

Viewpoints
No. 53

Iraq: Tackling Corruption and Sectarianism is More Critical than the Outcome of Elections

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Iraqis are heading to the polls at the end of April. More important than the results of these elections are fundamental issues confronting the country such as the economy's utter reliance on oil, the prevalence of corruption in every sector, and the deepening sectarianism that is impacting political and economic decisions.

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As Iraqis head to vote in the upcoming April parliamentary elections, uncertainties prevail: violence is continuing unabated, Muqtada al-Sadr's future (and potentially disruptive) political role is unclear, and Nouri al-Maliki is bending constitutional rules to run for a third consecutive term. Unfortunately, many of these troubling trends will last beyond the elections. However, there is an amalgamation of economic, political, and social factors impacting the country that are far more critical to the future of Iraq than the outcome of the forthcoming elections.

First, the growth of the economy allows the government to remain in power in spite of its fiscal mismanagement and despite the prevalence of corruption and the intensification of sectarianism. Iraq's economy is continuing to show growth of more than 8 percent, and GDP per capita has topped \$6,300.¹ This growth is taking place even though violence has claimed the lives of almost 2,000 people in the first two months of this year,² and the country hovers on the verge of another civil war after the deadly clashes in the province of al-Anbar. Iraq is a wealthy country sitting on huge oil resources, and it currently has about \$80 billion in cash reserves. The economic progress that Iraq has been experiencing since 2004 is due to one and only one factor: rising oil prices.

Oil prices have risen since the 2003 invasion from lows of roughly \$25 to as high as \$130 per barrel, enabling Iraq to capitalize on this windfall. Interestingly, oil production has remained stuck around 2.8 to 3.2 million barrels per day in spite of the overly optimistic forecasts by the Americans and the Iraqis that production would increase to 5 million barrels per day after the toppling of Saddam Hussein's regime. However, the dysfunctional nature of the Iraqi government has prevented the full exploitation of its oil richness during a period when oil prices were buoyant. Iraq has become more dependent on oil than any other country in the Middle East and North Africa (MENA): 95 percent of its revenues and a staggering 99 percent of its exports are from oil. With a breakeven oil production price of about \$100 per barrel in 2012, Iraq is very vulnerable to a fall in oil prices. At the same time, the high level of current spending makes it difficult to adjust to external shocks without disproportionately cutting investment spending.³ According to International Monetary Fund (IMF) fiscal buffers stress testing, with oil prices at \$102 per barrel and production at just below 3 million barrels per day, Iraq has coverage for barely six months of salaries and pensions.⁴ Lack of security is not the only reason preventing the development of Iraq's oil; recently, British Petroleum and the Italian group ENI both announced that bureaucratic red tape is the major obstacle to their oil field expansion plans.⁵

Second, whoever wins the elections cannot simply rely on oil-driven growth and ignore critical factors impeding further economic growth and investments. One such factor is corruption. While corruption existed during the Saddam Hussein era, particularly in the 1990s under the Oil-for-Food program, it never reached the dimensions we are witnessing today. Corruption prevails in every sector in Iraq, and all efforts to uproot it or create serious parliamentary reform committees to scrutinize potentially corrupt business dealings have either failed or are being resisted by al-Maliki's government. In the 2012 Corruption Perceptions Index prepared by Transparency International, Iraq ranked 169th out of 174 countries worldwide.⁶ Iraqi corruption

is ubiquitous and is exemplified by the findings of the Inspector General of the Ministry for Higher Education, which shows that as many as 4,000 of the almost 14,000 candidates in the January 2009 elections had forged their academic degrees.⁷ It is estimated that corruption has added roughly 20 percent to the cost of doing business in the country. Needless to say, the poor pay a heavy price for corruption because they are forced to give bribes for services to which they are legally entitled. The IMF estimates that 10-20 percent of Iraqi workers are “ghosts” who receive a paycheck but rarely show up for work. A recent study by the United Nations Development Programme (UNDP) indicated that an Iraqi citizen paid on average four bribes a year, the largest share relating to public utilities, followed by recruitment and promotion.⁸ There is no doubt that the tolerance of rampant corruption that occurred on the American and Iraqi sides during the American occupation contributed significantly to its entrenchment. This explosion of corruption in comparison with the previous regime is due mostly to the sheer mass of capital that flowed into the country after the invasion, which overwhelmed the weak government institutions. This was exacerbated by the breakdown of security and the criminal justice system, coupled with targeted assassinations of state officials and judges in charge of corruption cases. There was no real determination by the parliament – and definitely not on the part of the central government – to engage in serious reforms to reduce ruinous corruption.

