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Fragmented authority, intertwined supply chains: governance and illicit trade in Iraq

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Executive summary

How can illicit trade be reduced without harming livelihoods and stability? This brief argues that, in areas where governance is disputed and people suffer insecurity, policy responses to illicit trade need to account for how different governance dynamics produce distinct illicit trade dynamics. We focus on two trafficking hubs, Sinjar and Zurbatiyah, which link Iraq with Syria and Iran respectively, over the period from 2019 to 2024; in assessing these areas, two dimensions of governance matter in particular: whether the armed groups, political parties, and business elites that govern trade cooperate or compete with one another, and whether the state retains authority over legal trade. Together, these shape how resilient illicit trade is to enforcement and, in turn, which responses are likely to work.

Key policy implications

- Diagnose the governance dynamics before choosing a response – the same policy instrument will yield different results in different areas.
- In Sinjar, focusing on political settlement and economic alternatives should come before enforcement. Targeting informal taxes and revenue can be undertaken without harming livelihoods.
- In Zurbatiyah, expanding enforcement first by targeting networks that profit from illicit trade, while strengthening institutions, is more likely to help to weaken the grip of armed groups.

Background

Both sites are important trading centres of legal commerce that also function as trafficking hubs where multiple types of illicit flows converge, for example, of oil smuggling, human trafficking, and weapons trafficking. Still, they differ in how authority over trade is organised. Sinjar, located in a mountainous area in Ninewa province near the border with Syria, has no formal border crossing recognised by both the Iraqi government and the Kurdistan Regional Government (KRG). Since the 2014 assault on the district by the Islamic State of Syria and Iraq (ISIS), federal, Kurdish, and Kurdistan Workers' Party (PKK)-aligned forces have overlapped on the ground, and Baghdad has been unable to arbitrate between them.[1] Zurbatiyah, in Wasit province, sits at a formal federal crossing with Iran that handles large volumes of commercial goods and millions of Iranian pilgrims visiting the Shi'a religious shrines in Karbala and Najaf each year. The state is visibly present over licit trade, while armed groups, many of them partially integrated into the state security apparatus, hold the illicit and informal layers

1 International Crisis Group, 2022, *Iraq: Stabilising the Contested District of Sinjar*, Middle East Report No. 235. Brussels: International Crisis Group.

of trade.[2] The sites also differ in the commodities that flow through them and in the political stakes attached to them, as the following sections show.

From 2019 to 2024, Iraq's contested governance landscape was undergoing overlapping domestic and regional shocks: ISIS's territorial defeat and its aftermath,[3] displacement stemming from ISIS[4] and the Syrian civil war,[5] pandemic-era border closures,[6] and pressure on Iran-linked financial flows through Iraq.[7] Two of these shocks shape our cases: the displacement caused by ISIS created the conditions for human trafficking through Sinjar, and the pressure on Iran-linked financial flows contributed to a perceived decline in illicit trade through Zurbatiyah. In many parts of Iraq, armed groups benefited from economically vulnerable communities and exercised de facto governance authority.[8] In some cases, they displaced state actors, and in others operated alongside them in open competition or collusion.[9]

Such links between state and armed non-state actors create intertwined supply chains that blur the lines between licit, informal, and illicit. Both Sinjar and Zurbatiyah display what we have elsewhere termed complementary governance: armed non-state actors collaborate with, or maintain tacit non-interference agreements with, state actors as well as other non-state actors.[10] The presence of state actors – whether they collude with armed non-state actors or look the other way – matters, but it is not the only variable that determines how illicit trade persists. Equally important is whether the non-state actors that govern trade cooperate or compete with one another.[11] In Sinjar, armed groups, political parties, tribal leaders, and business elites govern trade cooperatively and largely without the national government's involvement, producing an illicit economy that has expanded and is resilient to enforcement. Against this, in Zurbatiyah, armed groups and political parties share governance uneasily with national government entities that retain authority over legal trade and compete with one another, producing an illicit economy that is more exposed to enforcement. The rivalry exposes illicit trade to enforcement because Iraq's governance arrangements tolerate a degree of armed group influence as part of a power-sharing bargain.[12] The political elite distributes access and 'entitlements' through settlement, rather than electoral results or the rule of law.[13] Rivalries create openings for enforcement action against actors who upset the balance or grow too powerful, but enforcement without equal application of the rule of law becomes selective: targeting those who breach the settlement, not the settlement itself.

