The Role of Investment Law in Housing Construction in Duhok City, Kurdistan Region

Halima A. Othman
Petroleum Engineering Department, University of Zakho, Duhok, Kurdistan region, Iraq
E-mail of the author: halemaalsindy@hotmail.com

Abstract
Duhok has a strategic location because it lies between two mountains ranges and at the junction of the borders of Iraq, in the heart of Iraqi Kurdistan Region. The city has a significant position from the dawn of history to the present time. In addition to the relative peace in the region, it has an advantage to develop the economy relatively fast in comparison to other parts of Iraq. Due to the above reasons, The City witnessed a rapid population growth during the last decades and the fast growing population led to further urbanization growth in the city. Duhok’s urbanization growth areas expanded at a rate 2.2 times faster than population growth, Giving rise to an increasing density of settlements and creation of informal settlement patterns, in addition to lack of new housing delivery systems. The Kurdistan Regional Government recognized that the regional government alone could not reconstruct Kurdistan without active participation from the private sector; therefore, Private investors especially from foreign resources been promoted to contribute towards economic development. The government, issued investment-law to remove any legal obstacles, focusing in construction sector especially housing projects. This paper discusses the role investment law in eliminating housing shortage in the city of Duhok to address the key bottlenecks in housing sector through better understanding of the potential and weaknesses of the existing situation.

Keywords: Duhok city, Kurdistan Regional Government, Investment law, Housing, Population

Introduction
Since 1992 and especially since the fall of the Ba'athist regime in 2003, the Kurdistan Region is relatively stable and peaceful compared to the rest of Iraq. The security situation has consolidated by the recent unification in 1997 of the two KRG administrations and the exercise of joint control between the Patriotic Union of Kurdistan (PUK), and the Kurdistan Democratic Party (KDP) (Martina, 2007).

Iraqi Kurdistan in general has remained the only safe places for foreigners. However, reconstruction was necessary as no fighting occurred there while there has been considerable foreign investment, especially from Turkish businesses. Today, many new buildings, shops and malls can be seen unlike areas outside Kurdish control (Bastorayee, 2008).

The reconstruction in urban management sectors tied closely to the policy positions of the new government as regards decentralization, privatization and popular participation. While the form and scope of these policies may vary significantly, in all cases the result will be a need for training and capacity building (UN-HABITAT, 2002).

The public sector has recognized its inability to deliver the increasing demand of sufficient services and infrastructure. Inaugurating the private sector role was the central issue to remedies this deficit. Contraction boom was the major outcome of the new policy; Bridges, shopping malls, private parks and housing project contributed to eliminate the shortage in of service delivery. However, the economic development is still handicapped by the lack of information and transparency, the absence of an effective modern banking sector, an educational system that meets the demands of a market economy and the lack of adequate infrastructure (International, 2008).

Statement of problem
Duhok City witnessed a rapid population growth during the last decades, which led to deficiency in affordable residential units in the Kurdistan Region led to rapid increase in perches and rent prices in the three northern governorates. Despite the economic boom in Kurdish region.

The housing situation in the three northern governorates is a major crisis, there is a serious shortage of accommodation, and families live in shared apartments.

In parallel to the rapid urbanization process that took place in the KRG districts, there were obstacles hindering the role of investment in alleviating housing deficiency. This paper will focus on the housing problem and define the main reasons, which face housing construction in Duhok city.

Objective of Study
The main objective of the study is to re-evaluate the role of investment law in housing construction in the city of Duhok. This will be followed by suggesting an alternative polices of housing delivery, which will better serve
the requirements of urban development in the city of Duhok. The specific objectives of this study are: -

- To study the existing conditions and all aspects of housing which have negative or positive impacts on the urban environment.
- To study the viable alternatives in the housing system based on the realities on the ground and the norms in modern urban planning strategies.
- To propose a scheme of constructing housing to best serve sustained development in the city of Duhok.
- To propose the possible changes in the regulations that might ease the developing of urbanization.
- To provide employment opportunities and introduce income generation activities.
- To identify the potential to scale up from the pilot project to a larger investment in urban management.

