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IF THE KURDS GO BROKE, IT'S LIGHTS OUT FOR OBAMA'S WAR ON THE ISLAMIC STATE

BY JOHN HANNAH

Here's a worrying bit of news: America's best ally in the war against the Islamic State, Iraq's Kurdistan Regional Government (KRG), is nearly broke. That's a major problem, especially as the U.S.-led coalition gears up for its most difficult battle yet: the effort to liberate Mosul, the heart of the Islamic State's power in Iraq. With the Kurds slated to play an essential role in that potentially decisive military campaign, now is the time for their capabilities to be reaching their zenith. Instead, they're under growing threat of catastrophic collapse.

A near-perfect storm of crises has been draining KRG finances. First, there's the burden of the war. For over 18 months, Kurdish forces have been pushing IS back across a 600-mile front. There's also the KRG's chronic dispute with the central government in Baghdad that has denied the region its share of Iraq's national budget for the better part of two years. That's billions upon billions of dollars in foregone revenue.

Further exacerbating the situation

has been a massive influx of refugees and displaced persons, an estimated 1.8 million men, women, and children, fleeing the Islamic State's hordes for the relative safety of Kurdistan. That tidal wave of humanity has increased the region's population by an astounding 30 percent, straining its infrastructure and social services to the breaking point (just think about that: in the United States, that's the equivalent of trying to take in over 90 million people overnight). Finally, like oil producers everywhere, what earnings the KRG receives from its own energy exports have been decimated by the collapse in world prices.

This can't end well. The warning signs are everywhere. Up to 70 percent of Kurdistan's workforce is on the KRG's payroll. Most have not been paid for months. When back wages finally come through, it's often at a fraction of what's owed. Going forward, officials have dangled the threat of draconian salary cuts. Labor strikes are breaking out, involving teachers, medical workers, and even elements of the police. Political

tensions are escalating. The broader economy is grinding to a halt. Construction of schools, hospitals, roads, and other critical infrastructure, is stalled. Tourism has dried up. Property values have plummeted. Consumer spending is collapsing.

Even more worrisome is the impact on Kurdistan's oil sector, overwhelmingly the KRG's primary source of revenue. The small international firms responsible for most of the region's exports have received only sporadic payments. Absent these funds, the companies largely lack the necessary cash flow to invest in further developing existing fields. And without sufficient capital expenditures, production at these fields could actually begin to decline. New exploration, meanwhile, is at a virtual standstill, with the region's rig count down by more than 90 percent, reaching levels not seen since the first production contracts were signed more than a decade ago.

Alarmingly, young Iraqi Kurds are increasingly voting with their feet, making up a growing proportion of the wave of migrants now flooding

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Europe. At least 300 have died, with most drowning while trying to cross the Aegean Sea from Turkey. In one widely reported tragedy last August, 71 people, including four children, suffocated to death in a trailer truck that was abandoned on an Austrian highway. While not made public, many — maybe even most — were Iraqi Kurds.

From the U.S. perspective, the main concern is what effect this economic nosedive will have on the KRG's ability to continue serving as the tip of the spear in the fight against the Islamic State, especially as the all-important battle for Mosul approaches. The

region's 150,000 Peshmerga fighters are, in many ways, the poster children for President Obama's strategy to defeat the Islamic State: a courageous and pro-American local force that, if backed by U.S. air power, is prepared to defeat the jihadists on the ground and then liberate and hold territory. No American boots required.

U.S. Secretary of Defense Ash Carter has described the Peshmerga as the "model" for the coalition's anti-Islamic State strategy. Since the war's start, Kurdish forces have reclaimed over 10,000 square miles of territory from the group. Over 1,600 have been killed in battle and over 8,000

wounded. Today, KRG troops control the northern, eastern, and western flanks of Mosul, and will no doubt play a major supporting role in liberating the Sunni-majority Arab city once the Iraqi army has mustered sufficient capabilities to lead the offensive, likely in conjunction with local Sunni forces. Importantly, the Iraqi army is now using KRG territory as a staging ground to prepare for the battle.

With that fight for Mosul possibly still months away, however, the danger is growing that the Peshmerga will enter it as a much-diminished force. Again, the warning signs are

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apparent. When the Peshmerga liberated Sinjar from the Islamic State in November, the KRG proved unable to finance major parts of the operation, and instead had to rely on wealthy Kurdish donors to pay for food and other essential logistical costs. Similarly, according to Kurdish officials, the ability to rapidly re-deploy units along a dynamic frontline that the Islamic State tests constantly — including through chemical weapons attacks — is increasingly constrained by the KRG's shortage of funding for petrol.

