refugee families had left everything behind and were extremely vulnerable. They were entirely dependent on humanitarian assistance provided to them by the KRG, the host communities, and local and international NGOs.

In the takeover of Ninewa and other Iraqi provinces in 2014, Islamic State (IS) spread a brutal wave of violence including mass executions, indiscriminate killings, and other atrocities amounting to ethnic cleansing and crimes against humanity. Within months, over three million Iraqis were displaced, with approximately 1 million fleeing to the Kurdistan Region. Twenty per cent were hosted in 28 IDP camps, while the rest settled in cities and towns within Erbil, Duhok, Slemani and Halabja governorates, as well as Garmiyan and Raparin administrations. Following the liberation operations of the ISIS-occupied cities by the Iraqi army and the Peshmerga forces, displacement of people continued, as they took refuge in safer areas. This led to an increase in the displaced population across Iraq to 5.5 million people in 2016, while the number of IDPs in the Kurdistan Region rose to 1.5 million. This large-scale displacement resulted in a 30% increase of Kurdistan's population within a few months.

The regional and local authorities, as well as civil society and international partners, faced immense challenges that placed increased pressure on the KRG's humanitarian response and leadership, as well as on different service sectors across the region. Weakened by a lengthy and costly war against ISIS and a financial and political crisis, the coping capacity of the KRG and local communities is severely reduced.

The estimated cost for meeting the displaced people's social, educational, economic and human needs, and preserving the full range of their rights in Kurdistan during the past five years, is 7 billion USD. Based on international standards, the daily cost to cover the basic needs of each displaced person amounts to 2.6 USD. This cost includes shelter, security and protection, water and sanitation, electricity, health and education, as well as administration and management of the camps. In addition, there are services such as using the public roads, decrease of employment, inflation of commodity and property prices, increase of unemployment and

poverty rates. For instance, poverty rate in the Kurdistan Region rose from 3.5% in 2014 to 13% in 2016.

It's worth mentioning that 25% of the costs mentioned above were covered by donor countries, either through UN agencies or international and local NGOs, while the rest of the costs were financed by the KRG. However, no financial humanitarian assistance to manage the humanitarian crisis has been provided to the Kurdistan Region by donor countries since 2014.

2- Table A: number of IDPs and refugees in the Kurdistan Region from 2014 to 2019

| Year | Number of refugees | Number of IDPs | Total |
|------|--------------------|----------------|-----------|
| 2014 | 257,000 | 1,003,300 | 1,260,300 |
| 2015 | 227,107 | 1,248,024 | 1,505,024 |
| 2016 | 219,468 | 1,190,187 | 1,672,395 |
| 2017 | 273,499 | 1,190,187 | 1,463,686 |
| 2018 | 284,132 | 1,127,400 | 1,411,352 |
| 2019 | 247,450 | 792,915 | 1,040,365 |

3- Table B: annual expenditure for the IDPs and refugees from 2014 to 2019

| Year | Annual expenditure in USD | | Combined expenditure for IDPs and refugees |
|--|---------------------------|---------------|--|
| | Refugees | IDPs | |
| 2014 | 240,552,000 | 391,287,000 | 631,839,000 |
| 2015 | 212,572,252 | 1,168,150,464 | 1,189,722,616 |
| 2016 | 205,422,048 | 1,359,939,672 | 1,565,361,720 |
| 2017 | 255,995,064 | 1,114,015,032 | 1,370,010,096 |
| 2018 | 265,947,552 | 1,055,246,400 | 1,321,193,952 |
| 2019 | 231,613,200 | 742,168,440 | 973,781,649 |
| Total expenditure from 2014 to 2019 | | | 7,051,909,024 |

4- Table C: financial assistance provided by the federal government

| Donor | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|-----------------------------|-----------------------|------|--|------|--|------|
| Higher Committee for Relief | - 132 billion IQD (14 | | - 52 billion IQD for the construction of camps for Nineveh | | Allocation of 2,385,000,000 IQD for camp | |

| | | | | | | | |
|---|--------------|-----------|--------------------|------------------|--------------------|----------------------|----------------------|
| 2011 | 93 | 65 | 28,000,440 | 93,048 | 12,923,280 | 123,919,896 | 61,95 |
| 2012 | 221 | 65 | 125,837,400 | 418,167 | 58,078,800 | 556,911,160 | 278,4 |
| 2013 | 236 | 65 | 134,378,400 | 446,550 | 62,020,800 | 594,710,560 | 297,3 |
| 2014 | 221 | 65 | 125,837,400 | 418,167 | 58,078,800 | 556,911,160 | 278,4 |
| 2015 | 230 | 65 | 130,962,000 | 435,197 | 60,444,000 | 579,590,800 | 289,7 |
| 2016 | 202 | 65 | 115,018,800 | 382,216 | 53,085,600 | 509,031,920 | 254,5 |
| 2017 | 192 | 65 | 109,324,800 | 363,295 | 50,457,600 | 483,832,320 | 241,5 |
| 2018 | 70 | 65 | 39,858,000 | 132,451 | 18,396,000 | 176,397,200 | 88,19 |
| 2019 | 105 | 65 | 59,787,000 | 198,677 | 27,594,000 | 264,595,800 | 132,2 |
| 2020 | 105 | 65 | 19,656,000 | 65,318 | 9,072,000 | 86,990,400 | 43,49 |
| Total | 167.5 | 65 | 888,660,240 | 2,953,086 | 410,150,880 | 3,932,891,216 | 1,966,445,608 |
| <p>Note: The electricity companies' payments were made by the federal government. The KRG paid for the fuel (gas and diesel) required for power generation.</p> | | | | | | | |

Table of payments for 2019 electricity sales in the Kurdistan Region, according to contracts signed with the following companies: Qaiwan, Fox Energy, Bakhtiar Group and Mass

| Months | Kar | Qaiwan | Fox Energy | Bakhtiar Group | Mass |
|---------------|------------|---------------|-------------------|-----------------------|-------------|
| 1 | 8,189,952 | 7,047,168 | 2,833,152 | 848,160 | 52,679, |

| | | | | | |
|--------------|-------------------|-------------------|-------------------|------------------|----------------|
| 2 | 7,533,568 | 7,970,816 | 2,502,528 | 766,080 | 44,488, |
| 3 | 5,880,576 | 8,951,808 | 2,833,152 | 736,560 | 49,047, |
| 4 | 7,211,520 | 8,110,080 | 2,640,960 | 648,000 | 43,303, |
| 5 | 7,729,664 | 7,340,800 | 2,687,328 | 624,960 | 40,066, |
| 6 | 8,317,440 | 7,424,256 | 2,606,640 | 475,200 | 44,575, |
| 7 | 8,641,440 | 7,856,640 | 2,749,824 | 535,680 | 46,311, |
| 8 | 8,608,672 | 7,091,712 | 2,708,160 | 535,680 | 47,161, |
| 9 | 7,903,424 | 6,888,185 | 2,640,960 | 540,000 | 45,058, |
| 10 | 7,460,224 | 6,278,138 | 2,687,328 | 312,408 | 39,351, |
| 11 | 7,374,752 | 8,072,321 | 2,620,800 | 629,400 | 37,782, |
| 12 | 7,540,487 | 8,179,206 | 2,874,816 | 647,280 | 48,827, |
| Total | 92,391,719 | 91,211,130 | 32,385,648 | 7,299,408 | 538,655 |