

Armed conflicts and spillover effects



A case study of Humanitarian International non-government organizations effects on the spillovers from multinational cooperation's.

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Foreword

This thesis represents a personal desire to enlarge our knowledge about Iraq and to reflect on Iraq's current and future situation 10 years after the last invasion (2nd Gulf War). Studying respectively minor and major in Business and Development studies with focus on Third World issues, it is only obvious that the thesis should be seen as a contribution to the development economic discussion of today. A discussion led by the big aid organisations such as UN, The World Bank, OECD and IMF, and addressed, discussed and contested by the development and aid community.

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Abstract

This thesis will explore the subjects of how the International Non-Governmental Organizations (INGO) activities contribute to the possibility of spillover effects occurring from Multinational Cooperations (MNC) foreign direct investment (FDI).

The thesis will do these through 7 criteria set up by Nunnenkamp, Blomstrøm and Kokko, H. Nguyen et al, and the authors.

Through the analyses of the thesis it establishes links between INGO activities from Danish Demining Group and Danish Refugee Council and the 7 criteria of the thesis. Moreover the thesis will show how the specific activities can strengthen and contribute to the possibility of spillover effects from MNCs occurring in a fragile and transitional country context.

The thesis is a case study based on the activities of Danish Demining Group and Danish Refugee Council in Iraq. The thesis will demonstrate how the INGOs (DRC and DDG) explicit activities, identified in the analysis and discussion, can contribute to strengthen the possibilities of spillovers occurring, on a micro scale.

Keywords: Foreign direct investment, Spillovers effect, Multinational cooperation's, Economic growth and development, International Non-governmental organisations, fragile states.

Table of Contents

Foreword	1
Abstract	3
Chronology - Iraq Timeline	9
1.0 Introductory.....	11
1.1 Research Question.....	14
Research Question:.....	15
1.2 Preliminary concept definitions.....	17
MNCs, FDIs, Linkages, and Spill-over's/Externalities and Absorption Gap	17
Absorption Gap and Absorptive capacities	19
State (Iraq) – Government Institutions– Fragile State	19
Markets – Local and International.....	20
Society, Civil Society and INGOs	21
INGOs versus MNCs	22
Economic growth and development	23
1.3 Relevancy.....	23
2.0 Theoretical Chapter	24
2.1 Theoretical discussion of the interaction of institutional arrangements and market (local and foreign firms).....	24
2.2 Theoretical discussion of the interaction of institutional arrangements and INGOs.....	26
2.3 Theoretical discussion on Economic growth from the perspective of firms and industry.....	28
2.4 Theoretical discussion on FDI - linkages and spill over effects.....	30
2.5 Theoretical discussion on Economic growth and development.....	39
The recent evolution of development thinking.....	39
3.0 Methodology	42
3.1 Philosophy of science	42
3.2 Research Design.....	42
3.3 Literature review	43
3.4 Interviews	45
Experts reference Government of Iraq:	46
Experts reference DRC and DDG (INGO):	46

Experts reference Multinationals Companies and UN:	47
Risks of the interview method.....	48
3.5 Case Study	48
3.6 ‘Operationalization’ of Absorptive Capacity.....	49
3.7 ‘Operationalize’ FDI, Economic Growth and Development in the fragile context case of Iraq.....	51
Economic Growth and Development	53
Indicators of economic growth:	53
Indicators of socio-economic development:	53
3.8 Method Operandi	54
3.9 Limitations & Scope	55
State – Government of Iraq – Southern Iraq.....	55
Civil Society (CSO) and Non-governmental organisations.....	57
Local market (local firms) and International market (MNCs).....	57
Time frame – from 2003 to 2013	58
Negative externalities and INGOs activities	58
3.10 Reliability and Validity	59
4.0 Analysis	61
4.1 Iraq – a historical perspective.....	61
4.2 The socioeconomic and political situation of Iraq.....	63
Classification of the economy of the state of Iraq	65
Security and political	66
4.3 National Law/Reforms/Strategy in relation to FDI for MNCs.....	69
4.4 Danish Refugee Council (DRC) and Danish Demining Group (DDG) in Iraq 2003 -2013	71
Danish Refugee Council Iraq.....	73
Danish Demining Group Iraq	75
5.0 Discussion	78
Absorption gaps in Iraq	78
Iraq.....	78
Iraq and the Industry Development	78
Iraq – a fragile setting.....	80

Multinational Companies	83
International Non-Governmental Organisation	84
1. Better education and training - Human Capital	84
2. More sophisticated local and national financial markets and financial infrastructure.....	87
3. Opening up to trade	88
4. Institutional development	88
5. Physical Essential and better infrastructure	90
6. Advanced R&D.....	93
7. Security stabilisation and Emergency Preparedness.....	94
6.0 Conclusion	97
Generalization of our findings	99
7.0 Suggestions for further research	100
Bibliography.....	102
Appendix 1 - Questionnaire.....	108
Appendix 2 – DRC and DDG framework	127
Appendix 3 – DDG Clearance Stats:.....	128

Figures:

Figure 1 – Fragile and transitional context.....	14
Figure 2 – Context of interactions.....	16
Figure 3 - Triangle of National Competitiveness	24
Figure 4 - Enabling Development	26
Figure 5 – Investment Development Path	50

Tables:

Table 1 – IMF table of FDI	17
Table 2 – MNC and INGO similarities and differences	21
Table 3 - Business System Approach	24
Table 4 – Historical core competencies and synergy	29
Table 5 - Implications and effects of MNC's investments	31
Table 6 - Spillover channels of FDI	33
Table 7 – Sector of companies.....	37
Table 8 - Trends in Development Theory	39
Table 9 – Analytical framework	53
Table 10 – Investment Development Path FDI flows for Iraq	64
Table 11 - DRC main assistance activities in Iraq	73
Table 12 – Analytical framework <i>operationalized</i>	77
Table 13 – Analytical framework <i>summary of results</i>	93

Abbreviations /Acronyms

FDI	Foreign Direct Investments
MNC	Multinational Companies
UN	United Nations
EU	European Union
DDG	Danish Demining Group
DRC	Danish Refugee Council
HQ	Head quarters
HMA	Humanitarian Mine Action
EOD	Explosive Ordnances
BAC	Battle Area Clearance
ERW	Explosive Remnants of War
NGO	Non-governmental organization
INGO	International Non-governmental organization
IB	International Business
IMF	International Monetary Fund
WB	World Bank
CSO	Civil Society Organizations
GOI	Government of Iraq
OECD	Organisational Economic Co-operation and Development
MRE	Mine Risk Education
UNCTAD	United Nations Conference on Trade and Development
UNHCR	United Nations High Commissioner for Refugees
UNDP	United Nations Development Programme

Chronology¹ - Iraq Timeline

1534 - 1918 -Ottoman rule.

1917 - Britain seizes control, creates state of Iraq.

1932 - Independence, followed by coups.

1979 - Saddam Hussein becomes president.

1980 - 1988 - Iran-Iraq war.

1990 - Iraq invades Kuwait, putting it on a collision course with the international community.

1990 – The Gulf war, from 2 August 1990 to 28 February 1991.

1991 - Iraq subjected to sanctions, weapons inspections and no-fly zones.

2003 - US-led coalition invades, starting years of guerrilla warfare and instability.

2004 - June - US hands sovereignty to interim government headed by Prime Minister Iyad Allawi.

2005 August - Draft constitution is endorsed by Shia and Kurdish negotiators, but not by Sunni representatives.

2005 October - Voters approve a new constitution, which aims to create an Islamic federal democracy.

2005 December - Iraqis vote for the first, full-term government and parliament since the US-led invasion.

2008 - November - Parliament approves a security pact with the United States under which all US troops are due to leave the country by the end of 2011.

2009 - January - Iraq takes control of security in Baghdad's fortified Green Zone and assumes more powers over foreign troops based in the country. PM Nouri al-Maliki welcomes the move as Iraq's "day of sovereignty".

2009 - June - US troops withdraw from towns and cities in Iraq, six years after the invasion, having formally handed over security duties to new Iraqi forces.

2011 - December - US completes troop pull-out. Unity government faces disarray. Arrest warrant issued for vice-president Tariq al-Hashemi, a leading Sunni politician. Sunni bloc boycotts parliament and cabinet.

2012 - Bomb and gun attacks target Shia areas throughout the year, sparking fears of a new sectarian conflict. Nearly 200 people are killed in January, more than 160 in June, 113 in a single day in July, more than 70 people in August, about 62 in attacks nationwide in September, and at least 35 before and during the Shia mourning month of Muharram in November.

2012 - November - Iraq cancels a \$4.2bn deal to buy arms from Russia because of concerns about alleged corruption within the Iraqi government. The purchase would have made Russia the country's second-largest arms supplier after the US. Moscow was the main arms supplier of to Saddam Hussein.

2013 –Thus far one of the bloodiest years since 2007 with over 5,000 civilians killed due to violence.

(BBC News April 2013)

1.0 Introductory

The following explorative study's main focus is the international non-governmental organisations (INGOs) legacy and impact in developing countries. By applying international business theory (IB) the study will explore the relevance of INGOs activities complementing the prerequisites for linkages and spill-over effects of Multi-National Companies (MNCs) directing foreign direct investments (FDI) into developing countries.

Peace-building and post-conflict dilemmas are many for a country and its population due to the devastating human tragedy it leaves behind. Recovery, reconciliation and rehabilitation are a long and slow process for many and in some countries or geographical areas the conflict unfortunately reproduces or restarts. Moreover, effects of an armed-conflict normally generate a general breakdown of basic services, security and infrastructure which will affect the entire country (state) and its population.

Decades of conflict and international sanctions have had devastating effects on Iraq and its population. After, the 2003 invasion, expectations for creating a stable and democratic Iraq and establishing a strong market economy were high. Unfortunately, the events have taken a different direction. Iraq experiences severe security deterioration in particular after the last US troops left in December 2011 and in the remit of the Syrian crisis. The infrastructure is now in a worse condition than before 2003; and major social indicators are showing serious decline while the delivery of basic social services can barely meet the demand. Actually, one concern is that the international armed conflict has reproduced a non-international armed conflict² within the country which looks unfortunately to be getting worse by autumn 2013. Consequently, the scenario possible is Iraq being considered as a 'failed' state.

So, how to recover and establish sustainable economic growth and development post armed-conflict within a sovereign *fragile*³ state? Assumingly, the interest of the state should be to enhance the welfare effects for the majority of the population in the short term and the long term. Nonetheless, depending on the context and interest of the state (social, political, economic or cultural) the courses are various and interdisciplinary.

According to the so-called Monterrey Consensus achieved at the UN summit on Financing for Development in 2002, ***“foreign direct investment ... is especially important for its potential to transfer knowledge and technology, create jobs, boost overall productivity, enhance competitiveness and entrepreneurship, and ultimately eradicate poverty through economic growth and development. A***

² Law of Armed Conflict distinguish between IAC – international armed conflict (between sovereign states) and NIAC - non-international armed conflict (between the state and non-state actors) (IHL, 1977)

³ The lack of the Iraqi government to carry out basic government functions classify the country of Iraq as a fragile state, reference OECD report “Fragile states 2013”

central challenge, therefore, is to create the necessary domestic and international conditions to facilitate direct investment flows” (United Nations, 2003: 9, paragraph 20).

From an economic and international business perspective, foreign direct investment (FDI) by Multinational Companies (MNC) (Cypher and Dietz 2004) is reflected to be ‘an engine of growth and development. Thus, MNCs are representing positive developmental impact from FDI (Yamin and Sinkovics, 2009). Up through the 1990’s and 2000’s , FDI inflows were seen by several IB scholars, UN agencies, IMF, WB and OECD as an essential instrument for economic growth and development and in particular for developing countries in order to advance local firm competitiveness and an industrial restructuring. The main benefit argument is that FDI does not only generate direct effects i.e. employment of local population and the obvious infusion of capital in terms of spending, but also **spill-over effects**. MNCs spill-over effects would be for instant increased experience for an employee that utilizes this experience (human capital spillovers ((WDR 1995)) in local firms at a later time. An increase in the general economic activities in the area (community) of the MNC’s would cause another spill-over effect. Such activities can, for example be hotels for international staff and increased local residence in the area of where new jobs are created and located. There can also be technological spill-over in terms of local competition observing new technology and methods of the MNC and replicating them.

During recent years, FDI research emphasis has been on the impact – positive and negative - of FDI on economic growth and poverty reduction in developing countries. Is FDI good for economic growth and poverty alleviation? That is an essential question as recent years research indicates that the destination of the majority of FDI flow is not going to developing countries (Sumner, 2005). Sumner (2005) concludes that FDI is undoubtedly great for aggregated growth however, it remains to be seen if it is good for rising per capita per incomes, hence reducing poverty. Moreover, he states that it is not a question whether FDI benefits socio-economic development, but rather if the terms upon which FDI is accepted will lead to more harm than good, for example creating tax havens promoted by a race to the bottom with other countries that try to attract FDI. In conclusion, it is recognised that FDI does not always have the expected effect in regards to the developing countries i.e. host country.

Another critic of foreign direct investment in developing countries by MNC’s is Peter Nunnenkamp’s (2004). Nunnenkamp argues that in the least developed countries the local environment of the host country is not able to absorb the spill-over. The gap between the technology and knowledge of the MNC and the local firm is too large for the local companies to absorb. The local environment cannot exploit the increased activity of business possibilities in the area because there is no access to start-capital and lack of essential infrastructure (physical and financial). Employees lack sufficient education levels to copy the technology that they come in contact with. (Peter Nunnenkamp, 2004)

The sum of Nunnenkamp (2004) and Koko and Blomstrøm (1998) and H. Nguyen et al; FDI incentives analysis establishes that the following 6 criteria's (classified as absorption gap) have to be improved or met in order for a country to benefit from FDI:

1. Better education and training would add to the supply of qualified labour and improve prospects to benefit from technology transfers and spill-over's (Human Capital).
2. More sophisticated local financial markets enhance the capacity of host countries to absorb FDI inflows – reform the financial system.
3. Opening up to trade may help towards becoming involved in corporate networks and thereby benefiting from the widely perceived trend towards efficiency seeking and export oriented FDI.
4. Institutional development seems to be required to benefit from both efficiency seeking and market seeking FDI. Institutional development involves a wide range of fairly time-consuming reforms, including the protection of property rights, control of corruption and efficient administrative regulations.
5. Physical infrastructure (roads, electricity, water supply, information technology etc).
6. Investment in Advanced technology and R&D

From a development perspective, the effectiveness of foreign aid promoting economic growth and development continues to be debateable. Subsequently, this raises the question if the international community can support the dissemination of FDI related benefits/spill-over's by using aid as a means to ease access to FDI?

During the period from 2003 to 2011, Iraq topped the list as one of the largest recipients of foreign aid bilaterally and multilaterally. Iraq still receives large amounts of funding from the international community. However, financial crisis, other global disasters and conflicts and the withdrawal of US army during 2011 has decreased the amount donated, considerably. Besides, the conditional foreign aid from organisations such as IMF, WB and OECD, foreign assistance is often addressed and implemented by INGOs in cooperation with national and local community institutions, actors of civil society and NGO's.

So does the work of the INGO's strengthen the local environment to absorb the spill-over effects from the MNC's? The study wishes to explore if there is empirical evidence to link international aid of the INGOs having a positive effect/impact on spill-over's from MNCs e.g. spill-over's as a result of a better educated population, improvement of infrastructure and institutional development.

1.1 Research Question

In recognition of Iraq's difficult settings in a post armed conflict transitional context; UN, OECD, World Bank and IMF have all committed since Nov 2004 (NDP, 2010) to increase their assistance, support, and advice in order to re-stabilize the country after the war. Nonetheless, in the last couple of years, international funding to Iraq is declining and subsequently the assistance from the Danish Refugee Council and Danish Demining Group has decreased.

It will therefore be interesting from an Iraqi national perspective what impact/effects INGOs leave behind, that have potentially reduced the absorption gap in order to benefit from foreign direct investment inflow, to generate economic growth and development.

The purpose of the following thesis is to explore through an INGO case analysis of DRC/DDG Iraq, from 2003 to 2013; if INGOs' activities contributed to minimize the absorption gap in order to strengthen the possibility of FDI spill-over effects, in a fragile and transitional context like Iraq.

Do spill-over effects really occur when MNC's enter a country?" and "does foreign aid really work?" Both questions have been sought and answered in different contexts, but the question that this thesis wishes to explore and investigate is, if the implementation of INGOs' activities contribute to closing the absorption gap demonstrated by Nunnenkamp, Koko and Blomstrøm and H. Nguyen et al and thereby intensifying the possibilities for MNC spill-over's to occur for the benefit of the host country in regards to economic growth and development?

Thus, the thesis is an attempt on our part to demonstrate if there is empirical evidence to link the impact of international aid to the improvement of FDI benefits, by increasing the possibility of a host country's ability to absorb the spill-over effects from the MNC's. Therefore, the thesis will address the following research question and sub-questions;

Research Question:

“How can international non-governmental organisations (INGO) activities contribute to minimize the absorption gap in order to strengthen the possibility of Multinationals companies (MNC) Foreign Direct Investment (FDI) spill-over effects in a fragile and transitional context?”

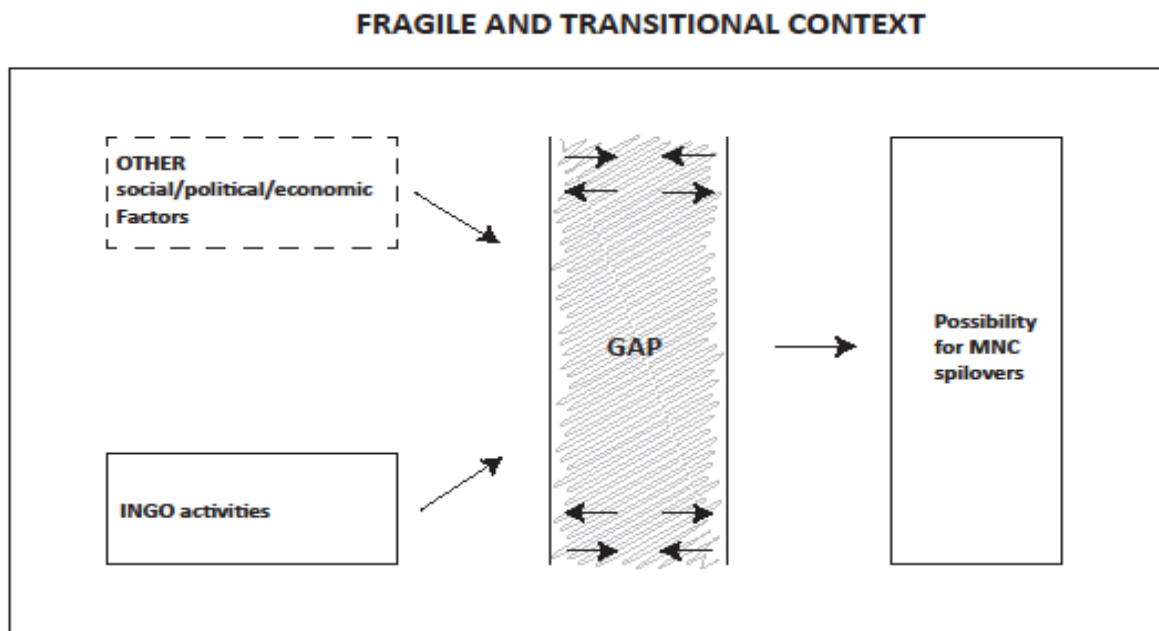


Figure 1 - Fragile and transitional context

The above figure illustrates our research question. The surrounding box shows the fragile context that we are operating in. In this thesis our case is the country of Iraq. On the left side in the box we have the INGO activity that feeds into the spillover gap and pushes towards the possibility of spillovers. On the other side of the gap we have the “possibilities for MNC spillovers”. The gap is a variable that is in constant change symbolized by the opposite pointing arrows over and under the gap. Minimizing the gap will increase the possibilities of spillovers.

We have one more box on the left side that is shown in dotted lines. These are other factors that will affect the gap but is outside our research scope.

The idea, that sustainable economic growth and development should be in the interests of both MNCs and Developing Countries, is the overall working hypothesis of this study. The underlying hypothesis of the research question is that foreign aid and certain INGO activities contribute to 'minimise' the absorption gap. Hence, by reducing the absorption gap the hypothesis would be that Iraq will be better positioned to attract MNC foreign direct investment that could lead to local and national firm and industry economic growth. Subsequently, the multiplier effect could lead to general aggregated economic growth and development of the country.

Multinational cooperation's (MNCs) are increasingly present in many developing countries (DC) and have profound implications for economic and social development. (UNCTAD, 2012) Whether this presence is strengthening or obstructing the economic or social growth of a country/state/nation is one of the essential objectives from the perspective of both the MNCs and DCs. For both parties, you could argue that the buzz concept 'sustainable solutions', 'durable solutions' or 'sustainable developments' should be the end goal of the investments.

Additionally, it is assumed that Iraq suffers from a relatively large absorption gap in regards to attracting private sector investment i.e. foreign direct investments. Iraq is considered to be in an early armed post-conflict phase thus the state apparatus is fragile in respect to providing basic services for its population.

In a fragile context the criteria of economic growth and development are very different than if the MNCs entered by FDI in a developed country. The assumption is that the implications of FDI will have less impact (positive or negative) in industrial developed countries that have basic institutional structures already in place.

In this thesis, spill-over effects are meant as positive unintended externalities benefiting the host country. The MNCs wants to limit spillover effects, in particular if the spill-over effects are related to a specific technology or, in the words of Dunning (2008), ownership advantages. MNCs are not interested in their concept/product being copied and produced more cheaply by local firms, as it will among others, increase the competition level of the industry and thereby diminish the market share and profit of the MNC. (Dunning 2008)

The spill-over effects of the MNC's has got a lot of attention in the IB literature, but less attention has been set on the INGOs that enter countries with bilateral or multilateral foreign aid /donor funds.

INGO undertakings are seen as intended and planned activities implemented via defined projects designed in cooperation with a donor/s depending on the approval of the national, regional and local stakeholders of the host country. Thus, it is explicit that the INGOs' objective is to make a difference

towards a modernisation and democratisation process by bringing in expertise within different aid sectors. Said in a different way; the point of departure of the INGO is that its existence and undertakings having had positive direct and indirect effect/impact i.e. intended as well as unintended spill-over effects. Thus, the INGO emphasise and support sustainable solutions and development.

Therefore as a point of departure the thesis will add an extra dimension to the interaction and dynamic of MNCs, besides the Government of Iraq and local market and will examine the role of the INGOs in host countries and their role in the interaction between local firms, MNCs, institutions and INGOs. The thesis will hypothesize that the INGO has an equal influence in the interaction between the four dimensions in contributing or impeding to socio-economic growth where the state fails to meet the basic needs of the country. For example when a state fails to meet the basic needs of its population and fails to establish socio-economic sustainable growth. In that case we examine what the INGO can bring to the table in order to turn the vicious circle of self-replicating poverty, around.

Below graphic models illustrate the interactions described above and demonstrates the study's narrow scope.

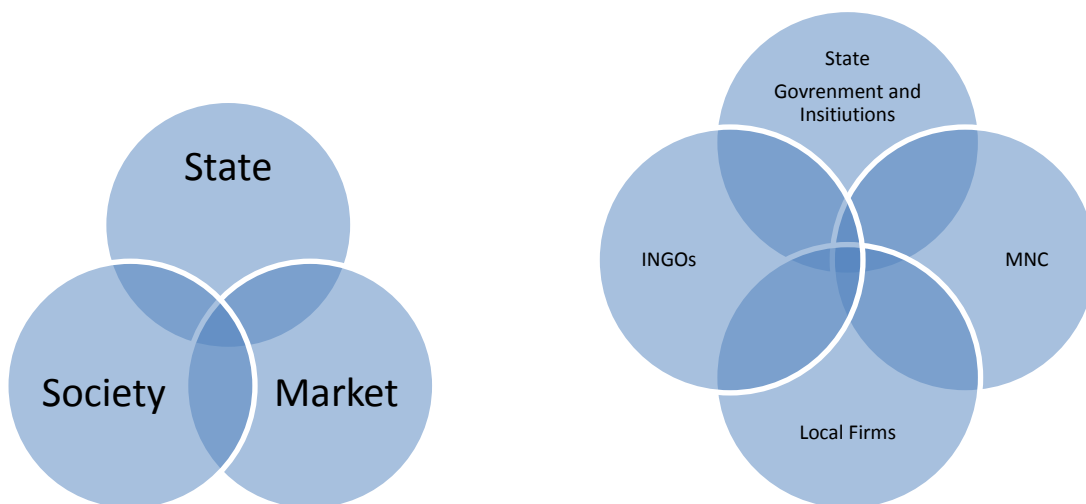


Figure 2 - Context of interactions

1.2 Preliminary concept definitions

MNCs, FDIs, Linkages, and Spill-over's/Externalities and Absorption Gap

The strong presence of MNC's in developing countries doesn't necessarily mean that there is a Foreign Direct Investment (FDI) (Cypher and Dietz, 2004) inflow, however MNC's access to developing and emerging markets is numerous. (UNCTAD, 2012)

The study specifically looks into the physical (entity arrangements) foreign direct investments of the MNCs. Table 1 below demonstrates some of the different MNC's entry modes into host countries and when it is classified as FDI.

<i>Non-equity arrangements (0% Ownership)</i>	<i>Equity arrangements (10% to 100% Ownership) = FDI</i>
Strategic alliances	Subsidiaries (more than 50%)
Turnkey projects	Affiliates (more than 10%)
Trade/ Subcontracting	Joint Ventures (M&A)
Licensing/Franchising	

Table 1 - IMF table of FDI

This study will adopt the following MNC and FDI definition by (Cypher and Dietz, 2004); *“MNCs are companies operating in two or more nations.”* and, FDI is; *“ownership of productive assets by a cooperation in another nation.”*

The study is looking at the international business literature and MNCs concerning linkages.

The MNC has a number of effects, direct and indirect, on the country. The direct effects are known and easily mapped out. Direct effects cover for example, jobs created, salaries paid, and general capital inflows from acquisitions of property among others.

Within the International Business literature (IB) some scholars limit the term **‘linkage’** to cover the linkages between MNCs and local firms; others use a more broad definition. Giroud and Scott-Kennel (2009) conceptualize the following broad definition of linkages. (Giroud and Scott-Kennel, 2009) *Linkages are the transactions between foreign subsidiaries and local businesses as well as non-business entities such as universities, training centres and other official or private institutions.*

In other words linkages are the networking relations of foreign subsidiaries and local businesses. **Without these linkages, spill-over's cannot take place, since they are the bridge between the MNC and the local environment.** This study adheres to the broader version of linkages within the IB literature.

The study moreover adheres to **spill-over effects** defined by Kokko and Blomstrom (1998) as *“When the efficiency of local firms improve as a result of foreign entry, and the foreigner does not internalize the benefits”,* or *“The spill-over's occur when local firms benefit from the MNC affiliates superior knowledge of product or process technologies or markets, without incurring a cost that exhausts the whole gain from the improvement”.* (Blomstrom & Kokko 1998)

The different terms of IB literature spill-over effects and externalities are the same. However externalities are also used when negative effects/impacts are discussed.

Finally, spillovers are unintended from the perspective of the MNC's.

Absorption Gap and Absorptive capacities

Nunnenkamp talks about absorption gap and H. Nguyen et al all talk about absorptive capacities referring to the same concept of criteria's that have to be strengthened or met in order to improve the host country's possibility to attract FDI. In summary the 6 criteria's are

1. Better education and training to qualify labour (Human Capital)
2. More sophisticated local financial markets and reform the financial system.
3. Opening up to trade may help to become involved in corporate networks - linkages
4. Institutional development of relevant stakeholders
5. Physical infrastructure (roads, electricity, water supply, information technology etc).
6. Investment in Advanced technology and R&D

In regards to the research question the concept of 'minimize' or 'strengthen' the absorption gap, are fundamentally the same. The interpretation is that; for example, contributing with education to national Iraqis the INGO contributes to improving the labour pool by strengthening peoples capacities and competencies and thereby minimizing (closing) one of the gap criteria's.