**Research Hypothesis**

The main hypothesis of this research paper is that the absence of proper policies and strategies dealing with the increasing urbanization and rapidly growing population has contributed to insufficiency in housing allocation, stimulating negative impacts in the urban environment, leading to spatial segregation and urban fragmentation. Nevertheless, the potential still exists to remedy the deficiency in the existing housing system by developing and exploring the resources to draw new policies for the current and future needs.

**Research Methodology**

This research seeks rational housing construction policies, which will start by analyzing a qualitative and quantitative housing data, and environment, the role of investment law will be to shed light upon. This work has used a case study approach. Due to the nature of the research, data collection was based mainly on interviewees with decision makers in the planning body of Duhok City though, due to the limited time allocated for the paper there was no efficient time to evaluate the housing by a survey. In addition, secondary data being used. These included official and UN reports, census data, journal articles, newspapers, maps, photographs and, publications on the internet. There is, however, a lack of up-to-date and inventory information.

**Background of study area Duhok city**

Duhok Governorate’s total population is estimated approximately at 955883 in 2008 (Othman, Directorate of Rations in Duhok City, 2008) with close to 70 percent of the population living in cities. It is clear that the main challenge of reconstruction will be focused in cities.

Duhok has a strategic location because it lies at the junction of the borders of Iraq, Turkey and Syria in the heart of Iraqi Kurdistan Region (See figure 1, 2). It lies between two mountains ranges namely the Bekhair range in the north and, northeast and the Zaiwa range in the southeast. It is somehow in the shape of an irregular long triangular strip. The old city was established near the narrow passage of Duhok gully (Halima, 2008).

![Figure 1 Case study strategic location, in the left, source, (www.iraqmaps-Perry-astaedamapcollection-utlibrary) at the left side](image-url)
Figure 2 Case study strategic location at the center of Duhok governorate, source, (www.eduhok.net), up

The existing remains close to the city show that the city has a significant location from the dawn of history to the present time. Duhok is an important historical city because of its strategic position between narrow passages (Gully Duhok, Kashafer) which lead to (Dargala Sheikha) narrow passage in which roads and paths passed, it connected the Assyrian state in Ninevah and the kingdoms of Urartu, Kutians and Meetanians.

Duhok is a multi-culture and religion city with a population of approximately 262640 in 2006 inhabitants (Halima, 2008). Ethnically the majority of the populations are Kurds, with minority groups of Assyrians, Chaldeans, Arabs and Armenians. The dominant religion is Sunni Moslem, and a minority of Iyzdi and Christians living in a very peaceful and integrative life style. The population records show an unprecedented growth during the last two decades due to the rural-urban migration and returning refugees.

The rapid population growth during the last decades in Duhok City resulted from several reasons. It is not only the high growth rate but also returning refugees together with internally displaced people by the last regime. In addition to that, rural-urban migration contributed to rapid urbanization process in the cities, which led to deficiency in physical and social infrastructure delivery.

Figure 3 Duhok City Populations Dynamic During the Last Three Decades. (Halima, 2008)

Figure three shows the growth of the city in relation to the governorate, Duhok city is about 30% of the population living in Duhok governorate. Notably Duhok has been quite impressive population growth in the last 30 years ago. Population estimates show remarkable growth in the city, the growth rate is about 6.8%, (Directorate of statistic in Duhok City).

Figure 4 shows that rapid Rural-urban migration, which resulted from several reasons; fist, the last regime’s policy of village destruction. In addition to the increasing disparities between urban and rural areas, another reason is the absence of efficient policies to improve the economic situation of rural areas.
Duhok City is a center for prosperity in the governorate; Duhok governorate had the unemployment rate at 13.2 in 2002. It has the lowest percentage for unemployment rates among the government’s cities (Hassan, 2004).

Housing in Duhok City

Housing profile in Duhok city

According to rations\(^1\) office in Duhok city 2008 there are 52488 families living in the city of Duhok, while the municipality of Duhok registers 30027 a licensed built up houses in 2008, this fact implies that 22461 families live in slums or in overcrowded housing units, which highlights the affordable housing even for rent is inefficient.