This brief draws on 20 structured interviews, ten per site, conducted in August 2025 with civil society, business, and government respondents who have direct knowledge of local trade, covering the period from 2019 to 2024. The interviews form part of a larger study by the University of Oxford's Global Security Programme (GSP) at Pembroke College of 30 locations across three continents – including ten Iraqi locations – that lie on a continuum from trading centres focused on legal commerce to trafficking hubs where the illicit economy thrives. We selected Sinjar and Zurbatiyah for their contrasting governance profiles. We gathered perceptions of Iraq's trade governance, stakeholder relationships,

2 Abbas, Akeel, 2023, "Border Crossings: The Unholy Alliance between Iran and Iraqi Militias", Malcolm H. Kerr Carnegie Middle East Center.

3 Hassan, Hassan, 2017, "Insurgents Again: The Islamic State's Calculated Reversion to Attrition in the Syria-Iraq Border Region and Beyond", *CTC Sentinel* 10(11): 1–8.

4 International Crisis Group, 2020, *Exiles in Their Own Country: Dealing with Displacement in Post-ISIS Iraq*, Middle East Briefing No. 79. Brussels: International Crisis Group.

5 Gowayed, Heba, 2025, "Refugees Return to Syria: Challenges and Uncertainties", Arab Center Washington DC, 1 August.

6 International Organization for Migration (IOM), Displacement Tracking Matrix (DTM), *Iraq. 2021. Iraq: COVID-19 Mobility Restrictions and Public Health Measures, 1 to 31 December 2020*, January.

7 Sherko, Frzand, 2023, "Variables the United States Should Consider on Dollar Smuggling in Iraq", The Washington Institute for Near East Policy Fikra Forum.

8 Mansour, Renad, 2021, *Networks of Power: The Popular Mobilization Forces and the State in Iraq*, Research Paper, London: Chatham House, Middle East and North Africa Programme, February.

9 Knights, Michael, Hamdi Malik, and Aymenn Jawad Al-Tamimi, 2020, *Honored, Not Contained: The Future of Iraq's Popular Mobilization Forces*, Policy Focus 163, Washington, DC: The Washington Institute for Near East Policy.

10 Idler, Annette, and James Forest, 2015, "Behavioral Patterns among (Violent) Non-State Actors: A Study of Complementary Governance", *Stability: International Journal of Security and Development* 4(1).

11 For more insight into the observed patterns that comprise this type of complementary governance, see Idler and Forest, 'Behavioral Patterns'.

12 Knights, Michael, Hamdi Malik, and Aymenn Jawad Al-Tamimi, 2020, *Honored, Not Contained.*

13 Palani, Kamaran, 2026, "PeaceRep Key Findings: Iraq", PeaceRep: The Peace and Conflict Resolution Evidence Platform, University of Edinburgh. Accessed 4 November 2026.



Figure 1: Map of Iraq with research locations Sinjar and Zurbatiyah noted.

and market dynamics at border corridors from those with direct knowledge of local trade and supplemented this evidence with insights from the literature.[14]

Sinjar: cooperative governance, entrenched illicit trade

Since the 2017 territorial defeat of ISIS in Iraq, Sinjar has become a political battleground between the Kurdistan Region's major parties and is shaped by competing Iranian and Turkish influence.[15] It faces intense political and security rivalry between (i) the Popular Mobilisation Forces (PMF), an umbrella organisation of Iraqi armed groups that also includes Yazidi militias; (ii) armed groups linked to the PKK, particularly the Sinjar Resistance Units (YBŞ), and their political allies in the Patriotic Union of Kurdistan (PUK), a Kurdish political party; and (iii) the Kurdistan Democratic Party (KDP) and its affiliated political and armed groups.[16]

The PMF[17] and the YBŞ contest Sinjar's governance at the security level, the KDP and an opposing bloc that includes the PUK and PMF-aligned parties contest it at the political level, and Baghdad has been unable to arbitrate or exert control.[18] The 2020 UN-facilitated Sinjar Agreement, which calls for

14 This analysis is based on structured interviews conducted in August 2025 with ten respondents per site (total n=20) across Sinjar and Zurbatiyah. Respondents were purposively and snowball sampled from civil society, business, and government sectors, all with cross-border trade and governance expertise. Interviews used a structured questionnaire with closed and ordinal responses, coded on a fixed scale. The dataset reflects respondents' perceptions of actor influence, trade patterns, governance, and causal factors – not direct observations of trade flows, behaviour, or outcomes. Findings show how respondents perceive governance and trade dynamics, not objective measures. The interviews were part of a larger cross-regional study, see Idler, Annette, 2025, "Trafficking Hubs in Contested Borderlands: Cross-regional Evidence from Colombia, Iraq, and Somalia", Open Science Framework, 7 September.