State (Iraq) – Government Institutions– Fragile State

'Sovereignty' in a modern and fragmented society does not necessarily mean one person, but rather a network of institutions and people determine and sustain the rules for the citizens. Thus it conforms to the state: The State is sovereign. The state is defined as a set of loose coherent institutions, its thorough monopoly of the legitimate use of physical force seeks to determine and maintain rules of freedom and limitation of its citizens within a given territory. Thus, the state is by definition a network of institutions, which exercise sovereignty.⁴ On that notion the state can furthermore be said to consist of the government and legislature which passes laws, the judiciary and legal system which interprets those laws, the bureaucracy or public service which implements governmental decisions, the police who are responsible for law enforcement, and the armed forces whose job it is to protect the state from external, and sometimes, internal threats (Van Krieken et al. 2002).

⁴ This definition is based upon Max Weber's definition of the State.

An institution is a combination of formal and informal rules and conventions that structure the social, political and economic interaction: norms, principles, values and identity (cultural). This means that the impact of norms, principles, values etc. transform the informal and formal institutions. Some Institutions do not survive and others disappear and recur. The impact characteristics are due to the political system (democratic, authoritarian, etc.) and the economy system. Above all, institutions are used to understand markets. (Allemand 2004)

Furthermore, the study will lean itself up against OCED analysis and definition of fragility;

“A fragile region or state has weak capacity to carry out basic governance functions, and lacks the ability to develop mutually constructive relations with society. Fragile states are also more vulnerable to internal or external shocks such as economic crises or natural disasters. More resilient states exhibit the capacity and legitimacy of governing a population and its territory. They can manage and adapt to changing social needs and expectations, shifts in elite and other political agreements, and growing institutional complexity. Fragility and resilience should be seen as shifting points along a spectrum” (OECD, 2012a).

Additionally, we address fragility in the context of armed conflict and armed violence. Armed conflict and armed violence impedes development everywhere it occurs. Armed violence destroys families and takes away livelihoods and impoverishes whole populations. It causes physical disability and burdens health services. Moreover, it breeds fear and insecurity and causes psychological trauma, it destroys infrastructure and weakens the rule of law hence imposes enormous costs on states, communities and individuals. It closes schools and empties markets and prevents humanitarian assistance from reaching people in need; and it obstructs establishment of sustainable political organisation.

OECD Armed Violence Lens and Armed Violence Reduction approach materialized as a specific approach following the 2006 Geneva Declaration on Armed Violence and Development. Adaptation of the declaration the international community acknowledged that armed violence and conflict impede economic growth and development and the realisation of the Millennium Development Goals (DDG AVR 2012 and oecd.org).

Markets – Local and International

Iraq has, at least in theory, adopted the philosophy of a market based economy and looking into investing and building the private sector. Therefore, the concept of market will be embraced from the perspective of capitalism. Capitalism is dependent on structures meaning political, economic, and social systems, that is to say institutions. Capitalism reproduces or replaces based on institutional

arrangements. These arrangements are held in several systems and institutional structures; economic market, competition (product market), money (financial market), the state and employment relationship (labour market), and the political and social market. (Boyer 2009)

It goes without saying that the market concept above applies to both the local/national and international markets.

Society, Civil Society and INGOs

The word 'Society' is defined by Merriam Webster Dictionary (MWD 2013) as;

"people in general are thought of as living together in organized communities with shared laws, traditions, and values"

So, the civil society segment is not only emerging as a clear societal actor in many parts of the world, it is also quite varied in its nature and composition. Hence, definitions of civil society vary noticeably based on differing conceptual paradigms, historic origins and country context.

London School Of Economics Centre for Civil Society's definition of civil society is broad, cross-cutting and holistic;

"Civil society commonly embraces a diversity of spaces, actors and institutional forms varying in their degree of formality, autonomy and power, including registered charities, religious organizations, academia, development non-governmental organizations, political parties, community groups, women's organizations, faith-based organizations, professional associations, self-help groups, social movements, business associations, coalitions and advocacy groups." (centroedelstein.org)

The World Bank (2013) adopts a similar broad definition of civil society developed by a number of leading research centres: *"the term civil society refers to a wide array of non-governmental and not-for-profit organizations that have a presence in public life, expressing the interests and values of their members or others, based on ethical, cultural, political, scientific, religious or philanthropic considerations. Civil Society Organizations (CSOs) therefore refer to a wide array of organizations: community groups, non-governmental organizations (NGOs), labour unions, indigenous groups, charitable organizations, faith-based organizations, professional associations, and foundations"*.⁵ (www.worldbank.org)

According to UN (2013) NGO is defined as “A non-governmental organization (NGO; also often referred to as "civil society organization" or CSO) is a not-for-profit group, principally independent from government, which is organized on a local, national or international level to address issues in support of the good of the public. Task-oriented and made up of people with a common interest, NGOs perform a variety of services and humanitarian functions, bring public concerns to governments, monitor policy and programme implementation, and encourage participation of civil society stakeholders at the community level. Some are organized around specific issues, such as human rights.” (unroll.org)

The study will address the holistic terms of Civil Society and Civil Organisations and (I) NGOs as above.

INGOs versus MNCs

The study is applying International Business (IB) theory exploring INGOs’ role in supplementing MNCs FDI spill-over effects. Consequently, it is relevant to argue for the justification of the IB theory applied to INGOs. Table 2 below outlines the similarities and differences of the raison d’etre of MNCs and INGOs. The linkages shared are the same linkages but covering different purposes. MNCs hire local workforce because they are cheap thus from a rationalisation perspective it will lower costs in production in order to gain higher profit to shareholders. The INGO hire local workforce from a capacity building and welfare enhancement perspective of the beneficiaries. Key difference is that spillovers are intended in regards to the INGO where they are as mentioned earlier unintended in regards to the MNC. This means that the INGO operates from the perspective of creating spillovers as it also indicate that its activities have a positive development impact whereas the MNC operates from the perspective not to create spillovers as that will diminish its competitive advantage in the industry and market.

Hence, both MNCs and INGOs work cross borders and are dependent in the host government context on linkages with the Market, the formal institutions and the different relevant interest organisations of the civil society.

MNC	INGO
Similarities	
<ul style="list-style-type: none"> - Cross border - Cooperation and Linkages to <ul style="list-style-type: none"> o Local firms o Local institutions o Civil Society 	<ul style="list-style-type: none"> - Cross border - Cooperation and Linkages to <ul style="list-style-type: none"> o Local firms o Local institutions o Civil Society
Differences	
<ul style="list-style-type: none"> - Profit – seeking - Rationalisation principles 	<ul style="list-style-type: none"> - Non-profit - Welfare enhanced objectives

<ul style="list-style-type: none"> - Shareholders - Spillovers are unintended 	<ul style="list-style-type: none"> focusing on beneficiaries - Stakeholder (beneficiaries and donors) - Spillovers are intended
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Table 2 – MNC and INGO similarities and differences

Economic growth and development

Economic growth is understood in the traditional way of looking at gross national product and the growth of the national economy. Development, in this study, embraces economic development with reference to development economics looking at socio-economic growth.

Economic growth indicators and socio-economic indicators (development indicators) will be the foundations to establish overall growth.

1.3 Relevancy

The study is relevant as Iraq has, since the withdrawal of the US troops in 2011, stood on their own feet – taking responsibility and ownership of their own security and in many ways their own development. Nonetheless, due to political, economic and social instability the transition has not been easy and Iraq is far from goals and objectives drafted with major donor organisations and major state partners. The Government of Iraq has been substantially involved in reconciliation and securing the social peace after the change processes of the former regime. The political, social and sectarian conflict has contributed in reducing the interest in foreign aid. The Iraqi government has, however, made big efforts in recent years to reduce violence and stabilize the security and fight against terrorism. But the country is still faced with many challenges such as development processes, corruption and lack of transparency and accountability, weak institutional capacity of government to deliver services, and the weak capacity of the government sector to generate growth in the market economy. The interest for oil and gas opportunities seems to be the core focus of the Iraqi Government leaving civilian Iraqis shorthanded on basic services such as health, education and infrastructure, which again is resulting in a growing dissatisfaction with the government.

To promote economic growth in a developing country, while joining the international market, the IB literature is putting an emphasis of the importance of FDI. This theory could prove vital for the recovery of Iraq and its post war conflict. Economic development in terms of poverty reduction could be key stone for the country to recover from the conflict, but this will only be so if Iraq is able to benefit from the MNC's FDI and not just loose resources from their country.

When nation-states fail to protect the rights of its citizens it becomes the international community's problem, but also its task to put pressure on such nation-states to endorse their obligations. Hence,

the analysis is a complementary contribution in the international development debate concerning post war conflict states and the role of the State, in relation to social, human, economic and political development in the society in general, when the situation is very fragile.

Lastly, the study is relevant from the perspective of DRC and DDG. This year DRC and DDG have both provided humanitarian assistance and protection to Iraq for 10 years. What is the impact of their work and assistance? According to OECD it is estimated that it takes an average of 10 years before FDI takes off after a conflict has ended, and furthermore it is estimated that 40 % of conflicts which has ended restart within 10 years (DDG AVR 2012).

2.0 Theoretical Chapter

The study looks at a narrow case with the overall interaction of State, Market and Society. Hence, the chapter is divided in five parts;

1. Theoretical discussion of the interaction of institutional arrangements and market (local and foreign firms)
2. Theoretical discussion of the interaction of institutional arrangements and INGOs
3. Theoretical discussion on Economic growth from the perspective of firms and industry
4. Theoretical discussion on FDI linkages and spillover effects.
5. Theoretical discussion on Economic growth and development

2.1 Theoretical discussion of the interaction of institutional arrangements and market (local and foreign firms)

From an economically firm level perspective a country will experience economic growth (industrial growth and job creation) if the firm is able to be competitive in the Market. By firm is meant the local manufacture and trader.

In 2000, UNCTAD presented its 'Triangle of National Competitiveness' that states that; "*The ultimate agent for building competitiveness and undertaking industrial restructuring is the individual firm, which responds to signals from the product and factor markets surrounding it to obtain, master and adapt technology, improve upon it over time, and produce and market its products*". The statement is followed by the concept of the 'Triangle of National Competitiveness'.

Figure 1.

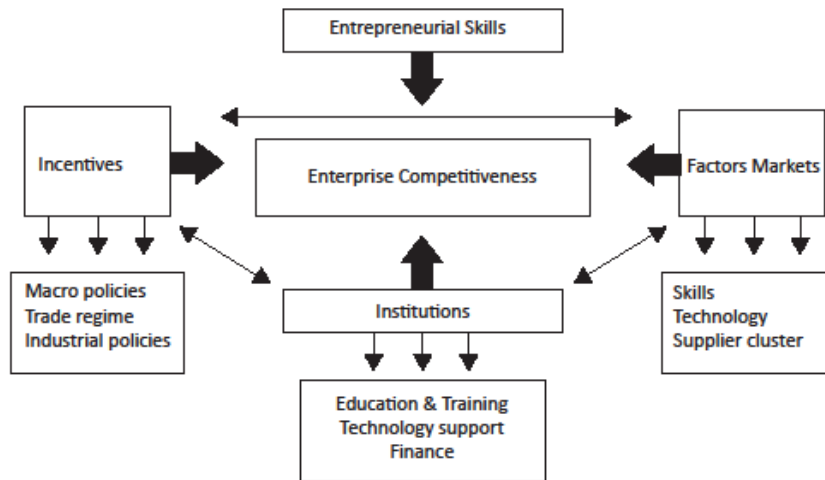


Figure 3 - Triangle of National Competitiveness (UNCTAD, 2000)

The figure indicates that the interaction between firm and institutions (government) is a dynamic and a two-way process. Thus, improvement of incentives, institutions, entrepreneurial skills and factor markets will increase the competitive environment within a nation and thereby create economic growth in the long term. Furthermore, the figure describes the ‘institutions’ as providers of the education & training, technology support (R&D), and finance to the factor markets and the incentive structure. The role of the government in the model is to stimulate, set-up and improve all the activities within the boxes.

According to Richard Whitley (1996), who formulated the concept of the “Business System Approach”, there are nine institutional features affecting the characteristics of economic actors (i.e. the firm) within a nation. The features are divided into 4 broad categories.

Cultural conventions	State structures and policies	Financial System	Labour System
1. Strength of institutions governing trust relations and extra-family collective loyalties	1. Extent to which state dominates economic system 2. Level of state risk-sharing with private economic actors 3. State support for intermediate associations and inter-firm cooperation 4. Formal regulation of market boundaries, entry and exit	1. Credit-based financial System	1. Significance of labour movement in strategic decision-making 2. Centralisation of bargaining and negotiation 3. Collaboration in skill training and certification

Table 3 - Business System Approach (Schaumburg-Muller, 2000)

Whitley distinguish between 'Background Social Institutions' – ("culture" (trust relations, commitment, personal identity and loyalty)) and 'Proximate Social Institutions' – (the role of the state, financial systems and labour systems). The main point in the approach is the institutional perspective - how firms are embedded in institutions and vice versa. (Schaumburg-Muller, 2000)

At firm level some of the competitive factors are wages, labour, and productivity/efficiency. At institutional level it is education & training, technology support (R&D) and finance. In order to compete on the market today (national as well as global) some of the key success factors are skills, technology and supplier relations. Therefore, in order to build firm competitiveness the developing countries should address among others the following investments mentioned in the UNCTAD report (2000); 1. Physical Investment, 2.Human Capital Investment, 3.Technology Upgrading. 4. Improved Supply Linkages. (UNCTAD, 2000)

So, by strengthening its competitiveness, the local firm might attract MNC's i.e. FDI which no doubt both can have positive as well as negative (externalities) spill-over effects.

The above models adopt a very holistic approach to the interaction between market (firms) and state (institutions) as will this study. Moreover, the models support and emphasise the importance of minimizing the absorption gap from the micro firm level scale as well.

The relevant point in regards to the study is that we are looking at the interaction of institutional arrangements and the market (private actors) in a fragile setting. Therefore, theory and concepts applied we would argue are all essential for optimising growth and development in the Market. However, for spill-over effects by MNC to occur in a fragile setting other crucial factors such as political stability, willingness and ownership are key fundamentals for the Market to operate optimal. The focus for the GoI is to establish a strong and sound formal institutional structure regulating the Market and the Society in order to even be able to build up a sustainable economy.

2.2 Theoretical discussion of the interaction of institutional arrangements and INGOs

The study embraces that the civil society is embedded in institutions and vice versa. From a social, political, economic cultural perspective a country experiences welfare enhancement and empowerment by applying democratic rule through formal sound and solid institutional arrangements that regulates market and society and enforcing law and order. However, the lack of formal rules and conventions that structure the social, political and economic interaction generates

informal rule and conventions structures in order to sustain and keep local enforcement of law and order. The INGO supports bottom up stabilisation in fragile settings and supports in implementing basic services that, the GoI ideally should provide. Thus, the INGOs are much so embedded in formal and informal structures within the local communities and country /regions that they operate in.

The study adopts the concrete definition of informal and formal institutions of (Gretchen Helmke and Steven Levitsky):

“We define informal institutions as socially shared rules, usually unwritten, that are created, communicated, and enforced outside of officially sanctioned channels. By contrast, formal institutions are rules and procedures that are created, communicated, and enforced through channels widely accepted as official. This includes state institutions (courts, legislatures, bureaucracies) and state-enforced rules (constitutions, laws, regulations), but also what Robert C. Ellickson calls “organization rules,” or the official rules that govern organizations such as corporations, political parties, and interest groups.” (Helmke & Levitsky 2004)

To further elaborate in the specific context of the INGO, DRC/DDG execute bottom up stabilisation and employs and based among others the concept of Armed Violence Reduction lens in its work in fragile settings. The Armed Violence Reduction lens is initially adopted from OECD 2009, Enabling Development. (DDG AVR 2012)

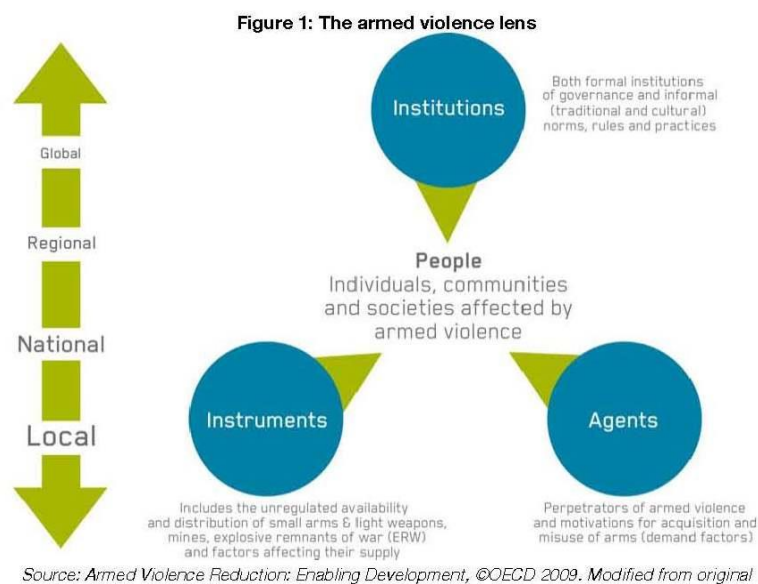


Figure 4 - Enabling Development (DDG AVR 2012)

The key fundamental is that the institutional environment in which armed violence occurs is important. This includes the formal laws and informal social rules governing armed violent behaviour in a fragile setting/context. In order to enabling economic growth and development armed violence and conflicts needs to be addressed from both a bottom up and a top down stabilisation.

2.3 Theoretical discussion on Economic growth from the perspective of firms and industry

In this section we will map out the IB theory that we will use in an INGO context. The theories point of departure is from the MNC angle, but our application combines it with the INGO angle.

The overall firm principle and the theories of firm growth are the basis for the economic analysis angle of the study. So, in regards to MNC's, the study takes its point of departure in international business literature more specifically the literature on '**Internationalization**' and '**Linkages**' and '**Spill over's**'. **Internationalization** in the economic literature is viewed as a process of increasing involvement of companies in international markets. Nonetheless, there is no agreed definition on **Internationalization or International Entrepreneurship** but several internationalization theories attempt to clarify why international activities and international trade exist.

Theories of international production date back to the trade theories of Adam Smith (1776) and David Ricardo (1817). Adam Smith emphasised that **an absolute cost advantage** existed when a country could produce a commodity with less costs per unit produced than its trading partner could. Ricardo argued that a country does not need to have an absolute advantage in the production of any commodity for international trade between itself and another country, to be mutually beneficial. Two countries can both benefit from trade if each had a relative advantage in production – **Comparative Cost Advantage**. Men of their time wrote their theories in an historical colonial setting. John Cantwell (1991) provides a solid overview of recent theories of international production in his article '*A survey of theories of international production*' that sums up all theories in the general framework - Elective Paradigm by John Dunning (1977).

According to Cantwell (1991), whose starting point as was Hymer's, is to explain the **reason for international production**. The main idea is that in the early stages of growth, firms steadily increase their share of domestic markets by means of mergers as well as capacity extensions, and that as industrial concentration (and market power) rises, so do profits. However, there comes a point at which it is no longer easy to further increase concentration in the domestic market, as few major firms remain, and at this stage profits earned from the high degree of monopoly power at home are invested in operations abroad. The concept of the market power approach is based upon the theory of the firm and international production by Hymer. Hymer (1976) sees **internationalization** as a

means by which producers increase their extent of market power. His starting point is the firm acting alone or in collusion. Accordingly, market power is defined in terms of entry barriers into the industry meaning that market power determines the competitiveness of the industry. So, firms (MNCs) invest in foreign operations in order to reduce competition.

The concept of the transaction cost approach originates from Ronald Coase's work in 1937. Transaction cost is a cost acquired by the firm when making an economic exchange. The concept is further developed by the principle of **internalization**. The market mechanism secures that the external costs are internalised. (Cantwell, J.1991)

The Elective Paradigm by John Dunning (1977, 1981, 1988a), Cantwell defines as a *"An overall organizing paradigm for identifying the elements from each approach which are most relevant in explaining a wide range of various kinds of international production, and the wide range of different environments in which international production has been established."* (Cantwell, J.1991)

The elective paradigm among others includes elements from the market power/internationalisation approach and the Internalization Approach /Transaction Approach.

Dunning (1991) himself emphasizes three landmarks in theorizing on FDI and MNCs activities in the wake of globalisation. In the 1960's, the firm theory and international business literature were strongly influenced by the market power and transaction/internalisation approach and the Raymond Vernons product life cycle theory. Then in the 1970's the focus switched from foreign value added production by firms to the theory of internalization and Dunning introduced his eclectic paradigm emphasizing the three components; O- Ownership, L – Location, I – Internalization. With the globalization of the economy in the 1990's a reappraisal was required of existing paradigms and theories of international production. According to Dunning, existing theories continue to explain a good deal of contemporary FDI however there are relevant points to remember;

1. Globalization is best considered as a process towards the deepening of economic interdependence between institutions and/or countries.
2. It is difficult to consider the impact of globalization in isolation to the other events, which have fashioned the structure of the contemporary world economy. (Technology)
3. Theories and paradigms of FDI and MNE activity are complementary to each other

Dunning, moreover points out that we are faced with a new phase of market-based capitalism pointing out that the main source of wealth creation has moved from land in the 1700's, through machines and finance in the 1900's. Asset creation and asset usage has widened from sub-national through to national, to the macro-regional and global and the typical organizational form of the firm has progressed from family business to corporate governance. Consequently, Dunning evaluates the

paradigm and concludes that determinants of MNC activities are shifting from asset exploiting FDI versus asset-augment FDI meaning that the MNCs focus are increasingly on knowledge intensive assets and core competencies and synergy.

1960ties	1970ties	1990ties
<u>Hyer:</u> <ul style="list-style-type: none"> Barriers to entry Competitive advantages Transaction costs/internalization <u>Vernon:</u> <ul style="list-style-type: none"> Micro-marketing concept Product cycle Value-added activities – specific competitive <u>Others:</u> <ul style="list-style-type: none"> Risk diversification theory Capital-markets imperfections theory Follow my leader 	<u>Dunning:</u> <ul style="list-style-type: none"> Internalization theory Eclectic paradigm O – Ownership specific advantages L – Location specific advantages I – Internalization specific advantages	<u>Dunning:</u> <p>Three challenges about the determinants of MNE activity</p> <ol style="list-style-type: none"> Existing theories continue to explain a good deal of contemporary FDI. Market-seeking FDI OLI variables, which have long determined FDI in the natural resource sectors, are still applicable. Efficiency-seeking FDI Even though, it is true that the increasing extent and geographical diversity of FDI by many firms is fashioning a new and more integrated international division of labour. Knowledge-intensive assets and core competencies and synergy

Table 4 – Historical core competencies and synergy (Cantwell, J.1991)

The study adopts Dunning's eclectic paradigm in order to explain involvement of companies in international markets and international production and in order to explain the host country's domestic firms place in the economic growth process of both MNCs and local firms.

Ultimately the MNCs seek new ways to gain more profit whether that being through cost reduction, increased profit through markets or improved profit margins through expansion. FDI theories and approaches look all at the profit angle of the MNCs / the companies. That being increased revenue, lower costs, comparative advantages, development of technology, securing a market for expansions - all from the perspective and the benefit of the MNC.

2.4 Theoretical discussion on FDI - linkages and spill over effects

So where does the benefit lie for the host country, national market and society?

MNCs strategies include investors and investment characteristics plus MNC's motive behind the investments. Investors characteristics refer to MNC attribute i.e. MNC home country, size and organization, technology and industry. Investment characteristics refer to entry modes, i.e. whether the investment is a 'Greenfield', an acquisition, a merger or joint venture. Finally, the motive behind the investments refers to the strategy of how the investment is intended to contribute to the firm's competitive advantage. (Hennart, J-F 1991)

These characteristics must be investigated and understood in order for the host country to actively induce the kind of FDI which unites with the host countries interests in order to crop the most

positive spill over effects. The study takes its starting point in John H. Dunning's eclectic paradigm of international production, the OLI framework⁶ which reviews the motives behind the investments and analyses the motives by operating the framework. According to Dunning there are essentially four 'raison d'être' behind FDI.

1. Market-seeking (Getting access to foreign markets)
2. Resource-seeking (Getting access to un-differentiated resources)
3. Efficiency-seeking (Obtaining global efficiencies),

However today Dunning, emphasises focus on asset augmentation as becoming increasingly important;

4. Asset-development (acquiring complementary assets). (Dunning, J 2000)

With regards to Iraq, we would argue that main MNCs raison d'être are resource seeking, since most of the MNCs at present are looking for crude oil to refine and sell to outer markets in other countries. It is not a secret that the international community has a huge interest in the Oil of Iraq. Oil is an un-differentiated (pure) resource and an essential energy resource for most countries the reason why it is a precious commodity that brings in high profit for a country.

According to Dunning, the implications/effects of FDI depend – on the one hand, on the strategies of the MNCs; and – on the other hand, on the specific context of the host governments. Furthermore, he argues that in order for a host country to attract FDI, the host country must possess immobile assets which support MNC's mobile assets and thereby support the creation of the firm's competitive advantages. MNC's are increasingly considering activities in developing countries (in particular less developed countries (LDC) and emerging markets⁷) for among others the following reasons;

1. Competitive advantages in terms of less advanced and labour intensive activities
2. Developed infrastructure
3. Prospective high-growth markets – potential consumers

Iraq is considered as in transitional and fragile context due to the declining security situation and the political instability which do not induce MNCs and FDI, so the above reasons do not apply to Iraq. The infrastructure in terms of roads, electricity, water etc has improved in certain parts of the country though much remains to be rebuilt.

⁶ O- Ownership-specific advantages: (Property rights or intangible asset advantages / Advantages of common governance), L-Location-specific advantages: (Input prices, quality, productivity, societal and infrastructure provision), I – Internationalisation advantages: (Avoid transaction costs, to control suppliers and distributors)

Nonetheless, the quantitative effects of FDI are not so impressive in terms of capital investment according to Cypher and Dietz 2004. However, the qualitative effects might be much more important, as FDI can speed up modernization by capital formation, transferring product-, technology-, management-, and organizational knowledge.

Cypher and Dietz, stress several potential costs of MNCs such as; transfer pricing, income transfer via MNC, increasing industrial concentration, export promotion and the fallacy of composition, environmental degradation. (Cypher and Dietz 2004)

Forsgren (2002) indicates the following implications and effects of MNC's investments;

Benefits	Costs
1) Resource – transfer effects a. Capital b. Technology c. Management 2) Balance of Payment effects a. Export earnings b. Capital influx 3) Increased employment 4) Competition effects 5) Sovereignty effects 6) Culture 7) Environment 8) Welfare	1) Resource-drainage effects a. Capital b. Technology c. Management 2) Balance of Payment effects a. Import expenditures b. Outflow of capital earnings 3) Reduced /de-skilled employment 4) Competition effects 5) Sovereignty effects 6) Culture 7) Environment 8) Welfare

Table 5 - Implications and effects of MNC's investments (Forsgren, M 2000)

The strategies of the host governments are many and complex within different levels of contexts. That includes the national, regional and global political structures, level of macro-economic development and industrial and related policies. The point of departure from our perspective is that the state does have a role to play vis-à-vis the MNC's. The interest of the state is to enhance the welfare effect of FDI regardless of whether it is outward or inward FDI. Consequently an interesting aspect is also whether the interests of the MNCs and the interests of the host governments diverge or converge. (Forsgren, M 2000)

A feature that is common to most of the developing countries, besides the less developed countries, is the political instability within the countries, which logically do not induce investments or attract FDI. Globalization optimists argue that developing countries should follow country specific strategy in order to attract MNC FDI. One way could be by creating export processing zones (EPZ) as seen in China, South Korea and Mexico for example. It is geographical areas in a country where rules for foreign investors are relaxed in order to attract foreign exchange. The problem here is that investors most often do not link with local production (backward and forward) hence the consequences for

workers can be bad working conditions, low wages and insecurity. The beneficial part can be that they work as 'starters' for the local sector thus the EPZ must form linkages with local production structures. (Cypher and Dietz 2004)

This thesis is looking at the indirect effects, or more specifically spill over effects. Spill over effects are commonly defined as positive externalities by the entrance of the MNC in to a host country. It is worth mentioning that spill over effects are as mentioned unintended effects occurring as a result of MNCs entrance. The welfare enhancement of such effects is in the interest of the government, state and society of the host country and not in the interest of the MNCs.

Spill over effects of the MNC's are for example; increased experience of employees that exploits and operationalize his or hers gained experience in local firms at a later time. An increase in general economic activities in the region of the MNC's would be another spill over effect. Such activities could for example be hotels for international staff and increased local residence in the area of where the new jobs are located. It could also be technological spillovers' in terms of local competition observing new technology and methods of the MNC and copying them. Hence, spillovers' can come in many forms, such as technologies, working methods, and management skills, and they have one thing in common or objective – to improve productivity (OECD: TAD/TC/WP(2008)7/FINAL).

