

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


Attachments

1. Table 1: The expenses in the Kurdistan Region for 2019.
2. Table 2: Independent Auditing of Oil and Gas Income, and Expenditure.
3. Table 3: The Kurdistan Region's financial dues in accordance with the Iraqi federal budget for the financial year of 2019.
4. Table 4: The tables of total damages inflicted by the former dictatorship regime during the years of 1963 – 2003.
5. Report of the expenditure of services provided to the IDPs and refugees in the Kurdistan Region, Iraq
6. Table 5: The Kurdistan Region's share in the Iraqi budget and the amount of money paid to the Region 2014-2019.
7. Table 6: The payments for 2019 electricity sales in the Kurdistan Region, according to contracts signed with the following companies: Kar, Qaiwan, Fox Energy, Bakhtiar Group and Mass.
8. Table 7: The amount of electricity provided to Kirkuk governorate where fuel was provided by the Kurdistan Regional Government (KRG) from 20/6/2011 to 6/4/2020

**Table 1: The 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 2: Independent Auditing of Oil and Gas Income, and Expenditure

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 3: 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 trillion and 448 billion	Employees' salaries numbering (682,021 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 4: The tables of total damages inflicted by the former dictatorship regime during the years of 1963 – 2003

July 2013

Content:

II	II	III
Summary	Human casualties	Material damages
III	IV	V
other damages	Notes	Sources

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

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

Material damage

Material damage	Number	Average *	Total number	Estimated financial cost for each	Total
Center of districts, sub-districts, villages, that are damaged, burned or affected	5,003	50	250,150		12,507,500,000
Schools	834		834		291,900,000
Worshiping 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

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

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

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

Notes 3

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

Notes 4

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.

Notes 5

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

Notes 6

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.

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 Garmiyān 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 and Shelter of IDPs	- 132 billion IQD (14 billion to Erbil, 101 billion to Duhok and 17 billion to Slemani)		- 52 billion IQD for the construction of camps for Nineveh IDPs (23 billion for Erbil, 21 billion for Duhok and 8 billion for Slemani) - 300 million IQD for Erbil Health Directorate - 962,425,000 for Ministry of Interior for camp management		Allocation of 2,385,000,000 IQD for camp management for the duration of six months.	

Total allocated money by the federal government from 2014 to 2019

184,962,725,000 IQD

Note:

- 1- The amounts of money mentioned above only include those that were submitted with the Ministry of Interior's knowledge.
- 2- The allocated money for 2018 has not been provided by the federal government, although the disbursement of funds has already been approved.

5- Assistance provided by the international community

Since the beginning of the Syrian humanitarian crisis in 2012, followed by a new wave of refugees in 2014, donor countries and the international community played a crucial role in securing and providing emergency humanitarian assistance for the refugees and IDPs. This assistance included the implementation of service projects, technical assistance, training, as well as providing financial assistance to IDPs, refugees and staff working at the camps. However, the assistance provided by donor countries has only covered part of the needs outlined in Table B, amounting to 25% of the 7 billion USD total. International development agencies have contributed almost 5% of the total expenditure, with the KRG funding the remaining 70%. Until now, no donor countries have provided direct financial assistance to the KRG since 2014 (with the exception of a 2 million euros donation by Qatar in 2015).

Table 5: The Kurdistan Region's share in the Iraqi budget and the amount of money paid to the Region 2014-2019 (trillion IQD)

Year	Average	Kurdistan Region's share	Paid amount	Unpaid amount
2014	1/12 year of 2013	19,999,616	2,280,000	17,719,616
2015	17%	14,817,000	2,476,000	12,341,000
2016	17%	12,570,000	0	12,570,000
2017	17%	11,605,028	0	11,605,028
2018	12.67%	6,767,173	2,175,403	3,591,770
2019	12.67%	9,783,026	5,439,130	4,342,896
Total		75,541,843	13,370,533	62,171,310

Table 6: The payments for 2019 electricity sales in the Kurdistan Region, according to contracts signed with the following companies: Kar, Qaiwan, Fox Energy, Bakhtiar Group and Mass

Months	Kar	Qaiwan	Fox Energy	Bakhtiar Group	Mass	Total per month in US dollars
1	8,189,952	7,047,168	2,833,152	848,160	52,679,664	71,598,096
2	7,533,568	7,970,816	2,502,528	766,080	44,488,544	63,261,536
3	5,880,576	8,951,808	2,833,152	736,560	49,047,456	67,449,552
4	7,211,520	8,110,080	2,640,960	648,000	43,303,680	61,914,240
5	7,729,664	7,340,800	2,687,328	624,960	40,066,632	58,449,384
6	8,317,440	7,424,256	2,606,640	475,200	44,575,920	63,399,456
7	8,641,440	7,856,640	2,749,824	535,680	46,311,024	66,094,608
8	8,608,672	7,091,712	2,708,160	535,680	47,161,416	66,105,640
9	7,903,424	6,888,185	2,640,960	540,000	45,058,320	63,030,889
10	7,460,224	6,278,138	2,687,328	312,408	39,351,648	56,089,746
11	7,374,752	8,072,321	2,620,800	629,400	37,782,720	56,479,993
12	7,540,487	8,179,206	2,874,816	647,280	48,827,976	68,069,765
Total	92,391,719	91,211,130	32,385,648	7,299,408	538,655,000	761,942,905

Table 7: The amount of electricity provided to Kirkuk governorate where fuel was provided by the Kurdistan Regional Government (KRG) from 20/6/2011 to 6/4/2020

Year	Amount of electricity provision by MW	Price \$ MW/Hrs	Amount of money paid by Baghdad	The amount of gas allocated by the KRG - cubic feet	The amount of money paid by the KRG \$	The amount of diesel used by the KRG - litre	The amount of money paid by the KRG \$	Notes
2011	93	65	28,000,440	93,048	12,923,280	123,919,896	61,959,948	Day of provision: 20/6/2011
2012	221	65	125,837,400	418,167	58,078,800	556,911,160	278,455,580	
2013	236	65	134,378,400	446,550	62,020,800	594,710,560	297,355,280	
2014	221	65	125,837,400	418,167	58,078,800	556,911,160	278,455,580	
2015	230	65	130,962,000	435,197	60,444,000	579,590,800	289,795,400	
2016	202	65	115,018,800	382,216	53,085,600	509,031,920	254,515,960	
2017	192	65	109,324,800	363,295	50,457,600	483,832,320	241,916,160	
2018	70	65	39,858,000	132,451	18,396,000	176,397,200	88,198,600	
2019	105	65	59,787,000	198,677	27,594,000	264,595,800	132,297,900	
2020	105	65	19,656,000	65,318	9,072,000	86,990,400	43,495,200	Until: 25/4/2020
Total	167.5	65	888,660,240	2,953,086	410,150,880	3,932,891,216	1,966,445,608	

Note: The electricity companies' payments were made by the federal government. The KRG paid for the fuel (gas and diesel) required for power generation.