15 Saleem, Zmkan Ali, 2024, The Competition for Control in Sinjar: How External Actors and Local Interests Inhibit the Sinjar Agreement, LSE Middle East Centre Paper Series No. 82, London: LSE Middle East Centre.

16 Roya Development Group,"Political Insights newsletter", Proprietary weekly context monitoring 2021–2024.

17 The Popular Mobilisation Forces (PMF) is an umbrella organisation of predominantly Shi'a armed factions, formed to fight ISIS following a 2014 religious decree by Grand Ayatollah Ali al-Sistani and later formally integrated into the Iraqi state security apparatus. Despite its official status, many of its core brigades maintain deep ties to Iran and frequently operate outside the Iraqi government's control, using their military power with impunity to secure lucrative economic assets, suppress critics, and expand political influence.

18 Sommer, Filip, and Rebwar Rauf Salih, 2024, "What Nineveh's Municipal Council Reveals about the Iran-Turkey Power Struggle in Iraq", The Washington Institute for Near East Policy Fikra Forum, 20 November.

militia withdrawal and stronger state-led governance, remains controversial and unimplemented.[19] Nonetheless, interviewees perceived the relations between those involved in trade, including business people, armed groups, and members of the political elite, as primarily cooperative. This may explain why so many influential actors coexist in the trade domain despite Sinjar's competitive politics. Respondents' accounts suggest that, as a result, illicit trade has become deeply integrated into the informal governance fabric, economically entrenched in communities with limited alternatives, and less susceptible to external enforcement. With illicit trade so well integrated, few illicit actors are separable to pursue. Governance arrangements overlap, so action against one actor risks confronting another who may also be a governing partner. The government may struggle to be seen as a neutral arbiter because it is itself a product of the broader political system that demands elite consensus, and many of its actors share in the proceeds.

Sinjar's only crossing is the Semalka/Fishkhabour pontoon bridge, managed by the KRG; otherwise, trade moves along smuggling routes through the mountainous terrain.[20] Government forces are aware of these routes but maintain a mutually beneficial relationship with smuggling groups, sharing revenue from illicit cross-border trade.[21] No dollar-value or tonnage estimates for illicit flows specifically through Sinjar are available, but respondents indicated significant community acceptance of illicit trade, which they described as driven by economic necessity and poverty as much as by weak law enforcement and proximity to the border. This suggests that the population may accept such activities as necessary for economic survival, since illicit trade offers income to those unable to relocate.

Perceptions of the legal trade, mainly agricultural goods and livestock, were overshadowed by views of widespread illicit trade in oil, cigarettes, arms, and drugs, as well as of money laundering. Furthermore, human trafficking stood out: almost all respondents saw it as highly active in Sinjar, linked to the Yazidi genocide by ISIS, which created displaced populations and trafficking infrastructure relying on that displacement.[22] Interviewees viewed Sinjar as a regional transit hub for illicit goods, with the volume of goods passing through informal routes increasing from 2019 to 2024. Many noted routes were easily rerouted when disruptions occurred, thanks to the area's geography. Iran, Syria, and Turkey are sources and destinations, reflecting Sinjar's central role. Respondents also noted that armed groups levied informal taxes and protection payments with ease, an environment that plausibly helped illicit trade grow.

Zurbatiyah: competitive governance, exposed illicit trade

At Zurbatiyah, in Wasit province, PMF-affiliated actors dominate formal access to the border crossing but operate amid significant competition.[23] At the time of the interviews, a local power base led by a former governor turned parliamentarian not affiliated with the Coordination Framework, the national ruling coalition,[24] further amplified that competition, resulting in a power struggle. Wasit is a microcosm of Iraq's broader PMF dilemma: official state governance coexists alongside deeply rooted parallel militia authority,[25] particularly at the strategically vital Zurbatiyah border crossing.[26]

The Mehran-Zurbatiyah crossing is one of Iraq's busiest Iran-facing border points, handling 1.2 billion USD in commercial cargo[27] and eight million Shi'a pilgrims travelling to Najaf and Karbala per year.[28] Respondents emphasised Zurbatiyah's trade in legal goods alongside illicit activities such as drug trafficking and money laundering, and highlighted that few alternative routes exist, making it difficult

19 The New Region, 2025, "PKK Disarmament Sparks Hope for Sinjar Return, But Deep Challenges Persist", 15 July.

20 Rantisi, Amal, 2022, "Conflict of Interest Shadowing Border Crossings in Autonomous Administration Regions", Enab Baladi, 9 March.