Blomstrom, M and A. Kokko (1998) define spill over's as;

“When the efficiency of local firms improves as a result of foreign entry, and the foreigner does not internalize the benefits”, or “The spill over's occur when local firms benefit from the MNC affiliates superior knowledge of product or process technologies or markets, without incurring a cost that exhausts the whole gain from the improvement”. (Blomstrom & Kokko 1998)

Spill overs are unintended from the perspective of the MNC's. In the business to business relation the direct effects are the intended effects on linkage partners i.e. stated in a contractual agreement whereas the unintended effects of such partnership linkage and other firms are i.e. accidental outcomes (spill over's) from the contractual agreements i.e. diffusion of knowledge and technology to a third party. With other stakeholders such as employees, community institutions, and authorities the direct effects of the linkage between the MNC and non-firm partners are the intended effects on non-firm partner i.e. contractual agreements with an employee (increased purchase power receiving salary) or national, regional or local authority. The unintended effects of linkages relationship on non-firm partners and other non-firm organizations is i.e. the accidental outcome of from contractual agreements such as knowledge diffusion to third party.

The key vehicle for promoting spill over's are linkages/networking because if no linkage exists no spill over's will take place.

The OECD TAD reports of 2008 present the spill-over channels of FDI as follows;

Skills via labour mobility (Human Capital)	Workers gain new skills through explicit and implicit training. In particular, training in foreign firms may be of a higher quality given that only the most productive firms trade. Workers take these skills with them when they re-enter the domestic labour market.
Exports & infrastructure improvements	Because multinationals by trade definition, lay the groundwork for domestic firms to benefit from distribution networks, logistics services and infrastructure improvements. Domestic firms can also learn about the regulatory frameworks with which exporters must comply.
Imitation/ Demonstration	This very obvious form of spill over often takes the form of reverse engineering, whereby a domestic firm creates a similar product based on the design of goods or service that a foreign affiliate produces. Imitation is only successful if the domestic firm has the technical capacity and ability to source the necessary inputs to produce a similar product.
Competition	If the foreign firm is not a monopoly provider and sells within the domestic economy, then it competes directly with domestic firms in the market. Since multinationals are often more productive – they have to be in order to trade – this forces domestic providers to become more productive to successfully compete for business.
Vertical Linkages	Backward and forward linkages are another way in which spill over's transmit in an economy. As foreign firms set up vertical production networks, they include domestic firms in their production chain. Since these suppliers must meet certain quality standards, they benefit from the experience and knowledge of the foreign firm.

Table 6 - Spillover channels of FDI (Altenburg 2000)

Thus, this provides us with the following definitions of FDI productivity spill over; (Altenburg 2000)

FDI spill over's: An increase in the productivity of domestic firms as a consequence of the presence of foreign firms in the domestic economy.

FDI spill over's via horizontal linkages (with competitors and technology partners): An increase in the productivity of domestic firms resulting from the presence of foreign firms in the same industry.

MNC affiliates often face some competition from local firms, in some cases even from very small firms. As MNCs typically hold a strong market position vis-à-vis local rival firms, they may have a strong (positive or negative) impact on those firms. The MNC's may set new standards and create a healthy competition that stimulates innovations throughout the whole industry, but they may also outperform established local firms. Some MNCs initiate joint projects with indigenous domestic partners. These projects may take various forms of equity or non-equity linkages, including joint ventures, licensing agreements and strategic alliances.

There are different ways that governments can try and create linkages from the MNC's to the local environment, to promote spill overs. For example some host-countries require foreign investors to take on local partners in joint ventures or to license technology to local firms.

In other cases, linkages with technology partners arise voluntarily, because both parties identify complementarities and anticipate benefits from partnership. Such inter-firm linkages are often seen as important sources of technology.

FDI spill over's via forward linkages with customers: An increase in productivity resulting from the MNC presence among the suppliers of the industry in which the domestic firm operates (*i.e.*, upstream sectors). MNCs mainly develop three types of linkages with customers. The first and most important is with *marketing outlets*. In particular MNCs which outsource the distribution of brand name products often make considerable investments in the performance of their marketing outlets, e.g. restaurant chains, automobile or petrol companies. The second type of forward linkages is with *industrial buyers*. MNCs producing machinery, equipment or other inputs sometimes offer after-sales services which go far beyond the usual advice on how to use and maintain the purchased good. The third type refers to linkages in which a MNC produces goods for *secondary processing*, mainly commodities, such as metal ores and agricultural raw materials. Commodity producers usually exert little influence on the performance of secondary producers.

FDI spill over's via backward linkages with suppliers: An increase in productivity resulting from the MNC presence among the customers of the industry in which the domestic firm operates (*i.e.*, downstream sectors). MNCs usually source some parts, components, indirect materials and services from suppliers in the host economy. The effect of such linkages on local firms depends, among others things, on the quantity and types of inputs supplied, the terms of procurement, and the willingness of MNCs to transfer knowledge and build a long-term relationship with local firms. Supplier linkages range from arms-length market transactions to very close, long-term inter-firm relations, and they may be direct or through intermediaries.

Other spill over effects: These include demonstration effects and human capital spill over's. *Demonstration effects* occur as MNCs introduce new, often more efficient ways of doing things, thus providing showcases for innovation. Local entrepreneurs may imitate MNC products and management techniques or gain access to non-traditional markets by observing and copying from MNC strategies. This may happen as a spontaneous, even unconscious process or as a planned and systematic benchmarking exercise. *Human capital spill over's* occur whenever MNCs train personnel beyond their own needs or if their experienced personnel moves to local firms or forms new spin-off companies.

Another type of spill over within the business literature of the firm is the market access spill overs. Often the main barriers for local firm growth in developing countries are barriers in export markets. MNCs may pave the way for local firms to overcome these barriers by providing access to distribution

networks, to marketing outlets and to information about consumer preferences and regulatory standards (Blomström and Kokko 1998).

Spillovers can be promoted through incentives and regulations, but just promoting FDI does not lead to spill over's. Hence, we are talking about productivity spill over effects for the firm (domestic) in the host country - effects that from a micro perspective (firm-level) but what about further impact on macro perspective (socio-economic growth and development of the host country).

A dilemma that governments face is if they should create incentives for FDI inflows by giving MNC's special conditions. This dilemma has become even harder, when taking into consideration that FDI spill over effects don't occur automatically. In the international business literature, economic growth of a country's domestic industry is linked to the MNC's arrival in developing countries through FDI.

Empirical evidence show that the capabilities of local firms to absorb the spill over effects depend on the current ability and level of the local firm. In short, the domestic firm cannot obtain, for example, technology spill over's unless it is to some extent already developed. So, in the least developed countries they will not benefit from FDI on this level because they are just too far behind to integrate that technology. FDI, do not only include direct effects i.e. employment of local population and the obvious infusion of capital in terms of spending, but also in terms of spill over effects. (Peter Nunnenkamp, 2004)

If we look to combine at the international business literature, we arrive at a paradox. In order to promote spill over's the country has to be ready and able to absorb, as Nunnenkamp, Bergstrom & Kokko mention. But at the same time, the literature shows that an MNC is consuming national capacity. MNCs operate on the countries roads, they use their systems and everything the country has to offer but they do not contribute directly to it. MNCs don't build schools, roads and hospitals; the only way that MNCs contribute is through taxes to the government. (Yamin & Sinkovics 2009)

In order for taxes to be beneficial to the country, the government has to be able to distribute and canalize this income into the infrastructure of the country. Unfortunately many of the least developed countries suffer from high corruption rates, so it is questionable if these taxes actually get converted into infrastructure and social benefits.

Today it is also mostly resource- seeking MNCs that are entering developing countries. Before, when the transportation of goods was not as convenient as it is today, an MNC would not enter a country, unless there was some kind of market seeking possibility. The setup of the subsidiary was small copies of the HQ MNC because the subsidiary had to be fully functional on its own. The market interest secured a more integrated firm, with high interest in the country and its financial and infrastructural wellbeing.

Additionally, today developing countries face a challenge, since the MNCs is rarely market seeking. The MNCs is only entering the country in search of the asset they need. Therefore, and because of profit reasons, the MNCs will do what they can, to avoid paying taxes. If the MNC only need the country as an export platform, it has no interest in the countries overall well-being, and therefore will put pressure on the government at hand, to get tax havens, as it is seen in other low developed countries, and soon also in Iraq.

In the Least Developed Country report from UNCTAD 2006, which focus on developing productivity capacities of the countries; the three basic elements of productive capacities of a country/nation state are defined as the productive resources, entrepreneurial capabilities and production linkages, which together determine the capacity of a country to produce goods and services and enable it to grow and develop. (UNCTAD 2006)

Summa summarum the above theory on linkages demonstrate that linkages are necessary for spillover effects to occur. For the INGOs it is the same. There will be no internalization and effects in the local environment that the INGO is working in without linkages. Where the concepts can differ is the discussion about spillover effects. In the IB literature spillover effects are used as positive externalities from MNCs as a consequence of FDI. Spillover effects is per definition unintended since it is unwanted effects seen from the angle of MNCs. MNCs has no interest in their technology , knowledge, products etc. being absorbed by the local society since it will increase competition for them and in turn waken their competitive advantage.

In contrast these effects are what INGOs wishes to promote. The operating principles of the specific INGO (DRC/DDG) are based on the following values in regards to beneficiaries: participation, capacity development, gender, advocacy, "do-no-harm", collaboration with local partners, complementary approach, sustainability and durable solutions, conflict-sensitivity and evidence based programming. These values are shared by the majority of the (I) NGO community. Hence, the INGO point of departure is to serve the beneficiaries and relevant stakeholders where the MNCs point of departure is to serve the shareholders and the company's interest. This means, MNCs spillover effects are unintended and (I)NGOs are intended. When INGOs hire local staff it serves several purposes: a) to capacity build the employee by implementing project activities, b) to strengthen the employees purchase power (salary to pay family expenses such as schooling, doctor visits etc.), c) to strengthen local trade by using the local suppliers. The primary purpose medium/long term is that the employee achieves possibility to gain strengthen competencies and take this experience and use for the gain to the local society/market.

The beneficiaries of DRC/DDG humanitarian mine action and ERW clearance activities fall into two groups. Direct beneficiaries are those individuals who make direct use of use of cleared land for

agriculture, grazing, resettlement or other uses. Usually these are limited in number depending on the size of the cleared area and its use. Indirect beneficiaries are those people who profit from clearance as a result of increased safety, either as a result of the proximity of their habitation to the suspect area or as a result of safe access.

Moreover, DRC humanitarian and development assistance activities provide support to sustainable livelihoods and facilitate access to the right to self-determination and self-protection among refugees, internal displaced peoples (IDP) and host population in conflict-affected communities. In that sense, income generation is a relevant and important tool to be implemented in situations of acute crisis, displacement as well as durable solution. At the level of the individual project and its direct beneficiaries, income generation should have a sound, measurable and sustainable impact on a beneficiaries' livelihood portfolio and, as a direct consequence, the socio-economic situation of the beneficiary's household. When assessing 'impact' on such a micro-level, the particular 'life situation' in a specific conflict-affected context has to be taken into account. In an institutional perspective, success depends on whether a sustainable and flexible mechanism or institution is supported, which can provide continued access to income generation services with the objective of strengthening socio-economic resilience among refugees, IDPs and host communities.

In his book 'Striking a balance' Alan Fowler (1997) summarises the functioning of the basic principles of the three sectors of organised society as he puts it; Government, Business and Voluntary (service providers). In our operationalisation terminology business is equal market and voluntary is equal to the term INGO.

Table 7 Sector of comparisons

Characteristic			
	Government	Market	INGO
Relationship to those served based on:	Mutual obligation	Financial transaction	Personal commitment
Duration:	Permanent	Momentary	Temporary
Approach to external Environment:	Control and authority	Conditioning and isolation	Negotiation and integration
Resources from:	Citizens	Customers	Donors
Feedback on performance:		Direct from market indicators	'constructed' from multiple users

Sources: Fowler (1997)

Trying to apply the IB linkages theory we can compare the INGO linkages to the firm. Vertical backwards linkages are with donors and vertical forward linkages are with beneficiaries. Horizontal backward linkages are partnership with relevant stakeholders local communities, suppliers and local NGOs and forward linkages are towards the competition from other aid/assistance agencies providing

the same services as in this case study DRC/DDG. Spillover effects are not within the same areas as the firm such as human capital spillovers, imitation and demonstration, competition and vertical linkages however from an INGO perspective and with the intend to actually create and promote the spillovers.

2.5 Theoretical discussion on Economic growth and development

FDI effects on poverty are debatable. The paper takes its point of departure in the view that the nation state does have a role to play vis-à-vis the MNC's and that the main interest of the nation state is to enhance the welfare effect (direct or indirect) of FDI, regardless of whether it is outward or inward FDI. Accordingly, the paper takes its point of departure in the theory of International Business (IB) theory and in firm and market productivity, in relation to economic growth. Further, the paper looks to expand the theory in to a more holistic framework of development economics and process of a developing country like Iraq. Therefore, it is essential that economic growth and development is defined.

Economic growth of a country looks at how to advance its economies whereas the scope of economic development includes the process and policies by which a nation improves the economic, political, and social well-being of its people. Hence, economic development is a policy intervention effort with aims of economic and social well-being of the nation's population, while economic growth is a phenomenon of market productivity and a rise in GDP. As economist Amartya Sen points out: "economic growth is one aspect of the process of economic development. Again, development economics is an area of economics which deals with economic aspects of the development process in low-income countries. Its focus is not only on sustainable methods of promoting economic development, economic growth, and structural changes but also on improving the prospective for the population i.e., through health and education and workplace conditions, whether through public or private channels - eradicate poverty. (Martinussen-Degnbol, 1997)

The recent evolution of development thinking

Why poverty, stagnation and underdevelopment in the 3rd world and how to achieve growth? The origins of development economics dates back to the colonisation period of the 1940-1950s. It has its roots in the work of 18th century theorists, such as Adam Smith who wrote Wealth of Nations looking into the critical role of the market. He discussed the equilibrium, the Invisible Hand and specialisation leading to higher productivity thus Increasing accumulation of wealth. The industrial sector was the most important focus.

Joseph Schumpeter wrote “The Theory of Economic Development”. To Schumpeter, growth was the gradual extension of the capital apparatus and increasing production. But he viewed development as something distinct, which could only occur by technical innovations introducing new production techniques, new products, or new means of organising production. (Martinussen-Degnol, 1997) Schumpeter’s growth theory further explains foreign trade by the existence of dynamic competition: an innovation grants a temporary monopoly to the so-called ‘pioneer entrepreneur’ which in due time is to be eroded by competitors by means of imitation. The innovators were the entrepreneurs.

Finally, John Maynard Keynes wrote “The General Theory of Employment, Interest and Money”. Not too interested in long-term growth, but rather in the relationship between market and state, especially the employment issue. He also provided propositions regarding institutional control of international trade and finance (IMF/WB).

Period	Perspectives	Meanings of development
1870>	Latecomers	Industrialisation, catching-up
1850>	Colonial economics	Resource management, trusteeship
1940>	Development economics	Economic (growth) –industrialisation Big Push Theory
1950>	Modernisation theory	Growth, political & social modernisation (Rostow)
1960>	Dependency Theory	Accumulation –national autocratic
1970>	Alternative development	Human flourishing
1980>	Human development	Capacitation, enlargement of people’s choices (Amartya Sen)
1980>	Neoliberalism	Economic growth, structural reform, deregulation, developing countries are no “special case”
1990>	Post-development	Authoritarian engineering, disaster
2000>	Sustainable Development	Global Warming, Environmental Sustainability

Table 8 - Trends in Development Theory (Pieterse 2009)

In sum the essence of development and development policies today is poverty reduction, empowerment and security achieved through partnership with the stakeholders. Table 8 outlines the trends of development theory.

The concept and meaning of development has varied to a large extent over the past century. It was not until after World War II that the understanding of development came to exceed the mere cost-effectiveness of the colonies with the aim of exporting raw materials to the west. The new concept of development economics focused primarily on the economic growth of nation states, the so-called “Big Push Theory”. The meaning of development further evolved in the 1950’s with the modernisation theory, when economic growth was combined with political and social modernisation. In the 1960’s Latin America contributed with the Dependency theory, which came to be quite significant. Dependency theorists believed that development of the advanced countries, the centre, led to underdevelopment of the developing countries, the periphery. National economic development was therefore achieved by national accumulation, inward orientation and de-linking from the centre. The

conception of development as encompassing primarily economic growth changed in the 1970's and 1980's. Economists, such as Amartya Sen, believed that economic growth was only a means to achieve the overall goal of development, namely the improvement of human welfare. Simultaneously with the human development trend, another developmental view surfaced, which came to have a significant impact on policies from the 1980's to the mid 1990's. This new line of thinking, which was labelled Neoliberalism, returned to focus on economic growth, drawing upon the fundamental assumptions of Adam Smith, that an "invisible hand" would correct market failures, create growth and organise society in the best interest of all, if only market forces were left to operate independent of state intervention. The neo-liberalists believe that developing economies are no special case, and growth can be achieved through liberalisation, structural adjustment and deregulation (Degnbold-Martinussen, 1997). The most recent trends of the 1990's contradict the neo-liberalistic view, in the sense that economic growth is no-longer necessarily the goal, as it may in fact result in a negative impact on the population. This new era of "post-development" thinking is to a large extent a result of neo-liberalistic structural reforms resulting in severe economic failures in Latin America, Africa and the 1997 crisis in South East Asia.

Post-development thinking calls for a new development framework, which focuses on poverty, with a more active role of state in distributing income. It broadens the agenda to encompass aspects from social science and politics and it moves away from key concepts, such as: structuralistic, deterministic and westernisation, to new core concepts, such as: constructivism, interpretive and polycentric. It acknowledges, in this way, the voice and demands of those who need development, being underdeveloped nations or those who are marginalized within a nation. The shift from neoliberal enthusiasm to the frustration and need for new frameworks of post-development has been extensively reflected in the reports and policies of the World Bank and IMF.

The World Development Report of 2000/2001 main focus is on poverty, but does not deny that liberalization can be "pro-poor". It defines poverty as: lack of income and assets, voicelessness, powerlessness and vulnerability. The report calls for a need to broaden the policy agenda, particularly in three areas: promoting opportunity, facilitating empowerment and enhancing security. (World Bank 2000)

The study adheres to post- development thinking applying a more holistic approach to economic growth and development incorporating durable solutions hence reflecting on long term perspectives. The scope of the study is founded in the concept of 'economic development' that encompasses the process and policies by which a nation improves the economic, political, and social well-being of its people.

3.0 Methodology

3.1 Philosophy of science

This thesis will apply philosophy of science direction of critical realism. The concept of critical realism is applied to define how we understand the developments and dynamics for the specific case study. The distinct abstract of critical realism called retrodution is a combination of a deductive approach and an inductive approach. (Fuglsang & Olsen 2004).

In general, two different paths dominate scientific work trying to combine theory with empirical data, deductive and inductive. The deductive approach is used in positivism where you build up a number of hypothesis and the test them. If all the hypothesis checks out, you have a conclusion meaning that the theory proves that the world is as the theory says.

Inductive is the opposite. You recognize a conclusion in the world, and then you test this conclusion trough theory.

Critical realism views the world as an open system and assuming it being in constant change. This is in somewhat contrast to the theory of positivism which is the classic way of looking at the world as an economist. Positivism work with closed systems and perceives the world only if you can prove it through proven theories. Generally speaking you test a theory in a lab context where assumptions are given and if the theory turns out to be proven right, you conclude that this is how the world works.

Critical realism is another way to look at the world. This branch uses open systems and sees the world as being in constant change. This means that our theory must adapt to the world. A common fraise of the critical realism is “you only swim in the river once”. This fraise refers to when you go for a swim in the same river as you did yesterday, it will not be the same because the water is moving, the plants are growing, and the temperature is changing etc. therefore not the same river.

As we recognize that the world is in constant change, we also recognize that we will not find absolute truth in our findings. We will find close to truths but calling it absolutes truths would be contradictory the critical realism. (Fuglsang & Olsen 2004).

3.2 Research Design

The paper takes its point of departure in the fact that MNCs FDI linkages and spillover effects, affect positively on economic growth and development of a country. Consequently, it must first be established what role linkages and spillovers plays for the firm/industry, market and society in Iraq in general. Secondly, in order to determine if INGO activities contribute to minimize the absorption gap it must be established what are the criteria's of the absorption gap and what positive spillovers effect

it can create in a local, national and international environment of the industry and country if minimized. Thirdly, the link between the criteria's and INGO activities has to be established in order to determine if they contribute to minimize the absorption in relation to MNCs. And, finally it has to be established what indicators that are essential to determine if INGOs activities contribute to minimizing the absorption gap. Additionally, risk and inhibiting factors are analysed in regards to the INGO actually implementing the activities. Additionally, risk and inhibiting factors are analysed in regards to the INGO actually implementing the activities.

Consequently, first it is necessary to establish what the concept of FDI spillover effect embraces and how it is interpreted. Secondly, to establish what the concept of the absorption gap embraces and how it is interpreted. Thirdly, it is to operationalize the link between the INGO activities and absorption gap. Moreover, we will establish what are the reliable and valid measurements for demonstrating the minimisation of 'gap' and thereby contributing to spill-over effects of MNCs.

In order to establish the role of linkages and spillover effects it is necessary to explore the importance of the firm and industry in general and to investigate the motives behind the idea of MNCs FDI and host countries idea of attracting FDI. Thus, we will apply firm and trade theory in order to determine the importance of MNCs foreign direct investments. In addition, we will apply basic economic theory of the firm and the industry to determine their importance for national and generic economic growth within a market economy.

. For the role of linkages and spill over's and the absorption gap we will apply common international business theory related to spill over's and linkages. Moreover, we will apply MNC theory to explain the reasons behind FDI by MNCs and the host countries attraction and gain if the foundation/capacities are in place. The majority of the INGOs take their point of departure in development economics and the approach of bottom up stabilisation. The last two decades, in particular, INGOs have emphasised a strong rights based, community based and participatory approach. (Degnbol-Martinussen, 1997).

3.3 Literature review

The thesis will analyse and review its problem statement and hypotheses in both IB and development theories and approaches emphasising socio-economic development within communities. A literature review has identified on one hand substantial Foreign Direct Investment (FDI) MNC literature, where the IB economic theories and approaches discuss different perspectives for MNCs to enter a developing country. What all IB theories and approaches have in common is the profit angle of the firm/company. Profit angle is conceptualised as increased revenue, lower costs,

comparative advantages, development of technology, securing a market for expansions implicit motives referring back to the benefit of the MNC. On the other hand, substantial development literature conceptualizes economic growth and development as sustainable and durable socio-economic development solutions build on a participatory and rights based approach emphasising the direct beneficial outcomes to the livelihoods of the civilian population (beneficiaries)/ civilian communities in focus. Accordingly, MNCs operate to generate profit and INGOs operate to generate enhanced welfare for beneficiaries. Another common criticism of the FDI theory is that it is theoretic and applies to static and ideal settings and not fragile contexts controlled by armed conflict and violence.

The case study the INGO is through Danish Refugee Council (DRC) inclusive its humanitarian mine action unit, Danish Demining Group (DDG) in South Iraq, hence in a fragile and transitional context. DRC and DDGs annual reports, strategic documents for their operation in Iraq and data gathered from specific implemented activities will be used for descriptive and analytical purpose. DRC/DDG information has been obtained in agreement with the INGO consent from their file databases.

Moreover, the understanding of the Iraqi formal and informal institutions and INGOs will furthermore more be highlighted via knowledge from Iraq experts through interviews and articles and reports and INGO case interview.

Employing the IB literature in regards to INGOs thus development literature; we look into and discuss briefly a comparison of the sectors: Government, Market (business) and Society (voluntary) in to establish we believe a valid comparison and link between the IB concepts and the INGOs.

The context of fragility is addressed through the OCED armed violence lens emphasising reduction of armed conflict and violence as key fundamental for enabling development in settings like Iraq.

The empirical research that we will use in our analysis in order to answer the research questions is based on primary and secondary statistical data, working papers, reports and articles on DRC/DDG and MNCs in Iraq and statistical data from recognised international and national organisations such as, the IMF, the World Bank and the OECD and UNCTAD and other UN agencies. With regard to the statistical data we will look into relevant industry figures for the Oil and Gas industry like in i.e. how many companies are involved in the industry and how many does it employ and what is the average profit per unit etc.

The choice of secondary data information gathered has been primarily focus driven and relevance driven in regards to foreign direct investment and private sector development united with the concept of economic growth and development under the omen of poverty alleviation in developing countries. OECD and UNCTAD are economic organisations trademarked by combining economic trade and development. Moreover, they very visible in the public debate and discussion dictating the

flavour of the decade/millennium on preconditions for government of developing countries to adhere to in order to promote economic growth and eradicate poverty. UNCTAD endorses the development incentives of developing countries into the world economy. UNCTAD is a recognized knowledge-based institution taking part in shaping current policy debates and thinking on development, with a particular focus on ensuring that domestic policies and international action are reciprocally supportive in bringing about sustainable development. OECD decree is to promote policies that will improve the economic and enhance welfare of the people around the world. OECD work with governments to understand what drives economic, social and environmental change and measure productivity and global flows of trade and investment. Furthermore, OECD analyze and compare data to predict future trends. Publications and data from other relevant organizations such as IMF and WB are used on the same arguments as OECD and UNCTAD. Moreover so, IMF and WB bestow large sums to developing countries and assisting them in effectively managing their economies. IMF provides practical guidance and training on how to upgrade institutions, and design appropriate macroeconomic, financial, and structural policies – policies that the countries have to adhere to in order to receive financial support.

We recognise that the field of economic growth and development and poverty alleviation is extensive and inexhaustible which is also why we have chosen to steer it towards one direction which we find relevant in the contemporary context and with foundation in the business literature.

The thesis analyse and discuss the research question from a universal perspective while discussing the validity and reliability of a general conclusion.

3.4 Interviews

The thesis supports our theory and second hand empirical material with our own empirical contribution through qualitative and quantity interviews. Some interviews are solely qualitative semi-structured, and most of them are based on a questionnaire and then followed up by a brief interview. (see appendix 1 and 2)

Questionnaires were sent to subjects via email within the INGO community and the MNCs operating directly and indirectly within the Oil and Gas sector in Southern Iraq. Actually, 12 different MNC subjects were target but sadly only two of them responded positively. Hence, the response will be supported by second hand empirically quantative and qualitative data to shed light on the MNC angle. The sole interview conducted was done via Skype.

The questionnaires to the INGO (DRC and DDG) were sent as follows up to a prior phone conversation and response was received from all subjects. In three of the cases the questionnaires were followed up by qualitative semi-structured interview. The Interviews were conducted in a face to face setting.

Additionally, two experts within the Iraqi context were interviewed in order to shed light on the government of Iraq and its institutional development and dynamics in a post-conflict fragile context. What political sphere does the INGOs and MNCs operate in

The following people were interviewed or/and submitted questionnaire:

Experts reference Government of Iraq:

Søren Schmidt⁸, Professor at Aalborg University in the institute of culture and global studies. Søren Schmidt is interviewed with the purpose to understand the country and its institutional context. Søren was interviewed based on a semi-structured interview.

Gert Meinecke, the Danish ambassador to Iraq (Middle East and North Africa). Gert Meinecke contributes with an understanding of the institutions in Iraq and the issues and challenges that the state overcome in order to stabilize and be capable of providing the control and social service that is expected by a general state. Gert was interviewed based on a semi-structured interview.

Experts reference DRC and DDG (INGO):

Christan Jakob Hansen, part of establishing DRCs program in Iraq in 2003 and held the position as the main coordinator in DRC HQ in Copenhagen from 2004 to 2010 for the DRC program in Iraq. As Roger Fasth his statements contribute to the INGOs institutional knowledge since 2003. Moreover, he also sheds light on the obstacles and challenges met by the INGO establishing itself and executing its activities. Christian Jakob Hansen was interviewed based on a semi-structured interview. Secondly, he also filled out a questionnaire.

Barry Jolly is the former Operations Manager and current Program Manager of DDG Iraq. He has been with DDG Iraq since 2010. Barry Jolly, mandate and responsibility are to implement DDGs humanitarian mine action activities on a daily basis together with his international and local team.