Figure 6 shows that (43%) of Duhok’s population live in slums or overcrowded housing units. the informal settlements in Duhok City are mainly characterized by the weak housing structures, over-crowding, faulty alignment of streets, inadequate lighting, lack of safe drinking water, water logging during rains, and deficiency of the basic physical and social services (See figure 7).

The rations office is the most reliable source for population statistic data the data base had been organized by WFP

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88% while the remainder divided between the middle and high-income groups. The illiteracy rate in slums relatively high compared to the other settlements especially among women. (Othman, Duhok City Municipality, 2006)

Figure 6 Informal settlements location in Duhok City (Othman, Duhok City Municipality, 2009), source prepared by the writer

**Housing Conditions, Quality and Tenure**

This dysfunctional system of housing and land delivery has resulted in a deficiency in housing needs. Infrastructure and service problems are a key concern among households. A majority of households complain about the quality of their drinking water and almost 40 percent report daily problems with the supply of their water. Sewage network unreliable, and 34 percent of households are not connected to the public sewerage system. Moreover, 34 percent of households have raw sewage in the streets around their houses. Electricity supply is another key problem. While virtually all urban households have connection to the public electrical supply network, it typically works for few hours per day. Almost all households surveyed depend on up to three sources of electricity (Technology, 2006).

**Estimated housing needs in Duhok city**

Population of Duhok city will grow to be 425,000 inhabitants in 2030, which reveals Duhok population increase by 125,000 inhabitants during next 20 years (Malallah, 2009). The medium size of a single-family household is about 5.2 people per family (Othman, Directorate of Rations in Duhok City, 2008).

With an estimated housing need over the twenty-year period from 2010 to 2030 of around roughly 52000 units in Duhok City to be offer, it is necessary to scale up the current level of housing production. The estimated need for new housing in Duhok city—52000 units—is broken down in response to (See figure 7);¹

- New housing construction (26520)
- Reduction of overcrowding to acceptable numbers of households per dwelling unit Replacement of units in the existing housing stock that becomes obsolete (3120)
- Replacement of non-upgradeable units (1580 units)
- Upgrading of those units that considered Informal settlements (7280 units).

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¹ The division relied on a survey made by the source (Technology, 2006)
Households are investing very little in their properties under the current conditions, which will eventually lead to further deterioration of the housing stock. Few households have plans to build new housing or to improving existing housing. The key obstacles cited by households include the high price of land and building materials in addition to the absences of housing finance policies.

**Housing prices**

Despite of the vast number of new buildings, a housing crisis is among the main economic problems of the Kurdish provinces. Important to note is the fact that low wages and skyrocketing prices for accommodation is the core of the housing problem. The prices of houses have gone up enormously since the fall of the Ba'athist government in 2003 when compared to average income levels. Rent is unaffordable not just for one person, but even more so for families. Many young couples are priced out of the housing market and are obliged to live at their parents’ house. The couple does simply not earn enough to afford their own accommodation. The following chart specifies rents and prices of apartments and houses in Erbil, Duhok and Sulaimaniyah (Martina, 2007).

![Housing needs in Duhok City](chart)

**Figure 7 estimated Housing needs in Duhok city (proposed by the writer)**

Therefore, the main concern is only not the shortage of housing, but overpriced housing. Experts suggest an unofficial general inflation of around 40-50%. The accompanying rise in the costs of living is a considerable negative effect of the unprecedented economic boom. One of the reasons why prices of this sector have skyrocketed is that government agencies, private national and international companies and associations are willing to pay higher than average rents (http://iwpr.net/?p=icr&s=f&o=322245&apc_state=henpicr., 2007).

![Monthly Rent: Apartment, House 3-5 Persons](chart)

**Figure 8 median Monthly Rents: Apartment, house 3-5 Persons in the three governorates. (Halima, 2008)**

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Construction material’s cost

As in most parts of the world, building costs have been rising significantly in the Kurdistan Region as a result of rising prices for fuel, labor, and materials. For example, since 2000 cement prices have increased from $25 per long ton to $125–$150 per ton, regardless of origin, and rebar steel has increased from $200 per ton to $700–$800 per ton. The Kurdistan Contractors’ Union states that institutional construction costs have increased 5%–600% over the last 10 years (International, 2008).