As with other public sector employees, many Peshmerga units have gone very long stretches without being paid, or being paid at drastically reduced wages. They, too, have been threatened with permanent reductions in salary and benefits going forward. In response, veteran Peshmerga, some of whom have come out of retirement to join the fight against the Islamic State, have begun staging their own protests. Anecdotes abound of Peshmerga troops taking part-time work as taxi drivers to eke out a living; of Peshmerga returning from the front to find their families threatened with eviction by landlords who haven't received a rent check in months; of Peshmerga hearing that their malnourished children are passing out in school.

There have also been alarming reports of Peshmerga selling German-supplied rifles and pistols on the black market, apparently to raise funds to support their families, or even in some cases to finance their decision to leave Kurdistan altogether and flee to Europe. While KRG officials insist that overall morale remains remarkably high, in private they express growing concerns that as the economic hardships on the Peshmerga mount over the coming months, so too will the danger that the drip, drip, drip, of the rare deserter turns into a much broader phenomenon that could seriously threaten the force's ability to sustain the fight. Not for lack of will to confront the Islamic State, they stress, but because the families that they are ultimately fighting for cannot survive with them away at the front and not sending home a paycheck.

Given how much the United States has at stake in defeating the Islamic State, and considering how dependent President Obama's war strategy is on the Peshmerga's continued battlefield prowess, the administration would be well advised to make avoiding a full-blown financial meltdown in Kurdistan a top priority. There's at least some reason to hope that it's now doing so.

Kurdish officials report that their

U.S. counterparts appear to be taking their pleas for urgent help seriously. The KRG is saying that at today's low oil prices, they need at minimum \$200 million per month in outside help to cover security costs through the battle for Mosul. The administration has allegedly countered with a proposal closer to \$50 million, which the Kurds insist would fall well short of their needs. But at least a serious conversation seems to be underway. For their part, Senators John McCain and Lindsey Graham have both spoken of finding a way in the next month or two to appropriate emergency funds for the KRG that would cover its most urgent military costs. Of course, another option would be for President Obama to take his leadership responsibilities for the anti-Islamic State coalition seriously, and lead an urgent tin-cup exercise on behalf of the KRG, leveraging any American contribution to mobilize much greater multilateral assistance. With Saudi Arabia recently establishing a consulate in Kurdistan, all the richest Gulf states now have direct relations with the KRG. Yes, all of them are experiencing their own financial challenges as a result of the depressed oil market. But providing some level of temporary support to the Kurds as their forces lead the fight against the Islamic State shouldn't be



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beyond their capacity. Ditto for the European Union, as it seeks to stem the refugee crisis that now poses an existential threat. And seriously, have U.S. partners in Asia, like Japan and South Korea, really been stretched to the limits in terms of the contributions they should be making to the coalition?

A further possibility might be exploring ways to assist the KRG in accessing international debt markets. Not being a sovereign entity, the Kurds face many complications in doing so. Even when potential external lenders have been willing to discuss different options for creative financing, the interest rates under discussion have been prohibitive. It's hard to believe, however, that with the full faith and credit of the U.S. government in their pocket, the army of lawyers and former investment bankers working for the White House are incapable of devising a few creative scenarios that might help the KRG attain more favorable terms — especially if President Obama ordered them to do so in full consultation with Congress, where sympathy for the Kurds runs high.

An important aside: Even as the administration focuses on helping the KRG address its current emergency, it should be pressing the Kurds relentlessly on two crucial issues. First,

on addressing several endemic problems typical of rentier economies that are totally dependent on the price of oil, including rampant corruption, a bloated public payroll, lack of economic diversification and a strong private sector, inefficient subsidy programs, and an inadequate tax base. The exhortations should be accompanied by aggressive programs of U.S. technical assistance.

Second, the U.S. should continue to encourage the KRG and Baghdad to find some kind of accommodation that might mitigate the financial crunch that threatens them both. Facing a common economic abyss, there have been more conversations of late between the two about finding a more cooperative path forward. If past is prologue, there's plenty of reason for skepticism that any good will come of it. Nevertheless, the United States has an important stake in seeing tensions abate between these two key partners in the war on the Islamic State.

Whatever the administration does to help the Kurds stay afloat, it should be done quickly and with great seriousness. This is no time for being penny wise and pound foolish. In war, half-heartedness and timidity rarely pay off. When it comes to the battle against the Islamic State, it's important to remember that

the Kurds are not just fighting and dying for themselves. It's no overstatement to say that they're serving as the indispensable ground troops for the forces of civilization against the forces of barbarism. For that, they deserve not just the free world's unceasing gratitude, but its fulsome support — now, at their hour of greatest need.

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