⁸ [http://vbn.aau.dk/da/persons/soeren-schmidt\(0942560c-5b4b-4bb7-98f7-9fe37ce3d848\).html](http://vbn.aau.dk/da/persons/soeren-schmidt(0942560c-5b4b-4bb7-98f7-9fe37ce3d848).html)

Hence, he can shed light on the DDGs activity progress over the last 4 years and the threat and challenges connected to the implementation. Barry Jolly was interviewed based on a semi-structured interview. Secondly, he also filled out a questionnaire.

Michael Bates is the current Country Director of DRC Iraq. He has been with DRC Iraq since 2011. Michael Bates', mandate and responsibility are to implement DRCs humanitarian aid/protection activities on a daily basis together with his international and local team. Hence, he can shed light on the DRCs activity progress over the last 3 years and the threat and challenges connected to the implementation. Michael Bates was interviewed based on a semi-structured interview. Secondly, he also filled out a questionnaire.

Roger Fasth, part of establishing DDGs program in Basrah, Iraq in 2003 and held the position as the main coordinator in DDG HQ in Copenhagen from 2004 to 2012 for the DDG Iraq program. Roger Fast has 13 years of experience within the INGO and of South Iraq. His statements contribute to the INGOs institutional knowledge and history. Moreover, he contributes with his experience of the challenges in establishing an INGO in the Iraq post conflict context and dealing with Gol and its national, regional and local institutions in setting up an INGO. Roger filled out and submitted questionnaire.

Experts reference Multinationals Companies and UN:

Crispian Cuss is programme director for Oliver Group (OG) limited in Iraq. Olive Group provides security solutions for DDG/DRC in South Iraq (Basrah area). Moreover, OG provides practical support to Oil and Gas companies' i.e. by subcontracts within security solutions or/and unexploded ordnances clearance. He contributes to the understanding of the requirements that MNCs have to meet in order to operate and the structure of the Oil and Gas industry in Iraq. Crispian Cuss was interviewed based on a semi-structured interview.

Kent Paulusson is former UNDP Iraq Mine Action consultant and advisor from 2004 to June 2013 and today Operations Manager with Aid Management Solutions servicing Oil and Gas companies in eliminating the threat of unexploded ordnances. Kent Paulusson has a vast experience with Iraq from the Governmental perspective since 2004 with the UNDP. He has provided practical guidance and training on how to upgrade institutions, and design appropriate policies that the countries have to adhere to in order to receive foreign aid with reference to mine action clearance. Kent Paulusson has for many years advised the Gol and relevant ministries of the responsibilities applied for implementing the proper reforms regulating the private and humanitarian mine action in Iraq. He contributes with hands on institutional knowledge from the more top down structure of development. Since, June 2013 he has acted on behalf of the private sector and thereby contributes

with a comparison in regards to working with the GoI from a UN and the private sector perspective. Kent Paulusson filled out and submitted the questionnaire.

The interviews took between 18 minutes and one hour. They were conducted semi-structured meaning that questions were prepared beforehand, but it did allow leeway for asking follow-up questions if the interview took an interesting route that originally was outside the prepared questions. Because of the geographical diversity some interviews were conducted via Skype, and for only two of the interviews both authors of the thesis were present.

The prepared questions were designed to fit the special profile of the subject, although some questions were used from the other interviews, the aim was to utilize the specific knowledge from our interview subjects. The questions were among others based on the ten reasons of the National Investment Commission (NIC) set by the GoI to address attracting FDI. The reasons are of course formulated by the government and therefore it should be expected that there are some amount of bias in these advantages. Therefore we test the reasons by asking operating INGOs and MNCs in Iraq to give their input (NDP 2010).

All interviews were recorded in order to go back and semi-transcript and draft a summary on relevant information.

Risks of the interview method

Since most of the time the interviews were only conducted by one interviewer, we ran the risk of missing important points or not getting the extensive answers from the questions that we were looking for. Being both interviewer and the follow-up is not optimal. Changing the questions gives the advantages of getting the specialized knowledge of the interview subjects. But, at the same time we run the risk of not being able to compare the statements of the interviews, because the interview subjects were not asked the same questions. So getting in depth knowledge can be on the expense of the comparability of the interviews. In general, we use the same questions in the questionnaires thus presenting a level of comparability.

3.5 Case Study

Our study is based on being an exploratory study, where the aim is not to make a decision making model or final conclusions but to make a study that will open up a field ready for further studies (Olsen & Pedersen 2003)

The case is selected on the basis on an information-orientated selection as an extreme/deviant case (Flyvbjerg 2006). The reason it is extreme is the country of Iraq's unique setting in form of high

potential income opportunities through oil and at the same time a fragile, close to failed, state on the verge of civil war.

The motivation and reasons for the choice of setting and INGO case are several. Firstly, the authors are both currently employed by the DRC/DDG and share explicit a common interest in development topics. Secondly, there is a shared interest in looking at linking the private sector and development in the areas of operations of DRC/DDG. Thirdly, both authors studying at CBS share an interest in linking IB literature to the operations of INGOs. Fourthly, majority of the IB theory and concepts are developed and applied to 'secure' and 'stable' settings in regards to MNCs. Finally, one of the authors have worked in Southern Iraq in 2005 and 2006 and have been involved in the implementation of the programming on and off since 2009. Hence, it would be interesting to explore impact in a fragile setting and apply IB literature in the fragile context of Iraq in regards to DRC/DDGs program. To our knowledge using this IB literature in an INGO setting in a security unstable setting has not been explored, and this is also one of our motivations of doing this.

The downside of using case Iraq, is that the security instability in the country has been dominant for so long that there is very little accurate information about the development and economic of the country. Therefore we have had to rely on secondary data in form of expert interviews and estimated figures from various sources.

3.6 'Operationalization' of Absorptive Capacity

The concept of absorptive capacity refers back Cohen and Levinthal (1990) definition of the firm's *"ability to recognize the value of new information, assimilate it, and apply it to commercial ends"*. (Cohen and Levinthal 1990)

In 2009, H. Nguyen et al, developed an overarching model/theoretical model reflecting the direct dynamics that a host country needs in order to convert the benefits of FDI to its country's own spillover effect for national economic growth. The model is based on a thorough review and empirical data on the theory of the absorptive capacity/ absorption gap in the IB literature since the beginning of the 1990ties. The model includes two additional absorptive capacities at a host country level in comparison to Nunnenkamp (2004). Nguyen et al (2009) suggest that to absorb the FDI spillovers for national economic growth, host countries should have qualified development in educated and skilled labour (human capital), absorptive capacity of local firms, financial system, physical infrastructure, advanced technology and R&D, and institutions. (Nguyen et al 2009)

The research and review of Yamin and Sinkovics (2009) supports the above notion stating that FDI research demonstrates a strong dependence of the benefits of FDI on infrastructure and human capital in recipients' countries. (Yamin & Sinkovics 2009)

As mentioned earlier the sum of Nunnenkamp (2004) and Koko and Blomstrøm (2003) and H. Nguyen et al; FDI incentives analysis establishes that the below 6 criteria's (classified as absorption gap) have to be improved or met in order for a country to benefit from FDI.

The 7th criterion is included by the authors. Scholars normally based their research on the assumptions in regards to absorptive capacities in a non armed conflict setting thus movement is relatively safe. Regrettably this is not the case in Iraq and therefore we choose to adopt an additional criterion i.e. security stabilisation and emergency preparedness explicit for fragile and transitional regions. The criterion encompasses the essence of the Gol's willingness and aptitude to ensure safety and security throughout the country in order for the market to operate and have measures in place to respond to emergencies e.g. influx of refugees from the Syria Crisis so the economy and development will not experience a major setback.

Therefore, based on the theoretical discussion and analysis of Iraq this study will operationalize the following absorption gap in promoting most possible spillover effects for the host country – Iraq.

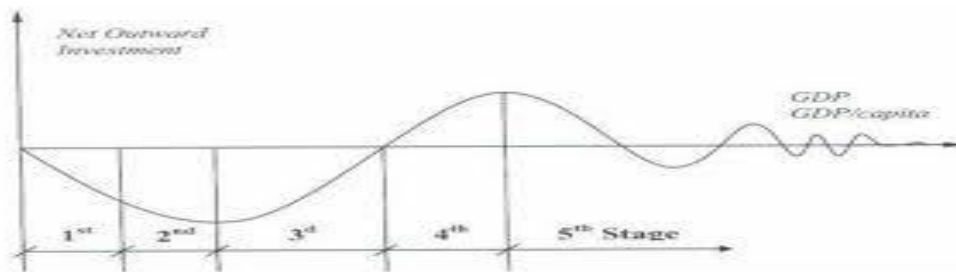
1. Better education and training would add to the supply of qualified labour and improve prospects to benefit from technology transfers and spillovers. (Human Capital)
2. More sophisticated local financial markets enhance the capacity of host countries to absorb FDI inflows – reform the financial system.
3. Opening up to trade may help become involved in corporate networks and thereby to benefit from the widely perceived trend towards efficiency seeking and export oriented FDI.
4. Institutional development seems to be required to benefit from both efficiency seeking and market seeking FDI. Institutional development involves a wide range of fairly time-consuming reforms, including the protection of property rights, control of corruption and efficient administrative regulations.
5. Physical infrastructure (roads, electricity, water supply, information technology etc).
6. Investment in Advanced technology and R&D
7. Security Stabilisation and Emergency Preparedness

The operationalisation will be from a micro scale perspective looking at demonstrating how DRC and DDGs specific activities in the Iraq setting employ into the absorption gap.

3.7 'Operationalize' FDI, Economic Growth and Development in the fragile context case of Iraq

John Dunning and Rajneesh Narula (Dunning and Narula 1996) operationalize the investment development path (IDP) that shows where a country is in their development in the international economy. The framework is based on FDI in and outflows of the country and furthermore based on the John Dunning OLI approach described below. The investment development path suggests that countries go through 5 development stages. These countries can be classified on the basis of their in and outward investments. The changes of stages depend on:

1. The pattern of the firms in the country competitive or ownership advantages (O advantage), relative to other countries firms.
2. The countries competitiveness of their location bound resources and capabilities, relative to other countries (L advantages). There are basically two types of resources and capabilities, there are natural assets and then there is created goods that needs some kind of craftsmanship to create. Natural assets could be gas, oil, minerals, coal, diamonds, agricultural advantages etc. Created assets could be refined oil, gasoline, electricity, manufacturing ext.
3. And to what extent the indigenous country firms are able to utilize their O specific advantages together with the L advantages of home or foreign countries, trough internalizing cross-border markets.



Source: Dunning and Narula (1996).

Figure 5 – Investment Development Path

Stage 1:

The countries in the first stage of the IDP will have very little outward investments due to the fact of very low L specific advantages except if the country holds a lot of natural resources, then inward FDI is expected to be high. The reason for no created assets is likely because of bad infrastructure, low education, low technology and communication, economic systems and government policies. Therefore MNC's will usually be resource-seeking and use the country as an export platform. The domestic firms will operate in the primary sector doing mining and agriculture.

Stage 2:

In this stage the inward investments will begin to rise. This is because the domestic market has grown bigger and some companies will be able to attract FDI into import substitution manufacturing. This is typically stimulated by the government imposing tariffs on import/export. The main production will still be in the primary sector and light manufacturing. Even though the outward investment will rise, the inward will increase even more, leaving the balance between inward and outward (titled Net Outward Investment (NOI)) FDI to become more negative. However by the end of stage 2 the growth rates of the inward and outward should begin to converge.

Stage 3:

In stage 3 the outward direct investment starts to overcome the inward direct investments resulting in an increasing NOI. The national firms capabilities start to resemble the ones of the foreign companies. The domestic industry is evolving in the asset creating industries and moving away from the natural resource industry.

Stage 4:

At this stage the outward FDI has surpassed the inward FDI making the NOI positive. The domestic companies can now not only compete with their foreign competitors but the firms can also penetrate the forging markets. The production is using the state of the art equipment and is at a point where the cost of labour exceeds the cost of capital, making the domestic companies offshore production to lower Industry Development Path stage countries. The country's export is almost completely based on created assets. Inward foreign investments are increasingly sequential and are of an asset seeking nature from other stage 4 countries. 2nd and 3rd stage countries will also make FDI, but this is more of the market and trade seeking nature. Outward direct investment will become increasingly necessary to maintain competitiveness in terms of offshoring. The organizations of companies in stage 4 countries are similar. Therefore intra-industrial trade is increasingly important. However most of the intra-industrial trade and production will take place internally in the MNC.

Stage 5:

At this point the NOI reached fluctuates around zero. Inward and outward direct investment will continue to increase but in an equal pace. Here the country borders will become blurry since MNC's no longer operates within borders of countries, but all over the world. There will be no specific ownership of assets, since all stage 5 companies is able to produce it. As a result the economies will become increasingly similar.

The study operationalizes the IDP framework above in order to classify the Iraq economy in an international perspective. Hence, Iraq is a stage 1 country where the inflow of FDI is a lot higher than

the outflow indicating that the domestic industry is a long way from picking up towards a growth process. (Dunning and Narula 1996)

Economic Growth and Development

The study furthermore operationalizes economic growth and development in order to analyse the socio-economic situation of Iraq mirrored towards the global economy and the allocation of resources. Iraq is classified as a fragile state and a middle-income developing country. Iraq's progress towards achieving the millennium goals shows a diverse picture however at least 'Extreme Poverty' was reduced by more than half its level since the 1990ties. Hence, the economic growth and development operationalization are relevant in the debate on defining developed and developing countries.

Economic growth and development is a dynamic process. We will in this study identify the following Economic Growth indicators

Indicators of economic growth:

1. Gross Domestic Product
2. Gross Domestic Product per head
3. FDI figures per industry /country
4. Government Debt - % of GDP
5. International trade and balance of payment
6. Disposable income - income level distribution by groups and age
7. Consumer market prices – annual inflation

Development is seen as the human development of the individual. The individual human being is the essential component. Though, it is alleged that the sum of social, economic, cultural and political development are essentials for human development, hence sustainable development. Moreover, human development is an essential mean to eradicate those inequalities imposed on individuals or groups caused by discrimination.

Indicators of socio-economic development:

1. Health – mortality, life expectancy and infant mortality rates
2. Employment versus Unemployment rates– also by age groups
3. Access to education, especially higher education
4. Access to infrastructure (Housing, schools, roads, water, electricity etc.)

5. Private and Public Social Expenditures
6. Public policies that limit the groups participation in politics and access to political office: The structure of the state – The Constitution – Power distribution
7. Public policies that impede or encourage the social and economic activities.

The study will operationalize the above indicators to determine economic growth and development. The indicators are the starting point for measuring progress in growth and development.

3.8 Method Operandi

By establishing our understanding of the different concepts we can now outline our methodology in order to analyse on how DRC/DDGs activities feed in to the Absorption Gap. The study will apply and map the 6 criteria inclusive the 7th criterion of Security Stabilization and Emergency Preparedness in the below analytical framework. The analytical framework map 5 overall headings, the 7 absorption gaps, the investment level of implementation in improving 'Gap', DRC/DDGs activities that feed into 'Gap', then indicators of DRC/DDG activities that can indicate/measure an impact on 'Gaps' and finally risk and inhibiting factors. Absorption Gap Framework:

Assumption: Government exercise top down approach and the INGO exercise bottom up approach

Absorption Gap	Investment Level of implementation in improving 'gap'	DRC and DDGs activities that feed into 'Gap'	Indicators	Risk and inhibiting factors.
1. Better education and training Human Capital				
2. More sophisticated local and national financial markets and financial infrastructure				
3. Opening up to trade				
4. Institutional development				
5. Physical Essential and better infrastructure				
6. Advanced R&D				
7. Security Stabilisation/Emergency Preparedness				

Table 9 – Analytical framework

The Absorption Gap column maps the 7 criteria that we investigate and explore in regards to the DRC/DDGs activities. **Investment Level of implementation in improving 'Gap' column** will map the investment level of implantation in the three analytical levels of micro, meso and macro. The thesis will explore and analysis DRC/DDGs activities from a micro level perspective. This means that the

study is analysing on the criteria that affects the micro level. ***DRC and DDGs activities that feed into the 'Gap' column*** links to the specific activities that DRC and DDG provides that are connected to the criteria of the absorption gap. ***Indicators column*** maps the application of our discussion and analysis explicit if what DRC and DDG do actually improves and minimizes the absorption gap. The results here are documented from previous projects that DRC and DDG has done in Iraq. The last column ***Risk and inhibiting factors projects*** the risk of project implementation in the Iraqi fragile context. INGOs face various challenges when executing a project or program. So the mere initiation of the project is not enough to conclude that it will help in minimizing the absorption gap. Also when the projects have finalised there are still risk that the projects hindering the sustainability and the long term perspective.

3.9 Limitations & Scope

State – Government of Iraq – Southern Iraq

The study explores the role of the economic, social and political institutions and their transformation in a fragile and transitional context influenced by armed conflict, globalisation and a global economic crisis. So, in that context we explore the interaction between the Iraqi Government (Institutions), the Market (MNCs and local firms) and the Society (Civil Society more specifically INGO).

The State of Iraq's (the country) government governs and administer the complexity of a fragmented society through interaction between actors on a global, national, regional and local level. Types of governance of course vary in time and place i.e. the governance of pre- and post-conflict, and contribute to outline the Market. As Degnbol- Martinussen (1997), stress, in much literature about the developing countries, the state is mentioned as an institution of relatively special importance for the development process. Nonetheless, it is difficult to find an accurate definition of how to understand the word 'State' and the concept of State. (Degnbol-Martinussen, 1997)

The dictionary defines the concept as;

"A state is a compulsory political organization with a centralized government that maintains a monopoly of the legitimate use of force within a certain geographical territory. Some states are sovereign, while others are subject to external sovereignty or hegemony (where ultimate sovereignty lies in another state). The denomination state is also employed to federated states that are members of a federal union, which is the sovereign state." (Oxford English Dictionary)

This elementary definition is adopted by this study nevertheless; within the limitation and scope the study also lean towards the assumptions of the 'soft' state developed by Myrdal (Degnbol-Martinussen, 1997).

"At a high level of abstraction, the term refers to unwillingness among rulers to impose obligations on the governed, and a corresponding unwillingness on their part to obey rules laid down even by democratic procedures. The soft state is not capable of implementing policies that go against the interests of the bureaucracies or powerful groups in society. Government officials frequently co-operate closely with exactly those powerful individuals and groups they are supposed to supervise and control. The officials often simply refuse to follow orders or implement decisions when these go against their own interests, or get in the way of further co-operation with the external interest groups to which the officials are connected." (Degnbol- Martinussen, 1997)

The concept of the fragile context of transitional countries and emerging markets became a central concern of the international development and security agenda in the 1990s. Additional, Iraq is analysed within the scope of OECDs fragility concept and definition;" *Fragile states or provinces lack the ability to develop mutually constructive relations with society and often have a weak capacity to carry out basic governance functions. Fragile situations matter because they are home to an increasingly concentrated proportion of the worlds poor. They are also more susceptible to instability, with potential regional and global consequences. "* Subsequently, Iraq is classified as middle-income fragile state. (OECD, 2012a)

Within the scope of the state and the market and the society, formal and informal institutions arrangements are defined in the words of Gretchen Helmke and Steven Levitsky (2004). Richard Whitley (1996), Business System Approach furthermore, demonstrated the institutional perspective in regards to how firms are embedded in institution and vice versa. Thus, it is implicit that the formal institutions regulates and governs the interaction between government, MNCs, local firms, and INGOs i.e. we are applying the basis of the concept/theory of new institutionalism. In reference to institutions the rule of law distinguishes between institutional economics: neoclassical and institutionalism economic. According to neo-classical the state is the guardian of the rules of the institutions. The law applies but must not interfere in the market institutions. Laws are a guarantee of justice. According to the institutionalism economic the state is the guardian, the initiator and the responsible institutions.

The scope of the study looks specific at Southern Iraq partly because most foreign MNCs are involved in the Oil and Gas industry in the South hence their presence have involved other MNCs e.g. safety and security companies. Another reason is the specific case of Danish Demining Group (DDG) and

Danish Refugee Council (DRC) Iraq who both are implementing their humanitarian and development activities in the South. The study includes Central Iraq and the capital Bagdad representing the State and Government and it is policies and plans which embrace all citizens of Iraq with special consideration for Kurdistan Regional Government (KRG). Kurdistan includes the provinces of Al Sulmaniah, Erbil and Dohuk. The region is viewed as an independent geographical area (territory) representing an ethnic majority group 'the Kurds' ruled by home-rule. Hence, KRG is excluded from the scope of the study.

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Though, the majority of the Iraqi peoples (Shia and Kurds population) have shared common distraught and problems during Saddam regime (Saddam favoured the minor Sunni population) they all (Shia, Kurds, Sunnis and Christian and other minorities) also represent great diversity from one another culturally, geographically, economically, socially, politically, and historically. Therefore, it is impossible and incorrect to compare and generalise there past and present situation, issues and problems. Nonetheless, the study will narrow its scope and justify generalising the Southern Iraqi population who is Shia dominated and a fairly homogenous group needless to say that cautious should be taken when generalising. There are many more aspects of the Iraqi government and its institutions than covered in this thesis, but due to page limitations of the paper and no relevancy to the specific research questions these will be disregarded.

Civil Society (CSO) and Non-governmental organisations

The civil society takes its point of departure in the case of the International Non-governmental Organisation (INGO), Danish Refugee Council (DRC)'s and Danish Demining Group (DDG) operation and work in Southern Iraq. Thus, the scope of the civil society is limited to one INGOs program and project activities in Southern Iraq. Henceforth, the study is based on the basis of one individual case and the assumption is that one case study can contribute to scientific development if it is carried out in some numbers i.e. comparative studies in similar environments. (Flyvbjerg, 2006)

Local market (local firms) and International market (MNCs)

Local markets and firms will here only be discussed as actors on a theoretical basis. We will not conduct interviews or otherwise create empirical data on the subject. We will use what general

effects there is from INGO's and MNC's described in the international business literature. This does not cover the complexity of the Iraqi local environment, but as general effects we see the international business literature as sufficient.

The international market scope is solely MNCs involved in physical (entity arrangements) foreign direct investments such as subsidiaries, affiliates and joint ventures the rational being that by their physical presents they will have direct linkages and implications (negative and positive) on the local community and thereby being able to possibly contribute to economic growth and development.

The main focus will be on the primary sector and on the Oil and Gas MNCs. This is partly due to two reasons; first, the majority of the FDI companies are within the primary sector and second, within the Oil and Gas sector. The GNP of Iraq in 2012 was estimated to be 242.5 billion US dollars and an export value of 93.91 billion of which 83% of the exports is crude oil (www.cia.gov). It is estimated by the Iraqi government that there is 143 billion barrels of crude oil to be produced spread over 79 fields where as only 24 of them is currently producing. This of course has led to a huge interest for MNC's all over the world (www.erbiloilgas.com).

This does not eliminate the secondary or the tertiary sector from the scope of the study. Specially, the latter sector has seen an increase of MNCs within the financial and legal services, and safety and security services sector.

Time frame – from 2003 to 2013

The scope of this study is to only look at the situation since the recent armed conflict in 2003 and up to 2013. The conflict generated a general breakdown of many of the basic official institutional structures servicing the population, industrial market and the civil society there is no point in going back in time as the scope of the study is looking at how to get out of the investment deadlock in order to promote economic growth and development.

Many statistics and figures are not available from 2012 and 2013 because it is difficult to obtain valid data in Iraq due to the security situation. We will use the latest figures available but due to the fragility of the state and the security situation, some numbers will be estimates or older than could be wished for.

Negative externalities and INGOs activities

The study's focus is on spillover effects and therefore does not include negative externalities from MNC's. Although that negative externalities is an important aspect of FDI, the IB literature is concerning itself with primarily the positive externalities i.e. spillovers and the discussion of when and where they are valid and relevant to a host country.

3.10 Reliability and Validity

The absorption gap criteria's are identified within the IB literature as prerequisites for attracting MNCs FDI and subsequently, the possibility of generating spillover effects. For that reason, we would argue that the validity of operationalizing the absorption gap as the entity for analysing and examining how the INGOs activities feed in to minimising the gap is valid.

It can be argued that the statistical representation in form of project and impact (empirical) data from the INGO (DRC/DDG) lack structure and consensus in order to present more concise causal chain of findings. This of course affects the validity however we would argue that the presentation demonstrates nonetheless on a micro scale level that INGOs activities contribute to strengthen the possibility of spillovers by feeding into certain specific criteria's. The validity will be strengthened by a thorough in depth explorative study with organising projects and impact data systematically.

Furthermore, we would argue that the research design and analytical framework are adaptable to other case settings and INGOs activities for both developed and developing countries as it embraces an essential extra dimension - the 7th criterion: Security Stabilisation and Emergency Preparedness. Where it would be irrelevant for the majority of developed countries it would be relevant for developing countries from both end of the spectrum less developed and developing. In order to illustrate one example, the earth quark in New Zealand in 2011 showed how a well-functioning government and country 'easily' and quickly came back on its feet again whereas the big earth quark in Pakistan in 2008, still struggles development initiatives. Hence, the emergency response apparatus in order to retort to disasters are worlds apart.

The reliability of the secondary data and information material we would argue is fairly high. OECD, WB, UN and IMF are intergovernmental organisation that are highly scrutinised and adhere to fairly strong accountability and transparency requirements due to being 'funded' by government states that are responsible towards its citizens i.e. tax payers. Nonetheless, of course there will be biased tendencies in the material representing the 'organisations' economic and development philosophy. We argue that the above statements are relevant for all material obtained from DRC and DDG.

The reliability of the primary data is high we would argue however a more structured approach of the interviews and questionnaire would definitely have given a more organised and comparable sample of the respondents. One issue is that we are not represented from all of aspects of the thesis. We have no one speaking from the local environment and only two speaking from the MNCs angel. Therefore our experts will all see through the eye of the developer. We do however trust that the professionalism of the individuals is high enough to support us information that are not so bias, that it will distort the picture of Iraq and the challenges they face.

Our interview subjects are found to be reliable and their statements valid. All of them are currently involved in Iraq one way or another. Some are actually working currently in the country or directly involved from abroad. On the other side, the study considers the fact that subjective assessment by expert observers/subjects influence the validity of their statements.

We have possibly taken a too open approach reference the questionnaires which might have done that the respondents did not understand the questions as we expected. That was also one of the reasons that we wanted to follow the majority of the questionnaires up with interviews. The questionnaires are found to be reliable but not highly valid in a sampling excise of the respondents. For example, the questionnaires have differed slightly from private sector subjects and INGO sector actors thus again sampling wise it is consistent.

4.0 Analysis

4.1 Iraq – a historical perspective

Decades of conflict and international sanctions have had devastating effects on Iraq and its population. Although significant efforts have taken place for the reconstruction of the country; major social indicators are still showing serious decline while the delivery of basic social services has a hard time meeting demand. December 2011 marked the official end of the Iraq War with the last US troop's withdrawal however the social atmosphere remains noticeably divided, as ethnic and religious minority groups contest over political representation. Human rights are poorly protected and an increase in anti-government demonstrations in 2011 led to a tightening of the freedom of assembly. It remains to be seen how much positive change will be achieved during Iraq's current transition period in such fragile context.

Since Dec 2011 after the last US forces left the country and to date October 2013, the region has furthermore been characterized by an array of socio-political movements across the Middle East initiated by among others the Arab Spring and the on-going Syrian Crisis (www.reuters.com). The Syrian Crisis did not generate any significant exodus across the Iraqi-Syrian border until July 2012, where more significant numbers of refugees begun being recorded. As of October 2013 the Syrian Crisis has taken a more serious turn and Iraq is dealing with a significant numbers of refugees (approximately 196,700 and climbing) crossing the border into the independent KRG (Kurdistan) area of Iraq (UNHCR.org).

Furthermore, several radical movements within Iraq have woken up again training to fight alongside Al Assad's regime or against it. Thus, Iraq is faced with a political, economic and social turmoil jeopardizing the reconstruction and transition phase planned and drafted by Gol with the assistance and guidance of the world society such as IMF, WB, UN, EU, USAID and other donor organisations. Subsequently, Iraq was in 2012 ranked as number 9 on the failed state index (Foundforpeace.org).