Third, sectarianism is currently impacting the management of the country. Although sectarianism may be viewed as a political and social problem, it has many economic and financial implications. For instance, the extent of corruption has intensified as a result of the deepening sectarianism that spread after the 2003 invasion. By the end of the civil war (2005-2007), the militias were largely defeated, but their legacy lives on in the form of party committees within ministries whose sole job is to ensure that contracts go to party-controlled contractors. Early failures to stem the growth of militias within ministries created polarizing power centers that divided employee loyalties, weakened government institutions, slowed ministry decision-making, and transformed corruption into a political agenda.⁹ Ordinary citizens are made complicit in this system of corruption by being forced to support sectarian groups in order to receive services from the ministries. Many politicians or their families are involved in large trade companies by using their influence and contacts illicitly to secure lucrative deals. Indeed, the rapacity of the inner circles to create as much wealth as fast as possible knows no bounds.

Sectarianism is also impeding investments both by local entrepreneurs and by foreign investors. Total inward foreign direct investment (FDI) in Iraq from all sources reached \$1.6 billion in 2011, up from \$515 million in 2005. This is still very low even compared to countries such as Yemen or Sudan. Investors from the Gulf countries cite most of the same deterrents to investment in post-war Iraq as their Western counterparts: namely, lack of infrastructure, high costs of doing business, a murky legislative environment, and rampant corruption.¹⁰ Politics, and in particular sectarianism, has overtaken economic rationale in the region. The Gulf Cooperation Council’s (GCC) economic and financial leverage could have made a distinct contribution to the process of post-conflict reconstruction in Iraq. Unfortunately, the political radicalization of all the regimes in the Gulf area with regard to sectarianism is hindering real economic development and serious trade relations and investments in Iraq.

So, as the election date is looming, two questions need to be asked: Will the elections take place as planned? And will any new government seriously tackle the two grave problems of

corruption and sectarianism? Most likely, the elections will go ahead as planned in spite of the events in al-Anbar. At the same time, it is most unlikely there will be dramatic change in those two fundamentals. Elections in Iraq, as in other Arab countries, did not mean or lead to real democracy, and Iraqi citizens still have a long way to go before they can enjoy the blessed wealth of their country. Indeed, tackling the thorny issues of corruption and sectarianism will be, without doubt, far more important for all Iraqis than the final results of the upcoming elections.

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The opinions expressed herein are those of the author and do not reflect those of the Wilson Center.

¹ IMF World Economic Outlook Database, 2013.

² Iraq Body Count database, <http://www.iraqbodycount.org/database/>. Accessed February 28, 2014.

³ IMF, *Iraq: 2013 Article IV Consultation*, Country Report No. 13/217, July 2013, p. 14.

⁴ Ibid. p. 12.

⁵ Guy Chazan, "Iraq red tape threat to key BP oilfield," *Financial Times*, February 24, 2014.

⁶ Corruption Perceptions Index 2012.

⁷ Frank B. Gunter, *The Political Economy of Iraq: Restoring Balance in a Post-Conflict Society* (Mass: Edward Elgar, 2013), pp. 49-50.

⁸ United Nations Development Programme (UNDP), *Corruption and Integrity: Challenges in the Public Sector in Iraq*, An evidence-based study, January 2013.

⁹ SIGIR, *Learning from Iraq: A Final Report from the Special Inspector General for Iraq Reconstruction*, March 2013, p. 13.

¹⁰ *The Economist*, March 2, 2013, "Iraq ten years on: the slow road back;" "Investors Shun Postwar Iraq as OPEC Star's Recovery Lags," *Bloomberg News*, December 18, 2012.

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