21 International Crisis Group, 2022, *Iraq: Stabilising the Contested District of Sinjar.*

22 UN Human Rights Council, 2016, "They Came to Destroy": ISIS Crimes Against the Yazidis.

23 Al-Araji, Hassan, Michael Knights, Hamdi Malik, and Sary Mumayiz, 2025, "The Fatemiyoun/Zainabiyoun Influx: Iraq's Intensified Hosting of Two U.S.-Designated Terrorist Groups", The Washington Institute for Near East Policy, 11 February.

24 The Coordination Framework (CF) originated as a coalition of Shi'a political factions that united following the October 2021 parliamentary election to obstruct the rival Sadrist Movement. The CF continues to serve as an ethnosectarian power-sharing and deliberative body.

25 Al-Kaabi, Ameer, Michael Knights, and Hamdi Malik, 2024, "Hadi al-Ameri's Bad(r) Month", The Washington Institute for Near East Policy.

26 Al-Araji, Hassan, Michael Knights, Hamdi Malik, and Sary Mumayiz, 2025, 'The Fatemiyoun/Zainabiyoun Influx'.

27 Rudaw, 2026, "Exports from Iran's Mehran Border Crossing to Iraq Exceed $1.2 Billion", 24 February.

28 Shafaq News, 2025, "Iran, Iraq to Expand Passenger Ilam's Zurbatiyah Crossing", 12 January.

for traders to find a way around when blocked. Interviewees characterised relations between the actors controlling trade as mostly competitive and indicated that armed non-state actors had more influence over illicit and informal trade than the federal government, which nonetheless retained a real role in legal commerce at the official crossing. Armed groups also act as gatekeepers to border access and jobs, providing security and livelihoods alongside the state. Respondents saw powerful political and economic actors and the corruption and protection networks that defend them as the key drivers of illicit trade. Nevertheless, they reported a perceived decline in illicit trade, possibly linked to the late 2023 implementation of the Automated System for Customs Data (ASYCUDA) customs system,[29] and increasing restrictions on access to US dollars, which required systemic banking reforms, demanded in return for continued sovereign access to US currency.[30] Illicit trade through Zurbatiyah thus appears more exposed to the combined pressure of rival networks and tightening external controls. Competition among armed non-state actors should not be mistaken for weakness, however: it exposes the hub to enforcement, but it also leaves room to consolidate control if state institutions do not strengthen. In contrast to Sinjar, interviewees noted strong community disapproval of illicit trade, a perspective that may stem from the more exclusive, competitive set of actors involved.

The two hubs thus diverge in how their governing actors relate to one another and in the state's role. In Sinjar, armed factions, regional political parties, tribal authorities, and business elites all influence legal, informal, and illicit trade, the national government is largely absent, and relations among these actors are typically cooperative. This kind of cooperation facilitates extractive actions. It has allowed illicit trade to expand and entrench itself: it is resilient to enforcement. In Zurbatiyah, armed groups and political parties dominated illicit and informal trade, but the federal government retained authority over legal commerce at an official crossing, and interviewees described relations among the actors as mostly competitive. Governance is shared but contested, hampering the consolidation of resilient illicit trade: it is exposed to enforcement.

Policy implications: matching responses to governance dynamics

Despite being embedded in the same regional trade system, Sinjar and Zurbatiyah exhibit different trade governance dynamics that shape illicit trade's resilience. Sinjar's governance issues centre on integration amid competition, while Zurbatiyah's involve contested, more distinct authority structures. The same policy instruments will therefore yield different results in each, and the sequencing of enforcement, political settlement, and livelihood support must differ. Enforcement reduces illicit trade without harming livelihoods only where illicit trade is exposed and communities do not depend on it. Where illicit trade is embedded in cooperative governance arrangements and in local economies, enforcement alone is likely to fail and to harm the people it is meant to protect.