The construction materials, including steel reinforcing bar, fixtures, wiring, tile, and finishing products, are imported. The Kurdistan Regional Government’s (KRG) Ministry of Industry lists 204 firms, of which over 100 are Turkish, that are supplying products to the construction industry in the Region. The lack of testing facilities in the Region, however, hinders the industry’s ability to ensure the quality of building materials (Heshmati, 2007).

Key Bottlenecks in Housing Sector

Results from studies for the three KGR’s cities show existing housing conditions that are comparable to those found by earlier studies and reports. All of these studies indicate a housing situation that appears to be relatively normal but in reality suffers from a number of major problems. Poor housing production and current level of disruption have seriously deteriorated both the quantity and quality of housing throughout the country. Housing delivery systems have underperformed for many years, due in large part to the sector’s insufficient access to human, financial and material resources.

The key bottlenecks of housing development are as follows:

- Poorly Targeted and Reduced Subsidies for Housing Finance
- Inefficient Use of State Building Materials and Public Sector Professionals
- Uncertain Planning and Land Management policies
- Insufficient Legal, Institutional and Policy Frameworks for Private Sector Housing (Housing, 2009)

(KRG policies to eliminate housing problem

Investment law

In 2006, the investment law issued by the KRG government, with the view to creating a climate promoting investment in the Iraqi Kurdistan region, removing any legal obstacles, and permitting the investment of national and foreign capital collectively or individually in investment projects. Construction is one sign of the economic boom in the KRG area. This and other business activities are helping the economy to expand at an estimated 10 percent annually (Corporation, 2007). The new legislation gives foreign investors the same rights as Iraqi investors, including full ownership of the project. It also provides incentives, which favors investment in construction projects, such as comprehensive tax exemptions.

Investment generally viewed as critical for economic development. Investment from abroad can bring the benefits of technology transfer, new know-how, improvements to the quality of products and services and new export opportunities. Yet foreign investment also has the potential to damage national economies, jeopardizing growth and resulting in net outflows of capital for development. Whether or not investment benefits national economies therefore depends critically on the terms under which it takes place (Trade, 2008).

Foreign companies and their non-Iraqi staff may freely transfer their profits or income abroad without paying taxes or customs. In addition, imported equipment, furniture, machinery, and raw materials are under certain conditions, exempt from taxes, duties, and import licenses.

According to Duhok trade chamber, the numbers of investors have increased significantly in Duhok city after 2006, figure 8 shows the number registered investors per year.
Figure 9 rapid increase of the number of registered investors in Duhok city in the last 4 years (Othman, Duhok Trade Chamber, 2009).

Kurdistan Regional Government (KRG) inaugurated, that government and private sectors would implement a number of important projects in the province. The projects, which cost hundreds of millions of U.S. dollars, include the construction of bridges, a fuel storage station, and other residential and commercial projects. The KRG recognized that the regional government alone could not reconstruct Kurdistan without active participation from the private sector.

Pilot Residential projects by private sector in Duhok city
Several residential projects embarked in Duhok city like; Avro City, which consists of 3,882 residential flats and costs $400 million (USD) started in 2007, ZariLand, which consists of 1,285 residential units and costs $72 million (USD) 2006. Lilav city 780 unit, Awar city 504, Warven city 450 unit and War city 1532 unit, the sum up will catch 8575 unites in Duhok city (See figure 10). However, the total number of units related to the demand side, which could affect the total number generated from the projects ether positively or negatively. In the one hand, people in the City of Duhok prefer a house rather than apartment, on the other hand the prices in which the people have to pay for the apartment is relatively still highly.

The fact that, after hundreds of this apartment was implemented housing rent and purchase prices step down considerably. In addition to material prices moved in the same direction, Due to investment in material production industries, which established following the investment law.

Figure 10 Residential projects under construction in Duhok city (Othman, Duhok Investment board, 2009).