Iraq continues to face one of the largest displacement and humanitarian crises in the world. According to UNHCR end 2012, approximately one million people remain displaced throughout the country and many of them still live in dire conditions. Most are unable to return to their areas of origin because of the sectarian and volatile security situation, the destruction of their homes, or lack of access to services. The internal displacement monitoring centre (IDMC) actually estimates the figures to be approximately 2.1 million internally displaced people (IDPs). The rationale, behind IDMCs figures, is that the UNHCR estimates, are after the sectarian violence of that peaked in 2006 -2007⁹ however the figures are not included those previously displaced by the Ba'ath (Saddam Hussein's government) or

⁹ Iraq has witness several phases of displacement in the last decades. Post 2003, the 2003 War created new displacement but also the bombing of the Al-Askari Mosque in Samarra on 22 February 2006 triggered escalating sectarian violence that drastically changed the cause and scale of displacement in Iraq. More than 1,600,000 Iraqis were displaced and registered as IDPs between this time and September 2008.

those displaced by the US led invasion in 2003. 20% of IDPs live in collective settlements and a quarter cannot afford healthcare fees and over 70% of families have no members employed. (UNHCR 2012)

Since the beginning of 2011 the number of registered returnees with the Iraqi Ministry of Displacement and Migration (MoDM) has continued to dramatically increase: with approximately 260,000 individuals registered. The main reasons for this increase are twofold: the financial assistance granted by the Iraqi Government that was increased in April 2011 and the relative improvements in security and services, particularly in those areas where sectarian violence was most prominent in 2006 and 2007; including Baghdad, Diyala and Ninewa. (UNCHR 2012a)

Besides a huge displacement emergency, the lengthy Iran-Iraq war of the 1980s, numerous skirmishes between rival ethnic and political parties, large scale military actions of 1991 and 2003 Gulf Wars, as well as the widespread violence since 2003, have left south Iraq littered with landmines and Explosive Remnants of War (ERW). While there are no reliable estimates available, the first report submitted by the Government of Iraq on 31 July 2008 to the UN Secretary-General, under the provisions of the Anti-Personnel Mine Ban Convention, indicated that at least 20 million anti-tank (AT) and anti-personnel (AP) landmines are present, mainly on the borders, and around the oil fields in the south. This figure does, however, only include those laid by the Iraqi armed forces. (Internal DRC/DDG donor proposal documents and final reports)

Landmines are however only a part of Iraq's ERW problem. Far more numerous are millions of cluster bombs, as well as unexploded ordnance and abandoned explosive munitions. The Government of Iraq became the 155th State Party acceding to the AP Mine Ban Convention, entering into force on 1st February 2008. Due to several factors, such as frequent changes in leadership, low levels of political support and the poor security situation, the National Mine Action Authority (NMAA)¹⁰ has been unable to make substantial progress. In 2009, a new national Mine Action regulatory and coordinating structure was established by the Ministry of Environment (MoE). As a first step it developed a new, and more realistic, but fairly rudimentary National Mine Action Strategy for 2010-12, agreed by all Ministerial partners¹¹, that was released late 2009. (Internal DRC/DDG donor proposal documents and final reports)

The UN/World Bank joint Needs Assessment¹² in Iraq concluded that, in many areas, the most serious threat faced by Iraqi civilians is that resulting from explosive ordnance (EO) out-loaded in preparation for the war of early 2003 and shifted during post-war looting. Additionally, UXO are scattered

¹⁰ NMAA is now called the Directorate of Mine Action (DMA).

¹¹ The tri-partite nature of the DMA – a co-action of the Ministries of Defense, Environment and Interior – is seen as problematic not only for practical reasons, but also because both Defense and Interior Ministries are also classed as implementers in the National Strategy and their mutual MOUs, meaning there is a conflict of interest with their proposed role in co-ordination, and governance, of the Iraqi mine action sector. This is an issue that needs to be addressed in the medium term by UNDP, and at the diplomatic level.

¹² The United Nations Development Group and World Bank Joint Iraq Needs Assessment, October 2003.

throughout many of the major cities and military positions affected by recent and earlier conflicts, including sub munitions and depleted uranium. (Internal DRC/DDG donor proposal documents and final reports)

The ERW contamination (Abandon explosive ordnances (AXO) and unexploded ordnance UXO) throughout Iraq poses a serious threat to the safety of civilian population and denies access to valuable resources including agricultural land, grazing land, roads, water sources and residential areas and hinders the repatriation of internally displaced persons and refugees. In addition, the presence of ERW is considered one of the major challenges in the implementation of relief, rehabilitation, reconstruction and development programmes in the country.

Following the advent of military operations in 2003, the Danish Refugee Council was one of the first organisations to provide humanitarian assistance; opening an office in Diyala and soon after in Basra. DDG followed DRC and has been present and operational in South Iraq since July 2003 and delivers broad based humanitarian mine action work. (Internal DRC/DDG donor proposal documents and final reports)

The scope of the study specifically looks at Southern Iraq partly because most foreign MNCs are involved in the Oil and Gas industry in the South hence there is also a great presence of big safety and security companies guarding the Oil and Gas sector. Another major reason is the specific case of Danish Demining Group (DDG) and Danish Refugee Council (DRC) Iraq who both are implementing its humanitarian and development activities in the South. This does not excluded Central Iraq and the capital Bagdad who represents the Government authorities that dictates the policies and plans which with special consideration for Kurdistan Regional Government (KRG). Kurdistan, in the North, includes the provinces of Al Sulmaniah, Erbil and Dohuk and is disregarded from the scope. The region is viewed as an independent geographical area (territory) representing an ethnic majority group ‘the Kurds’ ruled by home-rule. (Interview Gert Meinecke)

4.2 The socioeconomic and political situation of Iraq

With less than 2 years to go, Iraq’s development towards reaching the Millennium Development Goals (MDG) shows a mixed picture. While there has been some progress the period from 1990 to 2011 also shows deterioration across all eight MDG goals.¹³ According to UN Country team Iraq’s figures and stats, over 12% of the population still live in extreme poverty and hunger. The average unemployment

¹³ UN Iraq, Progress in Iraq: The millennium development goals, 2011

rate is estimate to be around 15-20% and among the youth the rate is as high as 30%. Iraq's population is estimated to be approximately 32 million in 2011 (UN.org). Actually, Iraq's population has tripled between 1970 and 2007.

The country of Iraq cover an area of approximately 438,466km² and borders to Iran, Turkey, Saudi Arabia, Kuwait, Jordan and Syria. Bagdad is the capital with approximately 5,5 million inhabitants. Mosul is the second largest city with approximately 2,9 million people and Basrah is the third largest with approximately 1,9 million people. 5 million live in the Kurdish Region. (www.landguiden.se), (www.undp.org)

Islam is the predominant religion. 75% to 80% of the population are Arabs and 15%–20% of Iraq's population are minorities of Kurds, Turkmen, Assyrians, Mandeans and Shabak. The Muslim divided is approximately 65% Shia and 35% Sunni Muslims with around 4-5% Christian and indigenous religions. The population is divided around 50% female and male. Population growth is approximately 3.1% annually. It is estimated that approximately 50% of the population is below 19 years old hence it is a very youthful nation. Around 5% is above 60 years old. The Urban population is around 71% and 13% of these households have more than ten residents. (www.landguiden.se), (www.undp.org)

It is estimated that the government provides 40% of jobs; the remainder is in the private sector. It provides 45% of all employment in urban areas and 28% of employment in rural areas. 60% of all working females are working in the government sector. (www.landguiden.se), (www.undp.org)

The infant mortality is high around 33%. Around 82% enroll in primary education however that does not mean that they complete the primary education. Literacy is fairly high at around 78% and life expectancy rate is in average 68 years.

So, despite billions of dollars spent by the GoI and a bloated bureaucracy, service delivery is poor, electricity and water is only provided a few hours a day, in the classrooms there are at minimum 80 students per classroom, housing conditions are very poor – it is estimate that there a deficit of about 3 million units, there is a persistent high unemployment and poverty and there is poor management capacity of the state. On average households receive 14.6 hours of electricity per day through a combination of the public network or private generators. 20% of households in Iraq use an unsafe drinking water source.

75% Iraqis identified the need to reduce the country's poverty as the most pressing need. (www.landguiden.se), (www.undp.org)

Classification of the economy of the state of Iraq

There are few areas in which the economy is thriving, and in those that are – primarily oil and gas - farmers and unskilled labourers have limited chances of being hired. This has led to some friction between local communities and Oil/Gas Concession holders, and even armed attacks on them. The development of this key sector is significantly hampered by ERW, and in any case, it will take a long time before rural areas benefit from the 'trickle down' effect.

The study classifies Iraq as fragile state supported by the definitions of OECD and statement from the Gert Meinecke, Danish ambassador in Iraq. Secondly, Iraq ranks currently number 9 on the failed state index due to failure of strengthening its social, economic, political and military indicators (Foundforpeace.org). The country continues to be on the verge of civil war and few institutions only seem to function because of the huge income from oil. Surprisingly, the huge income from oil revenue still manages to produce an income despite the enormous corruption.

According to the Investment Development Path Iraq classifies as a stage 1 country. The country is sole dependent on the extraction of their oil. Besides, Iraq does not refine the oil themselves, but vends it to amongst others Syria for the refinement who then gains the real profit in selling it to the end consumers.

Looking at the Iraq FDI inflow and outflow, the last couple of years:

<i>FDI mill USD</i>	2007:	2008:	2009:	2010:	2011:	2012:
Inflow	972	1.856	1.598	1.396	2.082	2.549
Outflow	8	34	72	125	366	549
Net Outward Investment (NOI)	-965	-1.822	-1.526	-1.271	-1.716	-2.000

Table 10 – Investment Development Path FDI flows for Iraq (UNCTAD, 2012 appendix 1)

As table 10 clear demonstrates there is a clear overweight in the inward FDI coming mainly from Oil MNCs. The NOI shows a 100% negative increase from 2007 to 2012 however that is not necessarily a negative reflection of the FDI as the outflow has increased almost proportional to the inflow so there is a positive development but it is just very slow.

While accounting for around 60-65% of Iraq's GDP. The GDP is estimated in 2012 to be \$242 billion. The GDP is divided in three sectors, with 3% coming from agriculture, 32% from services and 65% from the industry sector. The oil sector is responsible for 90% of the income to the government and is therefore the main or only driver for the Iraqi economy, domestic as well as international. 99% of the

exports are oil. Their main export partners are USA (approximately 21%), India (approximately 20%) and China (approximately 14%). The figures are estimates as it is difficult to get precise numbers because of lacking records (civ.gov) Iraq currently produces 2.6 million barrels of oil per day: 2 million barrels are exported, 400,000 barrels are refined and 70,000 barrels are used for electric fuel generation each day. The oil sector currently employs only 1% of the total labour force.

The use of technology has increased rapidly since 2003, 78% of Iraqis use mobile telephones and 12% own a personal computer. With the rise of technology, and the right investments, Iraq can harness the energy, enthusiasm and creativity of its youth.

Security and political

The political situation in Iraq has changed in its foundation since Saddam was removed in 2003. At that time it was a government predominantly ruled by fear and power. Today the construct of the government is bound to the constitution and the political process is ruled through negotiation between the different parties. The parties or groups that has control of the oil, has the most power and are in a better position. But the foundation is based on rules and regulations, and no longer just one person. (Interview Søren Schmidt)

The country is divided in two: Kurdish controlled north (KRG) and Southern Iraq (Republic of Iraq) that covers the government by 'state of law coalition' situated in Bagdad. Prime minister is Maliki from the Shia Dawa Party. The Government constitution is a democratic federal parliamentary Islamic republic.

More broadly the Iraqi authorities have started to play a much stronger role by taking a more decisive management of security and government affairs: the Iraqi Government's 5 year National Development Plan being one example. It is; however, important to note, that this will require time and continued support to the Iraqi government. Moving from the inherited bureaucratic and centralized decision making system to an efficient and transparent democracy will require sustained support. In view of this, it is essential for the international community to bridge the gap and ensure that the most vulnerable are protected and supported during this period of transition.

However, in regards to State Building one wonders why so was little achieved during the last 10-11 years. There is still near absence of government machinery/state institutions. One reason debated is that the focus has been on political transition and less on security, service delivery, living conditions of the people at least until 2007. The focus should be seen in the light that transition was rushed and hence little ownership excised except by a small "imported" elite and that the transition was imposed an alien institutional framework and political system (US/UK). Moreover, the constitution overlooked very important issues such as which local elite and traditional political forces were and are still

fighting mainly over the distribution of power and of “oil rent”. The deferred decision-making on fundamental issues to the enactment of future laws (less consensus and legitimacy). Hence, major ambiguities in the constitution are a source of political instability such as an ambiguous federal system: role of each tier and the relationship between the different tiers are not defined, unresolved territorial conflict, oil as a shared competency. Given the centrality of “oil” in Iraq and the tension it generated among the different parties, the relations that developed and the mistrust among the political actors will further exacerbate and affect the pace and quality of democracy and state institutions. 19% of the population has engaged in a form of social or political activity such as signing a petition, participating in a demonstration or rally in the last 12 months. (www.undp.org)

Political instability furthermore fuelled by a high degree of nepotism and corruption and fraud. 12% all Iraqis who had contacts with civil servants gave a bribe. 95% of bribery incidents go unreported. (www.undp.org)

Family, religious community, tribe, village and ethnic group are the social entities in Iraq enjoying higher levels of confidence by citizens. (www.undp.org)

Gert Meinicke, sums up the essence the reasons above for the dysfunctional state apparatus;

(...) Det er både på horisontalt og vertikalt kan man sige, bare tag sådan et eksempel, Irak har skrevet under på en lang række konventioner også på menneskerettighedsområdet så ligger det i kortene at der skal afrapporteres, den del af forpligtigelsen følger med og tilstøde til den enkelte konventioner. Hvad er det vi har gjort for at forbedre menneskerettigheds situationen hvad har vi gjort for at nedbringe den tid sidder tilbageholdte før de bliver stillet for en dommer, alt sådan nogen ting. Og der et menneskerettigheds ministerium, nu er der også en menneskerettigheds kommission, der er 600 medarbejdere, det hører med til billedet at i UM er der 1200 medarbejdere. Og alligevel er de ikke i stand til at komme med rettidige rapportering. Dette er et lille eksempel, det er ret symptomatiske, det vi kender fra tidligere central Europa i det overdimensionerede stats apparat, men som faktisk ikke er i stand til at levere kvalitet. Volumen og kvalitet hører overhoved ikke sammen. Det andet er det andet niveau, at der ikke er koordination mellem de enkelte ministerier, f.eks. så blive der oprettet støtte til en menneskerettigheds konvention, en gældende internationalt norm og standarder, som var med uafhængige kommisære, som skulle rapportere direkte til parlamentet, uden om den udøvende magt osv. Og der ville det være naturligt for et land inde i den proces at strømligne statsapparatet og dens midler. Så har man sådan en konstitutionel body eller hvad man nu skal kalde den, som ikke er underlagt udøvende magt direkte kontrol. Så ville det jo være naturligt når en række af de opgaver som traditionelt lå i menneskerettigheds ministeriet, at man tog de bedste derfra, allerede offentlige ansatte, og flytte dem over i denne menneskerettigheds kommission, men det gør

man ikke fordi, at politiske grunde. Den ministre der sidder kommer fra et andet parti end flertallet i regeringen kommer fra, og de vil jo ikke afgive noget som helst, på trods af at han ikke har noget at bruge sine folk til, når en del af opgaven bliver flyttet, eller burde blive flyttet. Det er slet ikke sikkert at opgaven bliver flyttet, for der er ikke nogen der har lyst til at tage det politiske slagsmål. Nu taler vi om menneskerettigheder, det er måske højt på vores dagsorden, men det er jo ikke nødvendigvis højt på deres. Når vi så har støttet det så er det jo netop for at fastholde fokus på det. Det bliver er ikke det som er vigtigt for dem, men det skulle meget gerne bliver vigtigt i de interne politiske processer. Det det vi forsøger at skubbe en retning. Men det er er meget symptomatisk for hvordan det fungerer, man opretter noget nyt, men nedlægger ikke det gamle, og så sidder de her 600 mennesker og laveri dont know, de er simpelthen ikke i stand til at udarbejde et projektprograms forslag. Vi siger at vi vil godt støtte er, hvis i vil opbygge kapacitet, men det er de ikke i stand til at udarbejde sådan et. Så sidder nogen af de her 600 mennesker og rekrutterer nye eksterne konsulenter til at lave arbejdet. og det her bliver meget meget værre når vi snakker om finansministeriet, planlægningsøkonomi, og ikke mindst olie og energi sektoren. Kan i se hvor det peget hen af? Alle mulige modstridende interesser, fremmed magters indflydelse, private virksomheders lobbyisme på en ret sofistikeret måder, hvor man simpelthen har folk siddende in ministerierne altså på centrale poster. Det er alt sådan noget jeg mener med en dysfunktionel stat og her har jeg slet ikke talt om korrruption....)(Interview Gert Meinecke, 03:02 -08:33)

2013 has been, thus far one of the bloodiest years since 2007 with over 5,000 civilians killed due to violence. Iraqi insurgent groups have been fighting against the central government and there has been sectarian violence between Iraq's religious groups. Since the U.S. military's withdrawal, the level of violence has risen, as Sunni militant groups have stepped up attacks targeting the country's majority Shia population to undermine confidence in Shia led government and its effort to protect people without American backup. Although initial reports suggested that there was an improvement in the security environment during 2012, after the American withdrawal December 15th, 2011, it is now evident that this was more of a tactical delay by Al Qaeda Iraq (AQI) and militant groups. Aside from the militant violence there have been an increasing number of, sometimes not peaceful protests, normally directly after Friday prayers in 2012 and 2013. These protests/civil unrest has been triggered by poor access to services such as electricity and the civil population not seeing any benefit from the vast wealth created by the Oil currently being extracted from reserves all over the country mainly in the south. (www.undp.org)

If the velocity of violence continues it is expected to result in a civil war between Sunni and Shia religious groups. This becomes more pertinent as the Iraq security force (ISF) has now rerolled. Whereas the Military once controlled check points and patrolled the streets and key installations, the responsibility has now been handed over to the Iraqi Police Service (IPS). The IPS are new to this level

of security mitigation and as such are still learning, making many mistakes. The IPS is seen as being very corrupt and has the tendency to turn a blind eye, if and when it suits, criminal, militant or otherwise. High criminality levels are also felt here in the south and are a key factor in the cause of apprehension of civilians as well being a source of funding of some militant groups.

The one of the factors influencing the fragile context of Iraq is the vicious circle of Armed Violence. 40 million people are displaced worldwide in 2011 (13 million refugees – 27 million IDPs) mainly caused by armed violence and 526,000-750,000 people are killed due to Armed Violence every year where half of them are living in a fragile region or conflict areas. Youth bulge and mass unemployment in Africa, Middle East, etc. leads to large scale migration movements and to armed violence. Moreover, for the first time in history, urban centers are home to half the world's population and are expected to absorb almost all new population growth over the next 25 years. Small Arms and Light Weapons (SAWL) are the main tool of violence and it is estimated that there are more than 650 million in circulation today. It is furthermore, estimated that 40 % of conflicts which has ended restart within 10 years and more so that after a conflict has ended, it takes an average of 10 years before direct foreign investments begins. It is evident that armed violence hampers development. Around 33% of people are surviving on 2\$/day, live in fragile or conflict areas. As OECD has concluded we would also argue that it is hard to achieve the MDG and any socio-economic development unless armed violence is addressed. The international community and the respective state have failed to move fragile states towards sustainable peace and development. Nonetheless, today almost half – 21 out of 47 fragile states – are middle-income countries. A decade ago most were poor countries. The new MDG's (post 2015) accept and address armed violence in order to enable economic growth and development. (UN post 2015, 2013)

4.3 National Law/Reforms/Strategy in relation to FDI for MNCs

Many attempts have been made to kick start Iraq's economic growth and development after the recent conflicts. The GoI has with major players i.e. IMF, WB, UN and USAID and other donor organizations drafted several national plans for stimulating socio-economic development and economic growth of the private sector. The major plan/document which dictates the political, economic and social agenda for the GoI is the National Development Plan (NDP) 2010-2014 drafted in cooperation with UN and USAIDs *Tatweer's* team (NDP, 2010).

The major change of direction for the Republic of Iraq in regards to former regime and political mentality is clearly stated in the following citation;

“The plan forecasts future developments during 2010 – 2014 and proposes a new economic philosophy that is based on a market economy. For the first time, Iraq has adopted this concept and will provide private sector investment opportunities and will also provide the opportunity for foreign investment. Some may see the establishment of a comprehensive five-year development plan for Iraq as a risk in light of its current conditions in regards to political and economic instability. In actuality, this plan encompasses the reality of Iraq today and uses modern tools and methodologies to address the contemporary situation.” (NDP, 2010)

In attempt to attract private investment and in particular foreign direct investment (FDI) e.g. MNCs the Government of Iraq has established the National Investment Commission (NIC) who and serve as promoter, facilitator, monitor, and policy advisor for investment into Iraq. GoI and NIC have development ten reasons for investing in Iraq. In the words of NIC;

“GoI and NIC have embarked on a mission of rebuilding Iraq by attracting Iraqi, Arab, and foreign capital investment. Such investment will contribute to the transfer of knowledge and technology in all Iraqi economic sectors currently being transformed from centralized economy to a market economy based on free competition, equal opportunity and the development of the private sector. In 2006, the GoI passed the Investment Law No. 13, laying the foundation for attracting foreign investment into Iraq. The Law laid out several strategic initiatives including tax incentives, investor guarantees, obligations of investors, and the creation of the National Investment Commission (NIC) in 2007 was established to be the face of private investment in Iraq and serve as promoter, facilitator, monitor, and policy advisor for investment into Iraq.” (investpromo.gov.iq)

The ten reasons that NIC highlights are the following,

1. Superb strategic location – a gateway to the region
2. Numerous green and brownfield opportunities across multiple sectors
3. Unmet needs of a diverse domestic market
4. Increasing middle class creating demand for new products and services
5. Educated, talented and available workforce
6. Competitive Wages and operating costs
7. Strong Investment incentives, tax exemptions and guarantees offered
8. Low Cooperation Tax rates

9. Ample opportunities for local partnerships

10. Abundant and untapped resources (investpromo.gov.iq)

On paper the ten reasons go well in hand with MNCs reasons for seeking foreign investment opportunities; point 1, 3, and 4 leading the way for market-seeking MNCs; point (1), 6, 7, 8, 10 leading the way for resource-seeking MNCs; point 2, 5, 6, 7, 8 leading the way for efficiency-seeking MNC; and point 1, 2, 5, 6, 7, 8, 9 leading the way for asset-development seeking MNCs.

Thus, through planning policies the GoI has made an attempt to open up to FDI however in practise the observations by scholars, MNCs and our respondents there is still a way to go. These ten reasons are of course formulated by the government and therefore it should be expected that there are some amount of bias in these advantages. Nevertheless, this is a statement that Iraq wants to join the western market economy with a more open market, as stated in the strategy from GoI and NIC.

4.4 Danish Refugee Council (DRC) and Danish Demining Group (DDG) in Iraq 2003 - 2013

The Danish Refugee Council (DRC) (drc.dk) is a humanitarian, non-governmental organization formed in 1956 as an umbrella organization¹⁴ to support refugees in Denmark and internationally. Today, DRC works in more than 30 countries throughout the world. DRCs mandate lies within the humanitarian assistance framework, providing direct assistance to conflict-affected populations – refugees, internally displaced people (IDPs) and host communities in the conflict areas of the world; and advocating on behalf of conflict-affected populations internationally, and in Denmark, on the basis of humanitarian principles and the Human Rights Declaration. DRC defines and understand "durable solutions" as any means by which the situation of refugees can be permanently and satisfactorily resolved, enabling them to live normal lives. Durable solutions can be voluntary return, local integration or resettlement. In Denmark, DRC assists refugees in all aspects of integration as well as asylum procedures. Under its mandate, DRC International focuses on protection, relief, rehabilitation, post-conflict recovery, capacity-building, humanitarian mine-action, and advocacy;

Over time, DRC has developed particular expertise in relation to the following core sectors:

- Housing and Small-Scale Infrastructure
- Production and Income Generation
- Food security & Agricultural rehabilitation and Development
- Non-food items
- Displacement-related Law and Information

¹⁴ DRC is an umbrella organisation and is currently consisting of 30 organisation members and voluntary groups, committed to the refugee cause. Membership of the DRC is open to non-party-political, voluntary, nationwide humanitarian and international organisations that work on a democratic basis, and whose aims conform to those of the DRC.

- Social Rehabilitation
- Capacity Development of Duty-Bearers and NGOs (including networking)
- Humanitarian Mine Action and Armed Violence Reduction (DDG – Danish Demining Group)

Most of DRC International's activities are implemented by DRC programme structures arrangements locally for the purpose to work with beneficiaries, local authorities and other stakeholders. DRC self-implements or implements through local partners when requested and it is in fact the best way to meet DRC's obligations. In such cases, DRC is committed to assist the implementing partner strengthen its accountability and capacity.

DRC International's activities are mostly funded by project grants from the Danish government and other bilateral governmental donors, the European Union, the United Nations, and Asian Development Bank.

DRCs Humanitarian Mine Action (HMA) unit Danish Demining Group (DDG) is working to protect and to provide long-lasting solutions to communities affected by war and armed conflict by clearing and releasing land contaminated with explosive remnants of war (ERW). Thus, supporting and assisting affected communities improving their livelihoods and enable possibilities for economic and social development. DDG was established in 1997 as a consortium between the main humanitarian actors in Denmark. The consortium was formed in order to establish a Danish Humanitarian Mine Action (HMA) capacity to compliment the elaboration and signing of the Ottawa Treaty (apminebanconvention.org). In 2004, DDG became a separate Mine Action department under the Danish Refugee Council (DRC), and in 2007 it was further integrated with DRCs International department. Besides economies of scale, the intention of merging the two organizations was to promote synergies in cooperation i.e. linking humanitarian assistance (emergency/transition phase) and development assistance (transition/stabilisation phase) (Globalhumanitarianassistance.org). Under the overall mandate of DRC, DDG works within the specific directive of recreating an environment free of the threat of landmines and ERW, where people can live safely and have access to their land and in which the needs of victims are met.

The work of DDG is based upon two instruments of international law that apply specifically to landmines and explosive remnants of war: as mentioned the 1997 Anti-Personnel Mine Ban Convention (also named the Ottawa Treaty) and the 1980 Convention on Certain Conventional Weapons, including protocol V from 2003 addressing Explosive Remnants of War (ERW) (gicied.org). DDG works within the five pillars of mine action, namely: Mine and EOD Clearance, Mine Risk Education, Victim Assistance, Advocacy, and Stockpile destruction. The strategies and work of DDG are guided by the overall standards, directions and goals of the UN Inter-agency Mine Action Strategy (UNMAS) 2010-2014 and of International Mine Action Standards (IMAS) and, where available, to

National Technical Standards (NTSG); and as well as individual donor strategies. DDG works in close partnership with UN organisations such as UNMAS, UNDP and UNICEF as well as national Mine Action Centres. Since 2008, DDG has elaborate its mandate to work with small arms and light weapons (SALW) follows the International Small Arms Control Standards (ISACS)¹⁵ and the Organization for Security and Co-operation in Europe (OSCE) best practice guidelines. DDGs Armed Violence Framework operates with five interventions of which one of them is covering HMA; building local institutions for safety, addressing small arms and light weapons as tools of violence, building capacity for conflict management and peace, addressing the threat posed by mines and other explosive remnants of war and improving security provision.

Please find in Appendix 3 an overview of DRCs assistance framework and DDGs operational framework.

Danish Refugee Council Iraq

DRC has since 2003 been implementing programming to improve the protection and promotion of durable solutions for the displacement-affected populations of Iraq. The Iraq programme has moved from a focus on direct assistance to including a strong emphasis on capacity development within Protection, Capacity Building, Shelter, Livelihoods and Emergency Distributions. This has been particularly necessary in the Iraq context where vulnerable families are further affected by the general breakdown of basic services, security and infrastructure.

The overall objective of DRC's intervention in Iraq is to *'promote and facilitate an environment conducive to durable solutions for the displacement affected population through improved access to and protection of basis services and human rights.'* (DRC Iraq 2013)

This is further defined by the programs main objectives;

- Integrated livelihood capacities of the displacement affected population with a social focus on women and youth, developed and supported.
- The capacity and willingness of duty bearers and other local stakeholders to ensure protection assistance and basic services delivery is enhanced.
- Emergency response assistance has been provided when relevant.