Implications for Sinjar

Support a cohesive political settlement alongside economic alternatives, then focus on enforcement. Competing administrative claims and overlapping security presences have hindered local reconstruction and prolonged displacement.[31] Although the recent announcement of the integration of the YBŞ into the Iraqi Security Forces is welcome,[32] the area remains disputed. Even if enforcement were possible, a truly successful interdiction campaign would risk further destabilising fragile communities dependent on illicit trade revenue.

- Sustained investment by the Iraqi government and foreign investment in formal employment and creating legal economic alternatives is required before community-level dependence on illicit channels can plausibly diminish, and before enforcement can be expected to reduce illicit trade rather than displace livelihoods.

- Cooperative arrangements can be targeted without harm to local livelihoods at two points: the informal taxes and protection payments that armed groups levy, and the financial flows through banks and hawala networks that sustain the groups.

29 Ministry of Finance, Republic of Iraq, "General Customs Authority - ASYCUDA".

30 Mahmoud, Sinan, 2024, "Iraq's Banking System Blighted by Corruption", The National.

31 Wirya, Khogir, and Dlawer Ala'Aldeen, 2025, *Mediating Governance in Sinjar: Bridging the Public-Authority Gap*, Middle East Research Institute.

32 Frantzman, Seth J, 2026, "Yazidi Armed Group YBS to Disarm, Integrate into Iraqi Security Forces", *FDD's Long War Journal*, 18 September.

At the regional level, Iraqi authorities should coordinate with Syrian and Turkish counterparts on cross-border financial monitoring where possible and leverage existing customs data.

- Progress towards reducing illicit flows without harming livelihoods is more likely to come from international diplomatic support for legitimate, accountable governance arrangements that exclude armed groups than from enforcement alone. This is demanding: excluding armed groups means displacing actors backed by competing domestic and regional patrons. But as long as the same cooperative network governs trade, enforcement gains and economic alternatives alike will be absorbed by it – and the 2020 Sinjar Agreement already commits Baghdad and the KRG to this goal.

Implications for Zurbatiyah:

Expand enforcement by targeting the networks and individuals that profit from illicit trade, while strengthening the institutions at the crossing. Competitive environments like Zurbatiyah may be more responsive to enforcement pressure and accountability measures targeting elite networks. Avoiding selective enforcement requires a clear, verifiable, rules-based approach that constrains all actors, rather than becoming a tool to wield against political rivals.

- The Iraqi government can reform how such environments are governed by establishing and enforcing asset disclosure requirements for customs and border officials, enhancing government oversight at crossings through independent audits, and expanding customs automation to help close loopholes. Iraqi institutions can act immediately: the Federal Board of Supreme Audit and the Integrity Commission can expand and deepen vetting procedures, such as financial background checks and regular reviews, to include officials with discretionary power.

- Longer-term, the Iraqi government should weaken armed groups' influence over jobs and security provision. Transparent hiring practices, rotational supervisory arrangements, and stronger monitoring of asset disclosures for staff with discretionary power could reduce opportunities for collusion and improve overall accountability.

- Reform is also possible if the Zaidi administration's disarmament campaign is carried out substantively.[33] Interviews for this study took place in 2025, before the campaign began, so the findings describe the conditions it will meet rather than its effects. Disarming these groups could therefore directly reduce informal and illicit trade by removing the actors best placed to shape it. Removing armed actors from cross-border brokerage roles should proceed alongside the vetting and audit measures above, so that their replacements do not inherit the same arrangements.

- International partners can also align with the disarmament campaign by prioritising the financial networks that sustain armed actors' roles, so that sanctions and technical assistance reinforce each other. International partners can leverage existing anti-money-laundering and sanctions through the US Treasury, Office of Foreign Assets Control, UK Office of Financial Sanctions Implementation, and National Crime Agency, among others. Technical assistance to the Central Bank of Iraq on anti-money-laundering compliance and investigative capacity can bolster other governance-strengthening measures.

Overall, before choosing between enforcement-led and settlement- and livelihood-led approaches, policymakers working in areas of contested governance should establish whether the actors governing trade cooperate or compete, and whether the state retains authority over legal trade.

33 Al-Mawlawi, Ali, 2026, "Iraq's Disarmament Path Begins with Reform of the PMF", Diwan, Malcolm H. Kerr Carnegie Middle East Center, 18 September.

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