Land allocated for residential projects free of tax and compensation. In this point, the investment law served the investors rather than the citizens. This fact implies the state has a weak economic system and fragile political negotiation processes. Investors have often obtained terms that can seriously undermine the State's ability to fulfill its duties under international human rights law to implement and promote the social and economic rights of its citizens. Investors have been able to exploit a lack of knowledge of human rights law or other institutional weaknesses. In many cases, the obtained terms not permitted in developed countries (Trade, 2008).
Housing Finance

The central government imposed housing finance policy since 2004; however, its operation started in 2008 in Iraq as well in KRG; many low-income families benefited from the policy. The purpose of housing finance was to make it possible for those who have land, to be able to construct their houses. There were no housing finance available neither in KRG region nor in Duhok city pre 2008, however in 2008 a new policy enforced, the low-income families subsidized by loans with low interest for 25-year period to assist them to build their own house. The subsidies offered by the public sector, there are three institutions contributed in different levels to apply the policy; Real Estate Bank, the National Housing Fund and Commercial Banks (Programme, 2009).

Conclusion and Challenges

The public sector recognized its inability to deliver the increasing demand of services and infrastructure. Inaugurating the private sector role was the central issue to remedies this deficit. Construction boom was the major outcome of the new policy; Bridges, shopping malls, private parks and housing project contributed to eliminate the shortage in of service delivery. However, the economic development still handicapped by the lack of information and transparency, the absence of an effective modern banking sector, an educational system that meets the demands of a market economy and the lack of adequate infrastructure.

The impressive development has been clear though the numbers of workshops which highlights housing problem in Iraq as well in Kurdistan region, actions to remedies this issue are in process, however we shouldn’t be so optimistic that the problem will be resolved in a couple of years. Therefore, a long trim strategy is essential to overcome the following prejudices:-

- There is a construction boom but a lack of affordable housing.
- There is a lack of data concerning production, availability, and affordability.
- Houses overpriced when compared to salaries of the average resident.
- The rapid growth in the population has increased housing demand.
- Returnees cannot afford to return to their places of origin because of the increased price of land.
- There is a lack of small apartments and residences, especially for young people.

Recommendations

There is a need to develop and facilitate two complementary approaches that respond not only to short-term needs, but also can evolve into a longer-term strategy and set of policies over time. Neither approach should compromise the activities or ultimate effectiveness of the other.

The immediate short-term track will focus on reinforcing the housing sector’s existing strengths, mainly the production of housing by small-scale private sector builders. It will concentrate on measures to jump start-housing production without compromising the basic orientation and principles of the longer-term approach. This require the following actions:-

- Analyze housing construction regularly and publish findings.
- Provide social assistance for affordable housing in both urban and rural areas.
- Provide attractive financing mechanisms for public sector employees or employees working in essential services.
- Encourage planned unit developments of various prices and sizes.
- Make land available for affordable housing.
- Provide financing mechanisms to increase affordability.
- Seek outside capital financing assistance from donor agencies for construction.

The medium and longer-term approach will focus on the development and implementation of systems and institutional frameworks to achieve the sustainable production of acceptable quality housing on an affordable basis, which will require the following actions:-

- Improving housing delivery system
- Improve family planning system
- Updating of current rules and regulation regarding housing issues
- Reducing the numbers of people living without adequate shelter in the most vulnerable areas (Nations, 2008 - 2010)
- Identifying market conditions and precise criteria for allocations, subsidies and assistance.
- Improve access to housing resources for land, materials, finance and institutional support.
- Upgrading informal settlement programs.

References

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Author’s bibliography:-
The author Graduated as architect engineer in 1992 from University of Mosel, Iraq. In 2007 obtained Diploma from University of Dortmund, International Association of Development Planners. In 2009 obtained MSc from university of Duhok. Thesis entitled Urban Planning Strategies, Towards Sustainable Land Use Management in Duhok City Kurdistan Region, Iraq” was the first research discussing planning stagnation in Duhok City and Kurdistan in general. Worked with private sector in construction projects especially in housing projects, started work in Kurdistan in 2000 with urban planning office and Duhok Governorate’s engineering office, in additional to work with world health organization (WHO).

The author Participated in several workshop in and outside Iraq with different subjects including Planning and Management, Planning Network Middle East in Amman, Intercultural Dialogue in Germany, ITC 2009 remote sensing and GIS in Duhok and women conference THINK BIG in 2009 Erbil.

The author has the position of Assistant lecturer in petroleum Engineering department, University of Zakho, in additional to supervising universities’ construction projects.
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