¹⁵ International Small Arms Control Standards (august, 2013)

DRC Iraq provided assistance to populations of Internally Displaced Persons (IDPs), recent returnees to their places of origin as well as host communities. In 2011, DRC assisted more than 37,600 families in Iraq including IDPs, returnees, and host communities. (DRC Iraq 2013)

DRC Iraq has adopted a community based approach, and aims at balancing the special protection needs of the most vulnerable with support for basic communal services. Over the years, the programme has developed in both geographical spread and the types of assistance provided: DRC is now operational in 17 of the 18 governorates in Iraq.

DRC main assistance activities in Iraq have over the last ten years concentrated on the following objectives;

Displacement and Protection	Providing a wide range of direct legal assistance to internally displaced persons and returnees through the Protection and Assistance Centres in governorates, and carried out comprehensive advocacy activities aimed at enabling access to their basic rights and being able to take informed decision.
Shelter	Supporting construction, rehabilitation and repairs. Many of the displaced and returnees are living in cramped conditions with no financial means to make even the most basic household repairs.
Capacity Building	Capacity building is targeted at both duty bearers such as government and civil society organisations as well as local stakeholders.
Livelihoods /Self-Reliance	Developing and supporting livelihoods capacities and employability for individuals and local communities through an array of income generating activities, vocational education and training and in-kind grants.
Emergency Response	Provision of emergency assistance (NFI (Non Food Items), if necessary where the displacement affected population reaches a level that outweighs the government's capacities to respond.

Table 11 - DRC main assistance activities in Iraq (DRC Annual report 2012)

Danish Demining Group Iraq

Since 2003, DDG has predominantly operated in the governorate of Basra. Additional funding in 2008 allowed DDG to expand its operations into the neighbouring governorate of Dhi'Qar but due to funding constraints in 2010 it has operated solely from its compound in Basra. From 2003 until 2005, mine action operations in Southern Iraq were undertaken by different international NGOs/firms including DDG. However, adverse security situation forced most of them to withdraw from South Iraq leaving only few of them to continue with have limited operations. From 2006 to 2009, DDG was the sole international INGO in Basrah operating with both international and national staff.

DDG main purpose and mandate is to provide service to and to contribute to the efforts of National Mine Action Authority (NMAA) of the Government of Iraq to address the landmine/ unexploded ordnance (UXO) contamination problem in the country and to build sustainable national mine action capacities.

DDGs overall specific objectives during the period of 2003- 2013 years remained;

- a. Provision of landmine/UXO Clearance Operations and Capacity Building.
- b. Ensure continued effective deployment of trained and equipped multi skilled mine/UXO clearance teams (MMCTs) of DDG to undertake clearance operations in the high priority areas of Basra Governorate.
- c. Mine Risk Education and Awareness Training
- d. Provide opportunity to and train national staff to develop operations management skills as part of the national mine action capacity building process.
- e. Develop and maintain an effective coordination/reporting mechanism with concerned sections of UNDP, NMAA and national, regional and local authorities.
- f. Improve overall management system of DDG IRAQ by providing on job training opportunity to all DDG national staff in their relevant field of work.

In 2003-2004, mine action was assigned to the Ministry of Planning, overseeing a National Mine Action Authority (NMAA) set up as regulator and coordinator. By 2007, this mechanism had unravelled, and the government shut it down in June 2007. In February 2008 Iraq became the 155th State Party to the Ottawa Convention and responsibility for mine action was transferred to the Ministry of Environment (MoE) in March 2008. The MoE set up the Directorate of Mine Action (DMA) in November of that year. In August 2009, the MoD, Ministry of Environment and Ministry of the Interior signed a Memorandum of Understanding (MoU) which identified their respective responsibilities and provided a basis for a 10-year strategic plan to be implemented in three phases (2010–2012, 2012–2015, and 2015–2019).

DDGs program contribute to improving the situation for the most vulnerable people in south Iraq, those who face mine/ERW blockages in their communities. By removing mines/ERW contamination, DDG reduce and remove the barriers to livelihood development. By helping to create a level playing field of opportunity, DDG enables equal access to humanitarian aid and support. Furthermore, one of the most important effects of mine action is to remove the inequalities caused by mines/ERW contamination within and between communities, which can become a cause of conflict. Importantly, communities also benefits from the development of their own capacities to manage the threat. By helping communities to identify and implement risk reduction strategies and through support to their own resilience they will be strengthened along with their capacity to manage their own futures. In addition, development agencies will find it easier to plan for activities in mine/ERW affected areas. This will help to alleviate the situation of entrenched inequalities that are already recognised as a major challenge to Iraq's socio-economic development. Communities participate in baseline and impact assessments, develop and implement community-based risk reduction strategies and evaluation activities. DDG liaise with leaders within mine-affected communities to gather and share information and help mobilise the local community for participatory activities. It is not possible to estimate the exact number of either direct or indirect beneficiaries prior to clearance as no valid statistics for the South has been coordinated however this information is sourced during survey activities prior to clearance and updated during clearance itself. Between six to eight months after the completion of clearance DDG/DRC performs impact monitoring assessments to ascertain the perceived benefits of clearance within the target group and identify direct beneficiaries.

DDG has developed a coordination mechanism to ensure coordination of all its activities with relevant parties including NMAA, Iraqi Mine Action Centre (IMAC), RMAC South and other stakeholders operating in the region/country. All the activities of DDG/DRC are undertaken in full coordination and cooperation with NMAA/RMAC, the affected communities and other stakeholders to ensure effective and efficient deployment of the DDG/DRC human and material resources. DDG experiences difficulties of coordination with especially RMAC on a regular basis due to lack of capacity.

The relationship and cooperation of DDG and DRC globally has developed over the years and a lot of synergies have been established within the protection pillar. In regards to Iraq and in particular Basrah, DRCs and DDGs work can be seen as conjointly for the beneficiaries' selection which will then bring to the geographical areas to be cleared and the priorities expressed by the communities so that:

- Housing can be built
- Pastoral areas are safe
- Access to land are safe

- Safe Water is available
- Electricity is available
- Irrigation system is put in place
- Support to agriculture (livelihood resumption) is provided
- Education and mine risk education/awareness (DDG.dk)

5.0 Discussion

This section of the thesis will discuss the link between the Absorption Gap and the activities done by DDG/DRC in Iraq. Furthermore we will elaborate on risks associated with INGO activities and how these activities help minimize the absorption gap in the country.

Absorption gaps in Iraq

Nunnenkamp (2004) and Koko and Blomstrøm (2003) and H. Nguyen et al assert it perfectly clear, that spillovers can only occur when two prerequisites are met. One is that there has to be linkages from the MNCs to the local environment and secondly, the local environment has to be able to absorb them.

As defined in the methodology chapter we will apply the below analytical framework and will end up mapping out the findings of our analysis and discussion at the end of the chapter to present an overview of our findings in regards to the research question. Thus, the framework will present a summary of results if you will.

Absorption Gap	Investment Level of implementation in improving	DRC and DDGs activities that feed into 'Gap'	Indicators	Risk and inhibiting factors.
8. Better education and training Human Capital				
9. More sophisticated local and national financial markets and financial infrastructure				
10. Opening up to trade				
11. Institutional development				
12. Physical Essential and better infrastructure				
13. Advanced R&D				
14. Security Stabilisation/Emergency Preparedness				

Table 12 – Analytical framework operationalized

Before going in to the discussion of the INGO feeding into the absorption gap criteria we review Iraq and the MNC in regards to the same absorption gap.

Iraq

In the case of Iraq there is more than one obstacle that makes it difficult for the country to absorb the spillover effects. First of all the country needs to be attractive enough for MNC's to invest in. Secondly, Iraq needs to make incentives or force the MNCs to create linkages in order to create the possibility of spillovers to occur. Then the country needs to be able to absorb these.

Iraq and the Industry Development

As mentioned in order for the country to attract FDI, it has to have some kind of assets, tangible and/or intangible. It can be all from knowhow/services, engineering skills, created assets and/or natural assets. In the case of Iraq, the whole economy are more or less based only on the extraction of oil and henceforth the only asset that Iraq has to attract FDI at this point is the their oil. Iraq does not have the necessary stability, infrastructure, technology or engineering skills to attract FDI in other

ways than the oil production. Oil is of course a very valuable commodity and Iraq has it in abundance, but it is considered a natural asset in contrast to created assets. Hence, Iraq is on the industry development path state one.

The problem with living of natural assets is that the profit is very low compared to gained profit of end-products. Iraq is a supplier of crude oil but does not have any large scale refinery in place. Therefore, Iraq do not gain any profit from created end-products of the oil such as gasoline, petrol, diesel etc. It is imperative that Iraq evolves its oil industry to become more than just a crude oil state which is confirmed by lector Søren Schmidt when asked about the primary economic challenges that Iraq is facing;

“Det er som jeg siger at altså, mener jeg, det at få gang i det der hedder egentlig produktive aktiviteter altså i stedet for at hive olie op af jorden og sælge det på det internationale marked (...)” (Søren Schmidt interview 39:58 – 40:20).

In order for Iraq to be able to evolve from just extracting crude oil and start to refine, the country has to construct refineries and have people educated and trained to work and gain experience. That experience could come from FDI. But for MNCs to invest in areas to build refineries the country needs to be ready with a skilled workforce, a proper physical as well as financial infrastructure, security stabilization and government policies that uphold the law and fight corruption.

Since oil is the main source of income and the main source of interest for FDI in Iraq, the global focus is only on that sector in regards to Iraq. Looking at the country as a whole, the oil sector is not the ideal sector because it does not create a lot of employment, at least not when the only activity is extracting. Søren Schmidt supports that notion after being asked about how Iraq should solve the unemployment rate on approximately 40%;

“Det er jo det der er problemet der er jo ikke nok arbejdspladser i olieindustrien, og hvis de ikke får udviklet deres landbrug og deres industri på forskellig vis så vil de mennesker overleve på at få nogen penge fra staten og det er jo ikke noget sundt system.” (Søren Schmidt interview 42:27 - 42:49)

Iraq has to have a different sector where jobs can be created and to make them less dependent on “the price per barrel”.

Another sector that could supplement the oil is the agricultural sector. The Iraqi soil encompasses very fertile areas that could be grown. The country use to have a considerable export of dates pre-conflict. Iraq also possesses reserves of clean water, so there is great potential for progress and growth of other sectors. (Søren Schmidt interview 42:29 – 43:51)

But especially, in Southern Iraq vast areas of potential agricultural soil are contaminated by ERW and therefore require clearance before any farming can begin.

Iraq – a fragile setting

This study defines Iraq as a fragile state inspired by OECD definition. This is backed up by the Danish Ambassador that even goes at the length of calling Iraq close to a failed state.

“(...) Jeg vil betragte det som tæt på en failed state, det som adskiller den fra en totally failed state og en, hvad du nu end er i Bagdad, det er der hvor der er nogle centrale ministerier der fungerer. Det er måske ikke så meget finansministeriet, men olieministeriet som er helt nødvendigt for at køre økonomien (...) (Interview Gert Meinicke 11:18 - 11:46)

“(...)Det er en fragile state eller hvad du vil kalde det hvor der er en betændt risiko for politiske ændringer men ikke nødvendigvis sådan at statsapparatet falder fra hinanden (...) (Interview Gert Meinicke 12:20 - 11:31)

He sees the security situation as being so grim that what the country of Iraq should be focusing on, is avoiding civil war. (Interview Gert Meinicke 56:16 – 59:12)

In order for a MNC to create stable linkages in Iraq the overall security situation needs to improve. The social and political instability are matters that need to be dealt with before any progress will occur.

The political instability is anchored in the power struggle between different political and religious sectarian stakeholders all over the country. The main conflict is the continued rising tension between the Sunni and Shia Muslims. Additionally other faction such as tribal groupings and militia claims power and some even wants independence after the fall of Saddam Hussein. The central government is at this point not strong enough to control the country so they need to find some kind of settlement to start stabilizing the country politically.

Besides the political instability, there is a huge problem with corruption. The country does not lack capital resources to stabilize the country and provide basic services for its populations but it lacks political will, coherence and capacity.

“(...)men grunden til at planerne (national udviklings planer) ikke bliver gennemført, altså der er jo masser, der er der. Mange af dem selvfølgelig udarbejdet med ekstern bistand fra verdensbanken og andre, men de er der, men der er ikke kapacitet i statsapparatet til at gennemføre det. Der er heller ikke nødvendigvis, eller rettere, slet ikke kapacitet ude i provinserne til at effektivt gennemføre de strategiske målsætninger. Og det er modsætningen kan man sige, de fleste lande har hverken midler

eller kapacitet, her har man faktisk midlerne til at gøre det, men ikke kapaciteten(...) ” (Interview Gert Meinicke 30:45 – 31:30)

The wealth (revenue of the Oil) is not distributed to cover basic services for the majority of the population. The capital does not reach the projects and people that need them to improve their country instead a huge chunk end up in the pockets of the most powerful people.

One of the main problems in Iraq is the corruption and it hinders a lot of trust of both INGOs and MNCs. Our respondents/interview subjects all raise corruption and fraud as one of the main concerns.

Furthermore, government institutions also find challenges in formulating, coordinating and implementing formal rules and regulating market and society. Many of the respondents of this thesis all mentioned the poor communication and the absence of coherence in reply of formal rules and executions of theses.

“The cooperation with the INGO was to a lesser extent a matter of working with the formal entity (e.g. the ministry), but rather with the individual capacity within the e.g. ministry that showed genuine interest and commitment along the lines of our organisational objectives and mandate.” (Questionnaire, Christian Jakob Hansen)

“The main failure in coordination is mainly due to non-existing meeting with the senior authority. Examples that support this are:

- Repeated changes of managers in DMA (Iraq mine action authority)*
- Lack of a transparent HMA (Humanitarian mine action) strategy.*
- Access (based in Baghdad).*
- Corruption*
- Private interests among officials tasked to coordinate HMA” (Questionnaire, Roger Fast)*

“Miscommunication due to poor clarification of agreements” (Questionnaire, Kent Paulusson)

“Tension and failure between DDG and RMAC-S (Regional Mine Action Centre – South) comes from the severe lack of understanding on the DMA and RMAC-S part to understand Mine Action procedures and what Humanitarian Mine Action try to achieve. The corruption levels are also a player in the failure of RMAC-S, causing friction because DDG will not bend international rules and our own guidelines set out by our mother Org. DRC.” (Questionnaire, Barry Jolly)

“(Coordination) through weekly and monthly reporting; there are also inconsistent meetings between RMAC-S (Regional Mine Action Centre – South) and DDG, meant as coordination meetings; however most of the time these are unproductive.” (Questionnaire, Barry Jolly)

This kind of political instability i.e. political will and ownership along with the corruption and fraud make MNCs reluctant to do FDI in the country, since they cannot foresee what taxes and fees they will have to pay to the state of Iraq in order to operate.

Iraq's social problems are exposed by poverty, high infant mortality rate and unemployment. 40% of the countries workforce is believed to be unemployed. However, the statistic figures are difficult to estimate exactly since large amount of the population is not listed in the system.

A country battling unemployment and in turn poverty is bound to have security issues when the reason is not that the country lacks income, it is because of corruption. It is not that there are no educated people in Iraq but the problem is that the ones that achieve higher degrees moves away from the country. Because of the lack of infrastructure, security, political stability and corruption the country suffers from 'brain drain' to other regions (KRG) within the country and to other countries in the region on a higher stage within the Industrial Development Path than Iraq. They move to countries where assets are created, better commodity markets and labour markets are formed and where there is a possibility to work with advanced high-end technology, hence higher income possibilities. This in itself would not be a problem, if Iraqis returned to Iraq but they do not because most of them have nothing or very little to return to. (Interview Gert Meinecke 19:20 – 19:40)

Finally there are huge problems with the infrastructure of Iraq. Many roads are destroyed and the roads that are available for travel are unsafe due to robbers or terror groups. Besides the criminal activities, there are remnants of war in form of all kinds of unexploded ordnances and mines that makes huge areas of land unavailable for agriculture cultivation or oil extraction.

"The undiscovered and untapped oil reserves all scattered all over the country but a large majority of them are hindered by ERW and Mines left from the last 3 majeure wars Iraq has had. My Organisation is looking at providing a solution to this problem by removing the threat." (Questionnaire, Barry Jolly)

Besides the criminal activities and armed conflict, supply of water and electricity is also very instable outside the mayor cities.

More generally the Government of Iraq has been substantially involved in reconciliation and securing the social peace after the change processes of the former regime. The political, social and sectarian conflict has contributed in reducing the interest in the subject of humanitarian assistance. The Iraqi government has, however, made big efforts in recent years to reduce violence and stabilize the security and fight against terrorism. But the country is still faced with many challenges such as development processes, corruption and lack of transparency and accountability, weak institutional

capacity of government to deliver services, and the weak capacity of the government sector to generate growth in the market economy. The interest for oil and gas opportunities seems to be the core focus of the Iraqi Government leaving civilian Iraqis shorthanded on basic services such as health, education and infrastructure, which again is resulting in a growing dissatisfaction with the government.

Multinational Companies

If the MNCs have to come in and create linkages many of the above issues have to be resolved. Depending on the Investment Development Path and the current standing of the country, different types of FDI will be involved. With references to John Dunning's 4 *raison d'être* of FDI we see the following opportunities and challenges;

- Market seeking
 - o Due to the poverty rate and impeded trade there is not much of a market to seek out in Iraq currently. Typically this kind of FDI is more directed to countries with a growing middle income class.
- Resource seeking
 - o Mainly looking for resources to extract and typically use the FDI to create a subsidiary that works as an export platform of the natural asset that the country has. This is the kind of FDI that Iraq will mainly attract. Regrettably this is the type of FDI that creates the fewest kind of linkages since the main MNC objective is to come in, harvest the resources, and leave again. The MNCs do not have any interest in improving the market of the country since none of their products typically will be sold there.
- Efficiency seeking
 - o This type for FDI is invested in places where the country of some reason has expertise in the area. Iraq could become such a place, if the country advances to refine their oil for different purposes.
- Asset development.
 - o This kind of FDI is mainly target towards countries where advanced technology and innovation are their prime business.

With the resource seeking FDI being the main FDI in Iraq the country is facing a challenge promoting the creation of linkages.

Crispian Cuss from Olive Group Ltd. explains how the contracts between the Iraqi government and the MNCs work;

“(...) Oil companies will not have a production share in there agreements where 50% of what they take up is there’s and 50% is for the national government. Iraq has something very different to that, essentially they are being paid a sum per barrel for their technical expertise so they are paid ultimately by the Iraqi government, so they could argue that they are ultimately their clients. And the oil being exported from there belongs to the Iraqi government. So that the oil that they (MNCs) pull out of the ground, they are not selling directly to the market, it is the Iraqi government who sells it, the oil companies are merely paid for their services.”(Interview Crispian Cuss 10:34 11:28)

With this type of contract there is no doubt that the MNCs wants to remain in good standing with the government. This linkage proves vital for the country of Iraq as it puts them in a stronger negotiating position versus the MNC. As Crispian Cuss points out during his interview the Oil and Gas MNCs have to have calculated with the risk of the GoI nationalising the whole sector as it is seen in, for instance, Venezuela (Interview Crispian Cuss).

There is still some way from MNC linkages in to the rest of the local environment and currently there are no real incentives for the MNC to interact with the local community if not for example dictated to use local suppliers if they were able to supply the necessary products and services to operate however they are not. Interesting enough according to Crispian Cuss all foreign Oil concessions in Iraq are dictated to use local workforce for a large amount of the positions thus the MNCs have to directly invest in training and capacity building of local employees. So on a micro level scale local employment encourages local trade.

Besides what is stipulated in the contract of the MNCs activity there the MNCs have no incentive to create linkages with the political instability, infrastructure and security being in such bad shape. Also the fact that the government is so difficult to work with because of the lack coordination, bad communication and high corruption gives the MNCs the incentives to isolate themselves as much as possible to shield themselves from unexpected taxes, fees and rules that disrupt the operations (Questionnaire, Christian Jakob Hansen).

International Non-Governmental Organisation

The INGO activities in Iraq are many and diverse. We will in this section of the discussion elaborate on analytical framework linking the 7 criteria of the absorption gap and the activities performed by DRC/DDG.

1. Better education and training - Human Capital

Better education and training

Better Education and training is a key area for development. Education is important for many reasons but one of them are, that if the population is not educated, the country cannot absorb the new technology and machinery from the MNC. If the employee does not understand the concept of what he is working with, the employee cannot take the experience with him when he leaves the job.

The educational level of Iraq is very low. In the 70s and 80s Iraq had the best educated population in the Middle East region but several wars and international sanctions have left Iraq in a disorder where many investments have to recover and come back to earlier level (Questionnaire, Christian Jakob Hansen and Roger Fast). Right now the local capacity is not high enough to absorb advanced technology and therefore we see this is as a substantial gap that needs to be closed before spillover effects can be absorbed and exploited.

DRC/DDG has a variety of activities that helps close the gap of education and knowhow. This is one of the main objectives of the activities:

“Our (DRC) biggest project at the moment is to provide service to unemployment, to the unemployed to try and give them job opportunity, to try and give them education to reach job opportunities (...) (interview Michael Bates 00:23 - 00:41)

This feeds directly into the criteria of better education and human capital, and in turn helps minimize the gap.

Vocational training and livelihood

In order for a local community to gain economic development it goes without saying that it helps if the people in a community have an idea of how to run a business. DRC provides this training helping people starting their own business in many different ways. This is a common NGO activity that is used in many countries. Most of the DRC activities in Iraq are vocational education and training and livelihood in-kind grants to set up small business and small business start-up packages, but other areas are also touched. Michael Bates elaborates in more concrete terms about what DRC is doing:

“Mostly it is vocational training, we do support that with some small business start-up packages and try to talk to businesses to promote what we are doing and find jobs if we can. But that is not the primary that is more the training and that is like a three to four month training packages we offer.” (Interview Michael Bates 01:02- 01:30)

Vocational training increases the understanding of the market mechanisms. With this understanding follows a new way of thinking business, which is the same way of thinking business as the MNCs. Therefore this knowledge helps the local business environment understand and copy/improve the

business strategies of the MNC to their own use, making them better in competition both on the domestic market, but in time also the international one.

Management and Team lead training

In line with the vocational training, managerial practice and theory is needed to run a larger business with business strategies and employees. The projects that DRC/DDG undertakes usually involve quite the amount of employees and logistics. This of course requires management and coordination. DRC/DDG makes it a big deal to have only key management international staffs the rest of the management staff is locally recruited. This is to promote the capacity building of the local skills, so they can achieve managerial experience to utilize for later jobs either in local firms or MNC.

This does not only make their qualifications better, so they can acquire management positions at the MNCs but also makes them capable of understanding the managerial processes of the MNC. In the same way as the vocational training, the managerial expertise that the employee picks up at the MNC can be utilized in domestic companies.

Risks

There is an inherent risk that these educational initiatives will lead to a dead end or not stick. If the activity does not feed into the areas where the country needs it, it will fail and never be internalized into the society. There are of course base studies to make this preliminary assessment but they can still miss the target. Some specific risks to be considered are:

Retention of international key trainers – international staff comes and goes and some are better at teaching than others and their teaching methods can differ so that the beneficiaries will either grasp the concept or not. International staff has a relatively high turnover rate meaning that the contracts are often between six months to two years. Lack of continuity in expertise and level of teaching can break up the flow and have a risk of losing momentum.

Keeping young people in education instead of working – in the poor countries there are factors that can undermine activity of schooling. Families often have to choose between having their young ones working or put them to school. We would of course argue that education is a sound investment both individual and income wise. But if the choice is between working to avoid starvation and going to school the choice is not so straightforward. If there are no participation the project will fail and will not minimize the gap.

Women employment due to cultural norms – some societies do not allow women to work. In the case of DRC in Iraq one of the activities is to educate women so they can be qualified for taking jobs. If the society does not allow women to work the activity can end up having no effect.

Indicators

There are risks that an activity will fail, but there are also indicators giving a hint if the activities work.

People in training – If the participation of the training is high and there is a big interest. It is important to emphasise that this is not a criteria for success since we cannot conclude, that by participation people will utilize it later on. But it indicates that people find it useful and they are building their capacity.

Employees that are getting promoted – internally in the organization it is clear that the employees benefits from training when they are promoted. This is a very little sample but it is an indicator if the training works. When the projects end theses qualifications can be utilized in other companies and organizations and thereby minimise the gap on an absolute micro level.

Furthermore, to exemplify DRCs income generating activities in the form of in-kind grants (IKGs), vocational training and small business start-up tools helped 254 families in Diyala and Basra to improve their livelihood conditions in 2011. DDG. (DRC/DDG Iraq annual report 2011)

2. More sophisticated local and national financial markets and financial infrastructure

In the case of Iraq the financial markets and infrastructure requires support and aid from not only the GoI but also inter –governmental organizational such as IMF, WB, OECD and UN agencies. Hence, in order to establish a sound and sustainable financial infrastructure it has to be implemented from a top down macro level by the GoI. DDG/DRC does not implement activities that support and assist directly to enhancing this gap.

Examples where INGOs can aid on the micro level is small scale banking ideas as a joint fund where the residence of a small village pays some of their savings into a joint pot. It is then possible to acquire a loan for a project approved by the members. These projects could be improvement of infrastructure or starting a business; these are not activities being done in Iraq but are up-coming in Africa, where many villages are left by themselves by the central government.

Risks

Corruption – This is a very big risk and will work against the development of the financial market. If the corruption does not go down it will undermine the trust of the financial market.

Lacking of systems to channelize funds – The lacking of banking system and proper software and security will hinder trade and transfers. With these systems not working the financial structure cannot develop.

Indicators

Improvement of financial infrastructure – this indicator is very specific to Iraq where the banking system does not work very well.

“Unfortunately the bank system down in the south (southern Iraq) is not reliable or trustworthy therefore we are forced to look at external carriers (...)” (Interview Barry Jolly 05:27 – 05:38)

So the possibility of transferring money to more areas of the country would be an indicator of improvement.

Financial reforms and regulations – This is on the macro level but recommended financial reforms and regulations are signs that the country is starting to be able to control the system.

3. Opening up to trade

Iraq is trying to do this by inviting MNCs to do FDI in the country by for example establishing the national investment commission (NIC). Hence, Iraq does different things to attract international investors such as making a government agency in charge of advertising and promote the advantages. To give additional incentives to the MNCs the Iraqi government is right now working on creating an Export Processing Zone, which is a zone with special privileges for the MNCs that are working in that area. The privileges could be tax exemptions or dispensation for labour law or environmental requirements.

This is on a governmental and macro level and is not within the scoop of DDG/DRC activities.

Risks

The main risk here is corruption and fraud. When opening up to trade, trade agreements and contracts with the international market has to be made, and in here there is as risk that a corrupt government will negotiate a contract that are in their own interest and not the countries.

Indicators

Indicators of improving trade are raise in the financial inflows and outflows. It is many of the same indicators as in the financial systems. Governmental reforms and better financial infrastructure are indicators of improvements. Another indicator is signing on to international bilateral and multilateral trade agreements.

4. Institutional development

Government and institutions in a country has an important role in the development and economic growth. In Iraq the government has been replaced from a dictatorship to a democratic form of rule.

This transition has not gone smooth and the country is still getting used to the new balance of power and politics. Since the fall of Saddam the country of Iraq has been spilt in fractions here different stakeholders struggle for power and influence. Northern Iraq (KRG) has established relative autonomy, and voices from the south of Iraq has trouble understanding why they have to share their oil revenue with the central Iraq where the government is placed when they feel that they get nothing in return.

In order to attract FDI, especially market seeking FDI, the country needs to show it is reliable. That the government does what they say and stick to that and do not change the rules every other day. The government incapability to coordinate and communicate is a huge frustration for both INGOs and MNCs. Many of the respondents have different meetings with the official instances in order to coordinate the efforts in the country. But these meetings is seen as unprofitable and more or less a waste of time. The national capacity does not understand the needs and operations of the DRC and DDG and it makes it difficult to perform the necessary activities such as aid for Internal displaced Iraqis and vulnerable groups and mine clearance. The Danish ambassador for Iraq also express his concern looking from the top down of the state apparatus and concludes that it is dysfunctional and oversized with too many 'ghost' employees and few decision makers. The state government needs to alter its procedures and get more streamlined in order to exit this dysfunctional pattern (Questionnaire Roger Fast, Christian Jakob Hansen, Kent Paulusson, Barry Jolly and Interview Gert Meinicke 03:00–08:36).

Opening up to trade and to the international market requires foremost macro level attention from the GoI in cooperation with IMF, WB, UN agencies and other international entities. We will argue that on a micro scale level DRC/DDG does provide directly institutional development. Furthermore, DRC/DDG does provide a bottom up approach where indirectly the institutions mainly in the form of the municipalities are affected. Directly, DRC provides technical assistance and administration support to governorate emergency cells (GEC). Indirectly, DRC/DDG provides program and project training to local NGO/CBOs and regional coordination bodies through capacity building in form of technical assistance in the relevant areas of the NGO and body and project management. (DRC/DDG Iraq annual report 2011)

Risks

Corruption that undermines the system – corruption is again one of the main obstacles. Corruption can undermine the institutions and make them dysfunctional and ineffective.

High bureaucracy levels – This can really be an obstacle when the state does not adapt its size and operations with new reforms and rules. Continues paperwork and red tape makes it difficult companies to work in the country.

Cultural tradition that promotes family/clan/religion before skill – in some cultures of the developing countries there is a tradition of “taken care of one’s own” and nepotism. So in the institutions it is not the most skilled people that gets the job but the ones with a personal relation to the employee. In general the institutions face a huge challenge when the informal rules are stronger than the formal rules.

Indicators

Corruption and oversized bureaucracy are the institutions worst enemies so national reforms that target these problems are indicators of political will to change the system. There is a long way to go after the reforms but the political will is often the first step.

Another indicator could be if there is an increased trust in the government from the population. Before a government can introduce reforms rules and regulations, it is important that the government enjoys the trust of the population and businesses. This trust often suffers in the face of corruption and bureaucracy. Hence, enforcement of law and order is accepted by the majority of country.

To exemplify, empirical data from DRC shows that capacity Building through the national empowerment plan by technical assistance in strengthening 47 local NGOs benefited estimated a total of 5,736 families. Furthermore, DRC established 6 new GECs in 2011/2012. (DRC/DDG Iraq annual report 2011)

5. Physical Essential and better infrastructure

In order to make spillover effects materialize basic infrastructure needs to be in place. Infrastructure covers a lot of things like roads, electricity, water supply, communications, gas, heat, housing, sewers, information technology etc. Without this basic infrastructure in place it is very difficult for the MNCs to create linkages to the local environment. No roads means lack of transportation of goods to the MNC and it would be difficult for employees to come to work. No electricity means that the MNC will use generators instead of using local supply etc. So the better infrastructure the more use the MNC will make use of the local environment.

Depending on the type of infrastructure it is not necessarily vital for spillovers to be absorbed, but it is absolute key for spillovers to materialize. Moreover, if there is no infrastructure, there is very little chance that the MNC will create linkages and thereby only be a MNC in a compound with own generators, flown in supplies and employees and with little or no interaction with the local community.

Safe Return and Risk Reduction

DRC via DDG HMA support the realization of the safe return of IDPs through survey and clearance of residential areas and basic needs (including housing areas, access roads, toilet facilities and wells), and fencing of hazardous areas within non-residential areas to enable people to return home in safety. DDG further prioritise survey and clearances of the rural communities in order enhance agricultural recovery and livelihoods in the target areas. The majority of accidents in Iraq occur as a result of small scale but essential livelihood activities such as firewood, sand or building material collection, burning garbage or vegetation, or toilet areas. It is expected that the land released through planned projects will be used for agricultural development with a focus on maximum improvements to the humanitarian situation and the possibilities of reconstruction and further development of civil society.

Land release and clearance of infrastructure

The most basic of infrastructure is probably getting access to land in the first place. Because of many years of war and dictatorship there are dozens of areas in Iraq that is ERW contaminated thus it need to be cleared before usage. Many roads, plains, agricultural sites and oil fields are mined or have explosives lying around in form of unexploded ammunition and cluster bombs.

This is the main responsibility of DDG. Without this intervention roads are unable to travel upon leaving transportation impossible. Also fields are contaminated and in need of clearance. Many oilfields were mined during the war by Saddam forces making sure that the western forces did not get control of the oil fields. So in order for FDI to begin by extracting oil these fields need to be cleared. In this way DDG directly create the opportunity for the Iraqi government to attract FDI, since this is not possible as long as the sites are contaminated.

Already existing infrastructure in form of roads are also contaminated with ERW and mines. Clearance of these will improve the possibilities of transport of goods and mobility of the population. This will aid to mobility of labour and creation of linkages from MNCs to local suppliers of goods. The main interests for MNCs are in the oil sector, so in order to attract MNCs the soil of Oil fields needs to be cleared. Also if people settle down near the MNC due to job creation or to start businesses the increased activity around the MNC requires that the roads leading to and from the MNC have to be secured.

Access to land

In the context of Southern Iraq and land ownership, it is very difficult to determine the percentage of land that is owned by individual stakeholders. There is currently a culture of sub-letting within the district, as applies to the majority of the land in the south. Due to the threat and known and/or suspected contamination (ERW) on these lands it has driven the rental price down, thus making it

more affordable to the poorer population. This is done so with the knowledge and high risk to life associated with the contamination. If and when this land is cleared it will have an adverse effect of the poorer communities, as land rent will increase. That being said, if the land is free from the physical threat of RW then productivity may increase thus generating a higher income for farmers. This increase may offset the increase in rental value.

Access to livelihoods

The challenges faced by people after armed conflict whether it is returnees or the settled affected communities are immense. The almost total destruction of land, property and livelihood resources is compounded by landmine and ERW contamination which prevents essential repairs and reconstruction. There is therefore an urgent need amongst returnees and affected to restart livelihoods as soon as possible. The main livelihood activities in the south are agriculture and farming. One of the main problems affecting these livelihoods is contamination of home gardens, paddy land, plantation areas, irrigation channels and tanks by landmines and ERW. Access to community buildings schools and mosques may also be affected. Information from baseline surveys provides more specific detail on the extent of blockages. This process is facilitated by Community Liaison teams, who conduct a pre-clearance assessment to identify potential partnerships.

Housing/Shelter

Besides the psychological factors, housing is needed to develop an area. Housing and shelters give people a chance to make a home for themselves. Housing in an area of an MNC means easy transport to jobs and stability. A populated area where there are jobs can create a whole economy in the area. The salary that the employees of the MNCs get is used to buy groceries and house commodities. Therefore a grocery store will emerge. Making sure of people have access to homes, will improve infrastructure and therefore help in closing the infrastructural gap that prevents the local environment of absorbing spillover effects.

Reconstruction of community infrastructure

Alongside the destruction of homes and property, the destruction of essential community infrastructure, which is needed for the delivery of social services, has also resulted from the conflict. Landmine/ ERW contamination of schools, health centres, local government offices, co-operative buildings as well as roads, bridges and electricity supply lines affects the ability of a community to begin its process of recovery and renewal. Education in particular is often the first priority of returning families whose children may have their education disrupted due to the lack of school facilities. Ensuring safe access to educational and health facilities and safe reconstruction of these

buildings is a vital part of a community's recovery. Socio-religious buildings such as mosques and community buildings are also a vital part of rebuilding a sense of community and building community-based support networks.

Risks

The main risk in building up the infrastructure in developing countries is that there are risks of setbacks in due security instability that could be in the shape of civil war, terror or riots and demonstrations.

Donor projects implementing improvement of infrastructure are often parts of a bigger infrastructural idea. So if donor funds dry out, interest is declining or financial crises that can stop the inflow of projects and therefore hinder an on-going process.

Also there might be projects where the labour capacity is too low or the materials available in the country are not good enough quality to meet a sustainable standard.

Indicators

These indicators are often quite visible. Safe access to better roads, housing, community facilities such as schools and mosques, water, and electricity etc. are all indicators of improvement. There is also better access to the consumer market and more products, but these indicators are often depend on the transportation possibilities of the country i.e. roads and railroads.

- Shelter construction, rehabilitation and minor home repairs in Missan, Diwaniya and Basra; benefitting 1,327 vulnerable families.
- Service infrastructure was rehabilitated through Quick Impact Projects (QIPs) focusing on improving water and sanitation conditions, rehabilitation of transportation infrastructure and creating livelihood opportunities in Diyala, Missan, and Basra; benefitting over 5,000 families. (DRC/DDG Iraq annual report 2011)
- Clearance Statistics DDG, Iraq 2003-2013 – See Appendix 3

6. Advanced R&D

Concentrated on the technological spillovers and when the country reaches a level where it can start to develop and create products for themselves. Right now Iraq is on the Investment Develop Path stage one living off natural resources. So advanced R&D are not relevant to the country of Iraq at this point.

Risks

Not qualified population to uphold the projects. Neither the bilateral or multilateral funding is sustainable so there is a high risk that when donors leave the projects will end.

Indicators

- Advanced technology MNCs doing FDI.
- Increasing graduates from universities and engineers.

7. Security stabilisation and Emergency Preparedness

This criterion is not taken into account by neither Nunnenkamp or Blomstrøm & Kokko or Huygen et al, as they assume the countries as being in a 'peaceful' setting. The first criteria's that has to be met and precedes the others are security stabilisation. If there is to be development people has to be able to travel the roads and go to work without fearing for their life. DDG is the unit inside DRC that is responsible for demining and land clearance, where DRC are specialized in emergencies for example when armed violence or civil wars break out and create huge masses of refugees as we see happening in Syria.

Emergency Preparedness

Basic needs for food, water and housing needs to be in order for a person to function. If it is always a struggle to cover the most basic needs there will not be any possibility for learning nor time spending for anything else than to cover these needs. DRC makes sure that many are provided with the basic skills to effectively cover these basic needs in the areas they are living in. This problem mostly relates to refugees and internally displaced persons fleeing from an area where they used to live. The reason for the relocation can be many things but the Iraqi government does not have the necessary capabilities to insure basic needs to these people. If not they are helped, often we see desperate people turn to crime and with increasing crime the foundation for development is shaken.

The recent crises in Syria has made hundreds of thousands of refugees flee over the borders of Iraq. The Iraqi government has not the capacity to deal with the crises and is therefore in need of assistance. The assistance is offered by DRC and others in the INGO community and UNHCR. Without this humanitarian assistance of temporary housing and basic rations unwanted actions are often taken by desperate individuals such as theft and other crime that threatens the livelihood and security of the Iraqi citizens.

Security Stabilization and humanitarian mine action/demining

The term "humanitarian demining" refers to clearance in the interest of the population. Other types of demining are clearance of the interest of the government or military strategic areas. Clearance for the government could be areas like oil fields. Military strategic demining could be to clear roads for

the logistic supply lines. The humanitarian mine action is clearance of areas that threatens the population such as urban areas, crops fields, education facilities and health facilities and primary roads etc. Of course the different clearance overlaps so often it will be in the interest of many of the parties but the difference is the objective. No matter the objective, clearing ERW and mines will aid in the overall security and stability of the country. Moreover, DDG educate in safe behaviour via its mine risk education concept. Mine Risk Education embraces both conventional explosive remnants of war and small arms and light weapons (SALW) awareness. This is both direct awareness and training of the trainers (normally school teachers so it becomes part of the school curriculum). Furthermore, DDG is addressing armed violence by its Armed Violence Reduction bottom up approach (AVR).

Hence on a micro scale level DDG is contributing to security stabilisation and emergency preparedness. From a macro perspective security stabilisation by reducing armed violence has to be addressed by the GOI who should establish transparent and responsible law enforcement e.g. police force, security forces.

Risks

Risks are among others projects that will be interrupted due to bureaucracy reasons, re-laid mines or new ERW contamination problem after end projects due to new armed-conflicts, civil war and/or terrorism. And, donor funds run out before conflict has ended

Indicators

- Incident records of ERW and mine casualties and armed violence
- Numbers of receiving MRE
- Response time in and coordination in contingency work

Below table shows our summary of results:

Absorption Gap	Investment Level of implementation in improving 'gap'	DRC and DDGs activities that feed into the Gap	Indicators	Risk and inhibiting factors.
Better education and training Human Capital	Micro, Meso and Macro Level	<ul style="list-style-type: none"> - Vocational training /Livelihoods - Management and Team lead training 	<ul style="list-style-type: none"> - People in participation in training '. - Employees getting promoted. 	<ul style="list-style-type: none"> - Retention of international and key trainers. - Keeping young people in education instead of working. - Women employment due to cultural norms.
More sophisticated local and national financial markets and financial infrastructure	Macro level	<ul style="list-style-type: none"> - N/A for NGO DRC/DDG - Implemented and conditioned by GoI and the international financial donors such as IMF, WB, OECD, EU, US government 	<ul style="list-style-type: none"> - Improvement of banking system. - Financial reforms and regulations. 	<ul style="list-style-type: none"> - Corruption. - Lacking of systems to channelize funds.

Opening up to trade	Macro level	<p>- N/A for NGO DRC/DDG</p> <p>- Implemented and conditioned by Gol, through for example NIC and the international financial donors such as IMF, WB, OECD, EU, US government</p>	<p>- Reformed financial structures.</p> <p>- Physical infrastructure.</p> <p>- Governmental reforms</p> <p>- Trade agreement</p>	<p>- Corruption and unstable state that does not put the country before the individual doing negotiations.</p>
Institutional development	Micro, Meso and Macro Level	<p>- NGO and CSO linkages</p> <p>- CSO/NGO strengthening of capacity</p> <p>-</p>	<p>Strengthen institutions</p> <p>Structure and empowerment</p> <p>Reforms within corruption and administrative regulations</p>	<p>- Corruption that undermines the system.</p> <p>- High bureaucracy levels.</p> <p>- Cultural tradition that promotes family/clan/religion before skill.</p>
Physical Essential and better infrastructure	Micro, Meso and Macro Level	<p>- Land release and clearance of infrastructure</p> <p>- Housing/Shelter</p> <p>- Infrastructure rehabilitation</p>	<p>Access to education facilities</p> <p>Access to water</p> <p>Access to electricity</p> <p>Access to consumer market</p>	<p>- Civil war and terrorism that destroys infrastructure or hinder operations due to security reasons.</p> <p>- Withdrawal of donor funds.</p> <p>- Low capacity labour and low quality materials.</p>
Advanced R&D	Meso and Macro Level	<p>- N/A for NGO DRC/DDG</p> <p>- Implemented and investment conditioned by Gol and the international financial donors such as IMF, WB, OECD, EU, US government</p>	<p>- High tech MNCs doing FDI.</p> <p>- Increasing graduates from universities and engineers.</p>	<p>- Not qualified population to uphold the projects.</p> <p>- Bilateral funding not sustainable and high risk that when donors leave projects will end.</p>
Security Stabilisation /Emergency Preparedness.	Micro, Meso and Macro Level	<p>- Humanitarian demining</p> <p>- Land release and clearance of infrastructure</p> <p>- Armed Violence Reduction</p> <p>- Mine Risk Education (MRE)</p> <p>- Emergency Response</p>	<p>Incident records of MA casualties and armed violence</p>	<p>- Projects interrupted due to bureaucracy reasons.</p> <p>- Undone after projects ends due to civil war and/or terrorism.</p> <p>- Donor funds runs out before conflict has ended.</p>

Table 13 – Analytical framework summary of results

6.0 Conclusion

In this thesis we have explored the subjects of how the INGOs activities feeds into the 7 criteria set up by Nunnenkamp, Blomstrøm and Kokko and H. Nguyen et al. Through the analyses we have establish links between these INGO activities from the DRC/DDG case and the criteria's. Moreover we have shown how the activities feed into the gap minimizing it and contributing to the spillover effects from MNCs.

We conclude that INGOs can contribute to the minimization of the absorption gap in a fragile and transitional context, by doing activities that feed into the criteria put up by Nunnenkamp, Blomstrøm and Kokko and Nguyen et al.

The INGOs (DRC and DDG) explicit activities, identified in the analysis and discussion, feed into the absorption gap on a micro scale trough provision of vocational training, livelihoods, management and team leader training, capacity building of local NGOs and institutional development of governorate institutions, clearance and land release (HMA), Mine Risk Education (MRE) and housing and shelter, infrastructure rehabilitation and emergency response. Hereby, the activities contribute to strengthen the possibility of spillover effects of the MNCs FDI.

There are many risks of the absorption gap not being minimized such as donor funding running out before the activities are properly internalized in the country. Factors working against the activities such as civil war, corruption, dictatorships/totalitarian rule, shifting governments, lack of capacity to continue the activity after the INGO have left etc. despite these risks we see a theoretical possibility of the INGO activities have a positive influence on the gap and therefore minimizing it and contributing to the spillover effects from the MNCs.

To further strengthen our theoretical link of activities improving the possibility of spillover effects we have included 'indicators' in our analyses. Here we show that there are indicators that show that it actually minimizes the gap on a micro scale. Then using the multiplication effect we can conclude that the activities are relevant in the contribution of spillover effects from MNCs

In our specific case of Iraq when analysing INGOs activities in the country of Iraq (Southern Iraq) there are certain factors hindering the INGO activities minimizing the gap.

As mentioned earlier in the thesis, scholars does not consider countries in a security fragile context and that is because that all of the criteria put forward by our scholars are not able to be fulfilled before the security situation in the country has been stabilized. If the countries security situation is so bad that actors cannot travel around the country without escorts, as the case is in Iraq, development has very bad odds for happening.

Putting security situation aside, a huge obstacle for the country's further development of the institutions is the widespread corruption that the country suffers from. All of our respondents have expressed the worry of the corruption that has infected the system. Corruption and fraud makes it difficult to work in the country due to lack of transparency and accountability, and due to the constant dilemmas of implementing activities versus ethics and code of conduct. The dysfunctionality of the state apparatus is apparent and makes the challenges of working with the institutions difficult and time consuming.

If Iraq manages to change the downward spiral of armed violence and corruption the country has excellent opportunities to develop. The amount of oil that the land has in their possession is huge so they have no problem figuring out what to live of the next many years. Although the oil industry in itself is not a heavy occupational industry, the revenue can be used to invest in other private and public sectors to get them up and running.

We conclude that Iraq is in the Investment Development Path stage one, but the country moves slowly towards stage. Again if Iraq manages to turn the tides of violence and corruption they may even begin to refine all of their oil themselves. Shifting from natural assets to created assets could be a big step on the way. This would most certainly lead to more outward market seeking FDI, but before we get ahead of ourselves first the country needs to master the technology and expertise to refine the oil and not just sell most of it crude.

As described in the discussion the way that the contracts between GoI and the MNC work is that the MNCs is paid to extract the oil up of the ground and not refine it. This type of contract does not give MNCs incentives to import high tech equipment to pump up oil or refine it. The MNCs will make the most cost efficient of doing so without investing too much in expensive state of the art equipment. The incentive for the MNCs is just to meet the quality of the oil that the government of Iraq has dictated and nothing more. The finest equipment for the best quality oil will not be used and therefore the employees will not be exposed to the greatest technology and equipment. This means that even though the contracts might be good for the country receiving all the oil for themselves it does not promote the technology spillover effects, we would argue that it even hinders it, since the MNCs will not use their best equipment.

So where is Iraq going? If the country manages to handle their violence and corruption the country has a high potential of being a dominant factor in the Middle East. Despite their fragility and problems MNCs are very interested in investing in the country. It has just been announced that a Swiss company is investing 6\$ billion dollars in a refinery that will be ready by 2018. Of course we do not know the details of this deal, but this could be the start of a success if the country avoids going into civil war. (iraqoilreport.com)

Generalization of our findings

Our thesis is under the category of the exploratory research and we are looking at the setting of South Iraq and the INGO activities executed in the South. It has been the intention to generate research to open up a field of study for further research. However we do also see our findings as a general subject for exploration.

As mentioned in the introduction the INGOs are implementing activities – services that a sound state normally would provide to its citizens. Provision of housing, education, health services, clearance of ERW contaminated land, and physical infrastructures are all areas within the scope of the state responsibilities.

The DRC/DDG activities that we identified in the country are not limited to Iraq. These activities are done in all the countries where DRC/DDG operates, all providing functions that governments usually are responsible for.

The absorption gap criteria operationalized in the study are essential and general criteria that need to be met before a country can absorb spillover effects from the MNCs doing FDI in the country.

Subsequently, as DRC/DDG feed into these criteria we conclude that further study can be conducted in countries where DRC/DDG operates and/or in countries where INGOs that does similar activities. Every country will have own challenges and risks that widen the gap. The risks found in this thesis are limited to the country of Iraq and can therefore not be transferred in other settings.

In our research question figure we have the box with the dotted line stating “other social/political/economic factors” and these factors will change in different contexts. Also the extent of the gap will vary from setting to setting but we do believe that this gap and the INGOs interaction with this are not limited to the setting of Iraq.

7.0 Suggestions for further research

As we have conducted an exploratory study there are many areas that we would suggest for further research. During our process of working with this thesis we discovered that there are literally dozens of angles that would have been interesting to pursue but had to limit us from.

A natural extension of this thesis would be to analyze the indicators used in this thesis to illustrate the possibilities of minimizing the gap from MNC spillovers and see if the activities of the INGOs can be proven empirically to have an impact.

Another aspect that could be interesting to explore is the northern part of Iraq also known as KRG (Kurdistan Regional Government). KRG has so far managed to establish a secure and functional working environment compared to central government of Iraq. The state is less corrupt in comparison and the security situation is currently better. Of course this is compared to Iraq so 'better' being the key word here. Hence, KRG has attracted more FDI and multi-sectors MNC compared to other parts of Iraq. Subsequently, we assume that KRGs absorption gap is 'less' compared to Iraq. If this is to be true what has KRG done differently after the recent conflict to minimize the absorption and how? So, a comparative study between KRG and Iraq would be interesting and relevant. Further an analysis of the model of KRG could be used in Iraq.

Another comparative study of interest would be between Libya and Iraq. Both countries are classified as middle-income developing countries in the OCED terminology and possess abundance of oil both in highly fragile settings. One essential point is that economic and social development in Iraq and Libya will not be constrained by lack of financial resources, given their oil wealth and middle income status. This is in sharp contrast with poorer fragile states such as Afghanistan, Sierra Leone, Liberia, or Somalia. However, their prosperity could be hindered by their inability to build and sustain effective state institutions. So, how should Libya and Iraq leverage their oil wealth to build effective and democratic States, provide security, justice, inclusive economic and social development for its people? The most recent framework, building on lessons from Iraq, Kosovo, and Afghanistan and other fragile states, recommends that state-builders prioritize goals and activities in the following order (Lake, 2010):

1. Security: Peace/public order, rule of the law
2. Humanitarian relief: Support to refugees, vulnerable groups, etc.
3. Service Delivery: Defined as restoring public services and public administration.
4. Economic stabilization: Monetary and fiscal policy, legal framework for local and international trade.
5. Democratization: Building political institutions (parties, civil society, elections).
6. Development, defined as medium-term goals such as economic growth and poverty reduction.

This sequencing stresses that guaranteeing security and the provision of basic services to build legitimacy/credibility should precede democratization and economic reform efforts.

We have through the thesis concentrated on the oil and gas sector because it is the main economic generating activity in Iraq. But through the process we have come to understand that there are huge potentials in the agricultural sector. Hence a study of other sectors than the oil and gas in Iraq, which are more labor intensive than the oil sector, would be interesting from the perspective of increasing employment. The country has to supplement their main industry to battle the 40% unemployment rate and start the process of the general domestic market development.

A final topic we suggest for further research is the interaction and cooperation between the MNCs and INGOs. In many ways the MNC and INGOs can benefit from the same things. INGOs want to develop the local community and promote infrastructure and education. MNCs want qualified workforce and good infrastructure to transport goods and do business. There are of course two different agendas also covered by this thesis, MNCs are responsible to their owners and INGOs to their beneficiaries. The clearest difference is when we look at spillover effects. INGOs want them to happen as much as possible and MNCs want to minimize them to avoid losing their competitive advantage. But does this mean, that there is no common ground to be found?

One of the big risks for INGO activities is the lacking of donor funding when the international aid community shifts focus to other countries. This means also that sustainable funding is relative because bilateral and multi-lateral funding fluctuates year to year so last year's objectives and target are not achievable the year after. The funding stream is never constant so the objectives of INGOs often lose momentum. Therefore for funding to be sustainable its activities could be done with entities that are dedicated for years in the country. MNCs doing FDI are exactly this and therefore we suggest it as an area subject for further investigation.

Being an exploratory study, this thesis contributes to scientific research by opening up an unexplored field of study. We hope that someone at a later point will take up this gauntlet so further study can be done in the area.

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Appendix 1 - Questionnaire

Informant Interview Question Set - Questionnaire, Christian Jakob Hansen

Dear Participant,

Thank you for agreeing to give up your time to assist in a Copenhagen Business School, Business and Development Studies, Masters Project. The project is entitled:

Danish Demining Group spillover effects in South Iraq

As the title suggests, the project will examine spillover effects from **MNCs and NGOs** in the South Iraqi context with a particular focus on **multinationals companies (MNCs)** investing in Iraq and the civil society i.e. International Non-governmental organizations and their part in supporting economic growth and development in post conflict fragile and transitional context such as South Iraq.

Thus, the thesis is an attempt on our part to demonstrate if there is empirical evidence to link the international aid to the improvement of the possibility of the country being able to absorb the spillover effects from the MNC's and if there is ground for hypotheses that the INGO's can have a 'strengthen' positive effect of these spillovers.

The study defines MNCs and FDI as; *"MNCs are companies operating in two or more nations and FDI is; ownership of productive assets by a cooperation in another nation."*

Spillover effects are defined as *"When the efficiency of local firms improves as a result of foreign entry, and the foreigner does not internalize the benefits", or "The spillovers occur when local firms benefit from the MNC affiliates superior knowledge of product or process technologies or markets, without incurring a cost that exhausts the whole gain from the improvement"*. Spillover effects of the MNC's can for example be increased experience for an employee that utilizes this experience (human capital spillovers) in local firms at a later time. An increase in the general economic activities in the area (community) of the MNC's would be another spillover effect.

In attempt to attract private investment and in particular foreign direct investment (FDI) i.e. MNCs the Government of Iraq has established the National Investment Commission (NIC)¹⁶ who and serve as promoter, facilitator, monitor, and policy advisor for investment into Iraq. GoI and NIC have development ten reasons for investing in Iraq and the following 18 question are linked to the mentioned reasoned in order to get the perspective from the MNCs. Besides the obstacles security and corruption how does the MNC find the Iraqi context to operate in?

¹⁶ GoI and NIC have embarked on a mission of rebuilding Iraq by attracting Iraqi, Arab, and foreign capital investment. Such investment will contribute to the transfer of knowledge and technology in all Iraqi economic sectors currently being transformed from centralized economy to a market economy based on free competition, equal opportunity and the development of the private sector. In 2006, the GoI passed the Investment Law No. 13, laying the foundation for attracting foreign investment into Iraq. The Law laid out several strategic initiatives including tax incentives, investor guarantees, obligations of investors, and the creation of the National Investment Commission (NIC) in 2007 was established to be the face of private investment in Iraq and serve as promoter, facilitator, monitor, and policy advisor for investment into Iraq. <http://www.investpromo.gov.iq/>

Interview Questions Guide *The questions below are linked to the 10 reasons set forward by NIC and the Gol on why to invest in Iraq. Furthermore, the questions are designed to be answered in 10-30 minutes. Please feel free to raise any new and important points that you feel are not covered in the questions and please feel free to provide any specific examples to support your responses*

General Background

Please state your position of the INGO you presented/presents in Iraq and in what sector you are/were involved with in Iraq. How long have you been in the sector and how long in Iraq?

DDG. Mine action and capacity development of a national Iraqi NGO – 1 year

DRC. Shelter, income generation and community infrastructure – 6 years

Question 1

Who are the key Iraqi stakeholders related to your INGO and sector?

DDG. Mine Action Authorities, Governorate authorities

DRC. Line ministries, Governorate Authorities, local tribe / elderlies.

Question 2

How do they coordinate and cooperate between each other and in relation to your INGO?

The stakeholder themselves coordinate very little, but rather competed through a relationship resembling a power struggle and distrust.

The cooperation with the INGO was to a lesser extent a matter of working with the formal entity (e.g. the ministry), but rather with the individual capacity within the e.g. ministry that showed genuine interest and commitment along the lines of our organisational objectives and mandate.

Question 3

What are the main causes of tension and/or failure in coordination and cooperation between INGOs and key Iraqi stakeholders?

Lack of capacity and corruption

Question 4

What specific **challenges** do you think INGOs faces and how do you think these can be overcome?

The INGO community need to be more critical as to the objectives they set and the changes to strive to make based on the environment in which they operate – namely lack of interest, lack of capacity and corruption. INGOs should to a greater extent buy into the new regime that mainly DfiD advocates (e.i. theory of change).

Question 5

What do you see as the major influences on the MNCs and civil society relationship (i.e. INGOs) e.g. politics etc.

and what are their affects?
I would need to understand "influence" better in this respect!?

Question 6

Do you see any complementary links between MNCs and INGOs? If, so what links?
<p>Looking especially to the Oil sector, there is very limited genuine interest on the part of the MNCs to generate a positive impact on the local and national economy, but they are obliged (directly and indirectly) to show such a commitment, which they do via the INGOs. That provides an opportunity to use the MNC as a resource to promote / address the mandate of the INGOs. DDG in particular has capacities that can be utilized by the oil companies.</p> <p>Ideally, but to a lesser extent in Lower South of Iraq, does the INGO mainly with a more developmental focus cater as the link to "first-mover" private sectors agencies is strategically pursued by both stakeholders / sides.</p>

Top 10 reason for investing in Iraq. Please indicate for each reason if your, a) INGO concurs to the reasons and b) what you see as the opportunities, strength, weaknesses and threats in relation to the reasons;

7. Superb strategic location – a gateway to the region
Yes and no. To some extent, but I doubt that any starts in Iraq seeing this as a gateway to other countries. This, though, changes a bit over time, but certainly not during the present crisis in Syria.
8. Numerous green and brownfield opportunities across multiple sectors
Not sure I understand, but Iraq is a very resourceful country in many respect with a strong potential consumerbase of upper middle class. Certainly an opportunity within some sectors, I am sure.
9. Unmet needs of a diverse domestic market
As above. Maybe less today, hopefully in a number of years. I am sure.
10. Increasing middle class creating demand for new products and services
Again mentioned above, yes. An opportunity, but not mainly in lower south. More in center and in north.
11. Educated, talented and available workforce
During the late 70s and 80s, Iraq have the best education system in the middle east and especially within health and engineering, but many have fled and generations after are less capable. Serious investments needs, why both a threat and an opportunity.

12. Competitive wages and operating costs
I do not know. The country may be competitive wages, but not considering the liabilities to e.g. east Europe, India, China etc.
13. Strong investment incentives, tax exemptions and guarantees offered
Strong investment incentives, yes an opportunity within some sectors
14. Low corporation tax rates
Would not know, but this will not for long be the reason why MNC would seek Iraq.
15. Ample opportunity for local partnerships
Threat – capacity too low
16. Abundant and untapped resources
Oil, yes, more more the potential marked and consumer base stemming from the oil resources, mainly.

17. Are there any other key relevant points or insights that you would like to add at this point?

18. Is there anything you would like to ask or comment about the project?

Thanks for your participation

Asbjørn Djurhuus and Lene Rasmussen

Informant Interview Question Set - Questionnaire, Roger Fast

Dear Participant,

Thank you for agreeing to give up your time to assist in a Copenhagen Business School, Business and Development Studies, Masters Project. The project is entitled:

Danish Demining Group spillover effects in South Iraq

As the title suggests, the project will examine spillover effects from **MNCs and NGOs** in the South Iraqi context with a particular focus on **multinationals companies (MNCs)** investing in Iraq and the civil society i.e. International Non-governmental organizations and their part in supporting economic growth and development in post conflict fragile and transitional context such as South Iraq.

Thus, the thesis is an attempt on our part to demonstrate if there is empirical evidence to link the international aid to the improvement of the possibility of the country being able to absorb the spillover effects from the MNC's and if there is ground for hypotheses that the INGO's can have a 'strengthen' positive effect of these spillovers.

The study defines MNCs and FDI as; *"MNCs are companies operating in two or more nations and FDI is; ownership of productive assets by a cooperation in another nation."*

Spillover effects are defined as *"When the efficiency of local firms improves as a result of foreign entry, and the foreigner does not internalize the benefits", or "The spillovers occur when local firms benefit from the MNC affiliates superior knowledge of product or process technologies or markets, without incurring a cost that exhausts the whole gain from the improvement"*. Spillover effects of the MNC's can for example be increased experience for an employee that utilizes this experience (human capital spillovers) in local firms at a later time. An increase in the general economic activities in the area (community) of the MNC's would be another spillover effect.

In attempt to attract private investment and in particular foreign direct investment (FDI) i.e. MNCs the Government of Iraq has established the National Investment Commission (NIC)¹⁷ who and serve as promoter, facilitator, monitor, and policy advisor for investment into Iraq. GoI and NIC have development ten reasons for investing in Iraq and the following 18 question are linked to the mentioned reasoned in order to get the perspective from the MNCs. Besides the obstacles security and corruption how does the MNC find the Iraqi context to operate in?

Interview Questions Guide *The questions below are linked to the 10 reasons set forward by NIC and the GoI on why to invest in Iraq. Furthermore, the questions are designed to be answered in 10-30 minutes. Please feel free to raise any new and important points that you feel are not covered in the questions and please feel free to provide any specific examples to support your responses*

¹⁷GoI and NIC have embarked on a mission of rebuilding Iraq by attracting Iraqi, Arab, and foreign capital investment. Such investment will contribute to the transfer of knowledge and technology in all Iraqi economic sectors currently being transformed from centralized economy to a market economy based on free competition, equal opportunity and the development of the private sector. In 2006, the GoI passed the Investment Law No. 13, laying the foundation for attracting foreign investment into Iraq. The Law laid out several strategic initiatives including tax incentives, investor guarantees, obligations of investors, and the creation of the National Investment Commission (NIC) in 2007 was established to be the face of private investment in Iraq and serve as promoter, facilitator, monitor, and policy advisor for investment into Iraq. <http://www.investpromo.gov.iq/>

General Background

Please state your position of the INGO you presented/presents in Iraq and in what sector you are/were involved with in Iraq. How long have you been in the sector and how long in Iraq?

Started DDG program in Iraq 2003 (summer) following the US military campaign. I held this position for approximately 9 months when I left for a position in DDG HQ and manned a desk position with responsibility for DDG Iraq program. Acted as desk for approximately 8 yrs on and off due to other assignments.

Question 1

Who are the key Iraqi stakeholders related to your INGO and sector?

The stakeholders have changed a lot throughout the period DDG have been in the country.

In 2003 UNOPS (I think) had the lead to establish the coordination of all HMA. They were supported by SRSA (later MSB). In addition other stakeholders were: Donors, Immigration, UN, Danish Armed Forces, UK Armed Forces, HMA actors, Suppliers. Shortly afterwards Private Security Companies (PSC) became a stakeholder. In addition Iraqi villagers, farmers etc was our stakeholders.

Later on UNDP, the Iraq armed forces, IMAC and the Iraq mine action authority (DMA) became new stakeholders. The Iraq Mine Action Authority was placed under MoE.

When the oil contracts were launched the Ministry of Oil, Southern oil company, Southern gas along with multinational oil companies became new stakeholders as well as commercial mine action agencies and a few national mine action agencies. In this phase the armed forces had changed to US forces.

Question 2

How do they coordinate and cooperate between each other and in relation to your INGO?

2003 UN took a strong lead in coordinating the activities in collaboration with the UK forces who were in control of the area DDG worked in. Weekly meetings took place to coordinate activities. When UN pulled out following the UN Baghdad bomb, RONCO was contracted by US (WRA) to coordinate HMA. At this point few agencies still had operations in Iraq and the coordination became quite simple and coordination only took place with the US forces through RONCO.

When RONCO left Basra, DDG started to operate independently and had to do coordination with relevant stakeholders mentioned under Point 1. Coordination was difficult due to access and limitations on movement.

Most coordination took place mostly through direct meeting.

Question 3

What are the main causes of tension and/or failure in coordination and cooperation between INGOs and key

Iraqi stakeholders?
<p>The main failure in coordination is mainly due to non existing meeting with the senior authority. Examples that support this are:</p> <ul style="list-style-type: none"> - Repeated changes of managers in DMA - Lack of a transparent HMA strategy. - Access (based in Baghdad). - Corruption - Private interests among officials tasked to coordinate HMA.

Question 4

What specific challenges do you think INGOs faces and how do you think these can be overcome?
<p>Corruption and the lack of a coherent mine action strategy that separate and appreciate the humanitarian imperative.</p> <p>How to overcome? Corruption will take time to overcome, but meanwhile, a coordination body that are coordinated by an international and impartial body and with limited connection to the Iraq business and government structure.</p>

Question 5

What do you see as the major influences on the MNCs and civil society relationship (i.e. INGOs) e.g. politics etc. and what are their affects?

Question 6

Do you see any complementary links between MNCs and INGOs? If, so what links?

Top 10 reason for investing in Iraq. Please indicate for each reason if your, a) INGO concurs to the reasons and b) what you see as the opportunities, strength, weaknesses and threats in relation to the reasons;

19. Superb strategic location – a gateway to the region
<p>a) Wouldn't think so.</p> <p>b) Can't see any real advantages for the region considering that Iraq has been in fighting's with several of its neighbors and access to Iraq doesn't provide any additional advantage if planning to access another country in the region.</p>
20. Numerous green and brownfield opportunities across multiple sectors

- a) Yes
- b) Opportunity:
 - O&G areas are contaminated and in need for reconstruction as well building from scratch.
 - Infrastructure in need of reconstruction as well building from scratch.
- Strengths
 - Clearance capacity
 - MOU/registration
 - One of few actors
- Weaknesses
 - INGO
 - Internal capacity
 - Management commitment
- Threats
 - Civil unrest
 - Corruption

21. Unmet needs of a diverse domestic market

- a) Yes
- b) Opportunity:
 - Large scale infrastructure destruction in need for restoration
 - MNC in pursuit of reliable partners
- Strengths
 - Registered
 - Capacity on the ground
 - Short deployment time
- Weaknesses
 - INGO
 - Internal capacity
 - Management commitment
- Threats
 - Civil unrest
 - Corruption

22. Increasing middle class creating demand for new products and services

- a) No
- b) Opportunity
 - Increased demand
 - Increased purchase power
- Strengths
 -
- Weaknesses
 -
- Threat
 -

<ul style="list-style-type: none"> - The situation will continue to deteriorate - Corruption - International products can become high value targets
23. Educated, talented and available workforce
<ul style="list-style-type: none"> a) No b) Low skilled workforce will assist in some areas but will hardly assist in high tech industries...
24. Competitive wages and operating costs
<ul style="list-style-type: none"> a) No b) As international operator this is not the case. National actors are more likely to be more competitive in this area. We can compete in other areas such as quality, reliability and efficiency.
25. Strong investment incentives, tax exemptions and guarantees offered
<ul style="list-style-type: none"> a) No b) Tax exempted for Hum activities but not for commercial activities.
26. Low corporation tax rates
<ul style="list-style-type: none"> a) No b) Tax exempted for Hum activities but not for commercial activities.
27. Ample opportunity for local partnerships
<ul style="list-style-type: none"> a) No b) The opportunities with partners are plenty, but might be a bit risky. <p>Opportunity</p> <ul style="list-style-type: none"> - Large scale work opportunities, not least within infrastructure <p>Strengths</p> <ul style="list-style-type: none"> - Easier access to decision makers - Understanding of the local context <p>Weaknesses</p> <ul style="list-style-type: none"> - Insight - Language - Fraud <p>Threat</p> <ul style="list-style-type: none"> - Corruption

-
28. Abundant and untapped resources
<ul style="list-style-type: none"> a) No b) Opportunity <ul style="list-style-type: none"> - Large scale work opportunities, not least within infrastructure <p>Strengths</p> <p>Weaknesses</p> <p>Threat</p> <ul style="list-style-type: none"> - Corruption

29. Are there any other key relevant points or insights that you would like to add at this point?

30. Is there anything you would like to ask or comment about the project?

Thanks for your participation

Asbjørn Djurhuus and Lene Rasmussen

Informant Interview Question Set - Questionnaire, Kent Paulusson

Dear Participant,

Thank you for agreeing to give up your time to assist in a Copenhagen Business School, Business and Development Studies, Masters Project. The project is entitled:

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As the title suggests, the project will examine spillover effects from **MNCs and NGOs** in the South Iraqi context with a particular focus on **multinationals companies (MNCs)** investing in Iraq and the civil society i.e. International Non-governmental organizations and their part in supporting economic growth and development in post conflict fragile and transitional context such as South Iraq.

Thus, the thesis is an attempt on our part to demonstrate if there is empirical evidence to link the international aid to the improvement of the possibility of the country being able to absorb the spillover effects from the MNC's and if there is ground for hypotheses that the INGO's can have a 'strengthen' positive effect of these spillovers.

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Interview Questions Guide *The questions below are linked to the 10 reasons set forward by NIC and the Gol on why to invest in Iraq. Furthermore, the questions are designed to be answered in 10-30 minutes. Please feel free to raise any new and important points that you feel are not covered in the questions and please feel free to provide any specific examples to support your responses*

General Background

Please state your position and in what sector/ company you are involved with in Iraq. How long have you been in the sector and how long in Iraq?

Operations Manager Aid Management Solutions. From 1 August 2013 ongoing. Before this UNDP Iraq senior Mine Action advisor 1 March 2008 30 June 2013. Before that UNDP Iraq Mine Action project manager 16 April 2003 to 28 Feb 2008.

With my background I have a quite wide perspective including government, international companies and NGO views.

Question 1

Who are the key Iraqi stakeholders related to your company and sector?

Ministry of Oil, Ministry of Transport Khor Az Zubayer Port authority

Question 2

How do they coordinate and cooperate between each other and in relation to your company?

They are involved in the key decisions and observe the progress.

Question 3

What are the main causes of tension and/or failure in coordination and cooperation between MNCs and key Iraqi stakeholders?

Miscommunication due to poor clarification of agreements.

Question 4

What specific **challenges** do you think MNCs faces and how do you think these can be overcome?

There is an element of not understanding the Iraqi culture and it can be overcome by MNC's being more culturally aware but firm on what needs to be achieved.

Question 5

What do you see as the major influences on the MNCs and civil society relationship (i.e. INGOs) e.g. politics etc. and what are their affects?

MNCs have often tight time limits for their results and NGOs work under a longer term perspective. This makes it more difficult for the two to meet but would be useful if they could.

--

Question 6

Do you see any complementary links between MNCs and INGOs? If, so what links?
From an impact needs perspective, yes but in reality the two work in different market segments of mine action. Initially before the commercial market took off in Iraq, the INGOs had a more prominent role to play but now when the market is there INGOs do not play in the same league.

Top 10 reason for investing in Iraq. Please indicate for each reason if your, a) company concurs to the reasons and b) what you see as the opportunities, strength, weaknesses and threats in relation to the reasons;

31. Superb strategic location – a gateway to the region
If you mean region Iraq as whole it is a superb strategic location having in mind the needs for Quality Management of Mine Action Iraq has.

32. Numerous green and brownfield opportunities across multiple sectors
33. Unmet needs of a diverse domestic market
Huge unmet needs...
34. Increasing middle class creating demand for new products and services
35. Educated, talented and available workforce
Very important
36. Competitive wages and operating costs
Yes
37. Strong investment incentives, tax exemptions and guarantees offered
Yes, good tax rules,
38. Low corporation tax rates
Does not apply to me

39. Ample opportunity for local partnerships
Yes
40. Abundant and untapped resources
Yes

41. Are there any other key relevant points or insights that you would like to add at this point?
No

42. Is there anything you would like to ask or comment about the project?
No

Thanks for your participation

Asbjørn Djurhuus and Lene Rasmussen

Informant Interview Question Set - Questionnaire, Barry Jolly

Dear Participant,

Thank you for agreeing to give up your time to assist in a Copenhagen Business School, Business and Development Studies, Masters Project. The project is entitled:

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Interview Questions Guide *The questions below are linked to the 10 reasons set forward by NIC and the Gol on why to invest in Iraq. Furthermore, the questions are designed to be answered in 10-30 minutes. Please feel free to raise any new and important points that you feel are not covered in the questions and please feel free to provide any specific examples to support your responses*

General Background

Please state your position and in what sector/ company you are involved with in Iraq. How long have you been in the sector and how long in Iraq?

Bazz Jolly, Program/Operations Manager Danish Demining Group (DDG) Iraq, Mine Action. I have worked in this sector for 5 years, 3 and a half years in Iraq.

Question 1

Who are the key Iraqi stakeholders related to your company and sector?

Directorate of Mine Action (DMA) and the Regional Mine Action Center - South (RMAC-S).

Question 2

How do they coordinate and cooperate between each other and in relation to your company?

Through weekly and monthly reporting. Also there are inconsistent meetings between RMAC-S and DDG, meant as coordination meetings. However, most of the time these are unproductive.

Question 3

What are the main causes of tension and/or failure in coordination and cooperation between MNCs and key Iraqi stakeholders?

Tension and failure between DDG and RMAC-S comes from the severe lack of understanding on the DMA and RMAC-S part to understand Mine Action procedures and what Humanitarian Mine Action try to achieve. The corruption levels are also a player in the failure of RMAC-S, causing friction because DDG will not bend international rules and our own guidelines set out by our mother Org. DRC.

Question 4

What specific **challenges** do you think MNCs faces and how do you think these can be overcome?

- 1) National authorities understanding Humanitarian work ethos and what we can and cannot do.
- 2) National authorities not understanding international standards and/or procedures.
- 3) We are affected by the corruption and bureaucracy that is rife in Iraq, although not directly it does hinder our day to day operating.
- 4) Lack of interest towards MNC's by national authorities. National authorities do not understand the value that we bring and seem unwilling to aid in logistical matters, such as visa's shipping of vital equipment ect, of course unless MNC's pay bribes.
- 5) International aid is becoming more and more difficult to obtain, this is due to the amount of money that has already been sunk into Iraq.

6) A decrease in interest towards MNC's is definitely on the increase. This is down to more and more national players starting up and authorities only seeing the bottom line.....i.e money, giving total disregards to standards and/or quality.

I do not think that these issues will ever change here in Iraq. Such is Iraqi mentality, MNC's will find it more and more difficult to operate. The only way for them to be accepted is to line pockets. Although this would create a short term fix it would breed contempt among other national players towards the said MNC and in turn would run the risk of retribution toward the MNC.

Question 5

What do you see as the major influences on the MNCs and civil society relationship (i.e. INGOs) e.g. politics etc. and what are their affects?

MNC will soon not be welcome in Iraq. This is down to the "we can do" attitude by national gov bodies. Politics do affect MNC's and I would say it is best left to the Iraqi's.

Question 6

Do you see any complementary links between MNCs and INGOs? If, so what links?

Links can be made, in some circumstances. Such as the ability to train individuals in a key skill needed to build or strengthen infrastructure.

Top 10 reason for investing in Iraq. Please indicate for each reason if your, a) company concurs to the reasons and b) what you see as the opportunities, strength, weaknesses and threats in relation to the reasons;

43. Superb strategic location – a gateway to the region

Iraq yes but not necessarily the south. Northern Iraq is a more secure area and as such would allow it to be used as a gateway to the region.

44. Numerous green and brownfield opportunities across multiple sectors

Definitely. The south has vast landscapes that would allow for reconstruction and provide a way on supporting families, such as farming.

45. Unmet needs of a diverse domestic market

Not as far as my Org. is concerned but I do feel that it is something that Iraq as a whole could strengthen.

46. Increasing middle class creating demand for new products and services

<p>The middle class may be increasing but this all hinges on security. It is safe to say that areas around major cities such as Baghdad and Basrah may be experiencing a rise in demands where as more rural areas are self supporting. My Org. tries to aid this class of people, allowing them to support their own families.</p>
<p>47. Educated, talented and available workforce</p> <p>In my experience with working in Iraq there is definitely an available workforce however educated and talented is two traits that I have yet to come across.</p>
<p>48. Competitive wages and operating costs</p> <p>In no way is it cheap to operate in Iraq. Wages are low, however Iraqi's constantly what more.</p>
<p>49. Strong investment incentives, tax exemptions and guarantees offered</p> <p>Although Iraq offers a tax free opportunities operating in Iraq will have its other costs attached, as the corruption levels are of the scale.</p>
<p>50. Low corporation tax rates</p> <p>As a non profitable Org. this does not apply.</p>
<p>51. Ample opportunity for local partnerships</p> <p>Partnerships do work here in Iraq but are not without pit falls. My Org. had tried to look at partnering up with a national counterpart but it did not materialize due to the unwillingness to fallow standards set out by governing bodies. National partnerships work well as long as the national side is making money for doing nothing, so in turn all MNC get out of it is a way to operate under an Iraqi name.</p>
<p>52. Abundant and untapped resources</p> <p>The oil and gas resources is a way in which my Org. is looking at venturing in. The undiscovered and untapped oil reserves all scattered all over the country but a large majority of them are hindered by ERW and Mines left from the last 3 majeure wars Iraq has had. My Org. is looking at providing a solution to this problem by removing the threat.</p>

<p>53. Are there any other key relevant points or insights that you would like to add at this point?</p> <p>No.</p>
--

<p>54. Is there anything you would like to ask or comment about the project?</p>

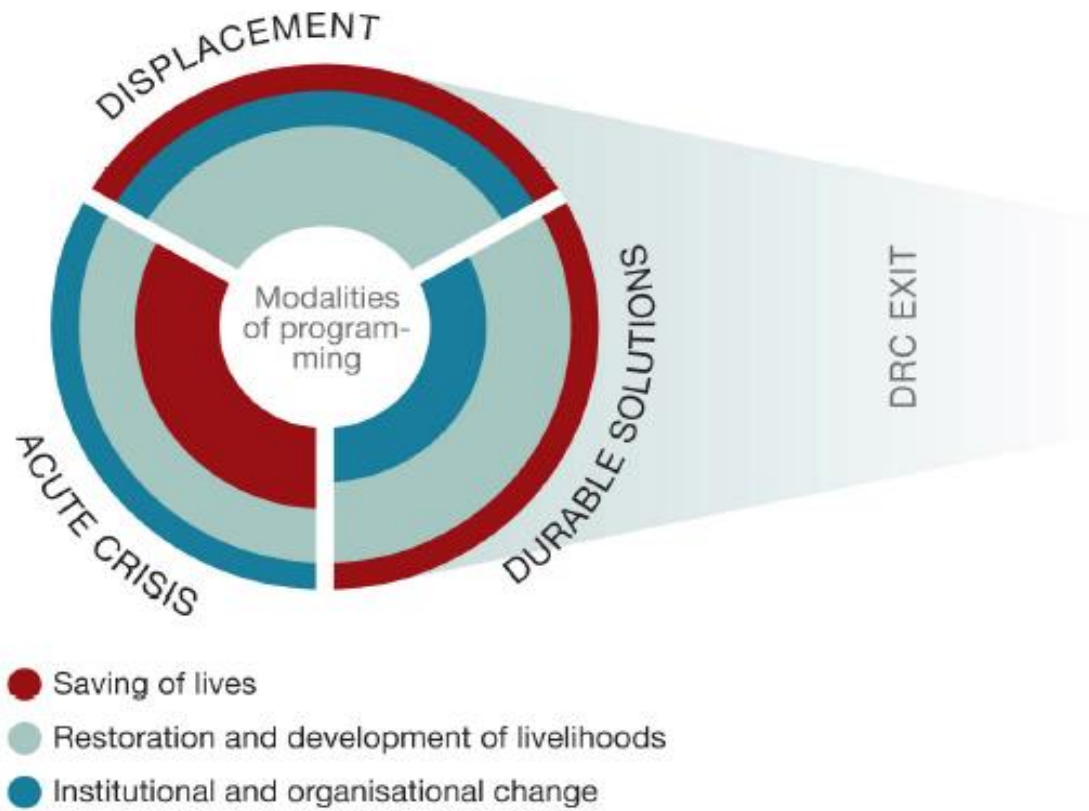
No.

Thanks for your participation

Asbjørn Djurhuus and Lene Rasmussen

Appendix 2 – DRC and DDG framework

DRC's Assistance Framework



The DDG "menu"

Institutions		Instruments		Agents
Capacity Building of Government and Civil Society	Support to Security Providers	Small Arms Management	Mine Action	Conflict Prevention
Legislation	Community-Police Dialogue	Weapons & Ammunition Management	Mine Clearance	Conflict Management Education
Policy Guidelines	Support to Police Outreach	ISACS Advisory	Battle Area Clearance	Mitigation Strategies & Mechanisms
Early Warning	Military Accountability Measures	Risk & Safety Education	Explosive Ordnance Disposal	Support to Conflict Resolution
Community & District Safety Plans	Guidelines & Reporting Systems	Awareness Raising Campaigns	Stockpile Destruction	Conflict Analysis & Mapping
Support & Training	Training	Safe Storage	Risk Education	Conflict Sensitivity Training
Advise & Consultancy	Advocacy	Weapons Tracing	Surveys	Peace Meetings
Accountability Mechanisms		Marking & Registration	Capacity Building of Mine Action Authorities	Advocacy
Micro Grants for Peace Building Initiatives		Research	Advocacy	

Appendix 3 – DDG Clearance Stats:



Clearance Statistics

DDG, Iraq 2003-2013

Items Destroyed:

Year	AP mines destroyed	AT mines destroyed	UXO destroyed	Sub-munitions destroyed
2003	0	6	29127	368
2004	0	0	6034	278
2005	0	0	3052	2339
2006	Not available	Not available	Not available	Not available
2007	8	438	10743	2346
2008	145	8	19525	804
2009	0	0	0	0
2010	17	10	2829	1009
2011	20	66	5226	915
2012	20	70	10346	658
2013	0	0	498	0
Total	210	598	87,380	8,717

2011 Month	Active Work Time Tools- Operators	1)Tasks Completed (ea)	2)Cleared- Release M ²	3) DA reports (ea)	4)Marked- Surveyed M ²	Surface m ²	5)Sub- Surface m ²	Large Loop m ²
January	678	6	97000	11	1345000	140800	153100	25000
February	876	0	0	21	890000	298600	194792	65500
March	352	2	14700	20	213600	205650	193225	73750
April	323	5	42300	17	200000	28200	114075	41250
May	384	2	56300	32	722409	300000	106876	48750
June	450	0	0	17	24400	37500	82450	74000
July	306	0	0	16	55100	43900	29350	36250
August	80	0	0	13	111400	69500	4100	13250
September	282	0	0	19	20460	37400	27775	20950
October	254	4	46300	23	81538	100000	44925	47700
November	138	0	0	22	121430	17500	49135	55000
December	249	0	0	10	43510	9600	60315	26400
TOTAL	4372	19	256600	221	3828847	1288650	1060118	527800

2012 Month	Active Work Time Tools- Operators	1)Tasks Completed (ea)	2)Cleared- Release M ²	3) DA reports (ea)	4)Marked- Surveyed M ²	Surface m ²	5)Sub- Surface m ²
January	429	4	117015	13	12041	55805	78255
February	233	0	0	17	37737	22551	170035
March	205	4	103151	6	646021	64954	331001
April	232	2	42994	8	254139	290606	350535
May	243	0	0	17	135497	0	162615
June	264	1	87710	9	3181	21500	280877
July	150	3	66920	4	21600	27769	110769
August	0	0	0	0	0	0	0
September	131	1	726777	25	86364	12000	237000
October	116	2	48654	34	103156	133465	272960
November	78	0	0	9	391967	51585	130549
December	111	6	673213	6	9915	353786	409974
TOTAL	2192	23	1866434	148	1701618	1034021	2534570

Training:

2012

Item	Date	Training	Group	No	Achievement	Pass Rate
1.	12 June	English	N/A	25	Level 3	100%
2.	Sep	Leadership Training	Ops Supervisors & Team Leaders	18	Pass	N/A
3.	Aug	Driver Training	Ops Drivers	10	Pass	N/A
4.	Sep	NTS Training	CL Teams	15	IMAS	100%
5.						
6.						

2013

Item	Date	Training	Group	No	Achievement	Pass Rate
1.	28- July	Non-Technical Survey	Community Liaison staff	8	Qualified NTS surveyors	100%
2.	14-Aug	Baseline /Impact monitoring Training	Community Liaison staff	8	Qualified to do Baseline/Impact Survey	100%
3.	14-July	Demining/BAC/EOD	QRT Teams	38	IMAS Level 2	92%
4.	14- July	Technical Survey Training	Tech Survey Teams	38	IMAS Qualified	96%
5.	14-July	Driver Training	Drivers	13	N/A	N/A
6.	14- July	Medical Training	Medic	9	EMT I	83%