

# Corruption Worse Than ISIS: Causes and Cures

## Cures for Iraqi Corruption

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“Corruption benefits the few at the expense of the many; it delays and distorts economic development, pre-empts basic rights and due process, and diverts resources from basic services, international aid, and whole economies. Particularly where state institutions are weak, it is often linked to violence.” (Johnston 2006 as quoted by Allawi 2020)

Like sand after a desert storm, corruption permeates every corner of Iraqi society. According to Transparency International (2021), Iraq is not the most corrupt country on earth – that dubious honor is a tie between Somalia and South Sudan – but Iraq is in the bottom 12% ranking 160<sup>th</sup> out of the 180 countries evaluated. With respect to corruption, Iraq is tied with Cambodia, Chad, Comoros, and Eritrea. Corruption in Iraq extends from the ministries in Baghdad to police stations and food distribution centers in every small town. (For excellent overviews of the range and challenges of corruption in Iraq, see Allawi 2020 and Looney 2008.) While academics may argue that small amounts of corruption act as a “lubricant” for government activities, the large scale of corruption in Iraq undermines private and public attempts to achieve a better life for the average Iraqi. A former Iraqi Minister of Finance and a Governor of the Central Bank both stated that the deleterious impact of corruption was worse than that of the insurgency (Minister of Finance 2005). This is consistent with the Knack and Keefer study (1995, Table 3) that showed that corruption has a greater adverse impact on economic growth than political violence.

Corruption is the abuse of public power for private benefit. Corruption occurs if a government official has the power to grant or withhold something of value and – contrary to laws or publicized procedures – trades this something of value for a gift or reward. Corruption is a form of rent-seeking. Among corrupt acts, bribery gets the most attention, but corruption can also include nepotism, official theft, fraud, certain patron-client relationships, or extortion (Bardhan 1997, pp. 1320–1322; Gunter 2008). Private corruption, such as insider trading, is not considered in this essay.

One of the challenges of studying corruption in Iraq is that the word “corruption” is both descriptive and pejorative. Societies that have cultural traditions of patron-client relationships or giving “gifts” to officials tend to object strongly to describing such behavior as corruption. It is often argued that calling such traditions corruption is a distortion, an attempt to apply Western standards to non-Western societies. It would be useful if there were a separate word to describe corrupt behavior in a neutral fashion and another to refer to such

behavior critically such as the distinction between “killing” and “murder”.

In this essay, corruption is intended to describe a particular form of behavior not to make a pejorative statement. However, an adverse connotation may be deserved since corruption tends to adversely affect economic development regardless of culture. The correlation between corruption and per capita income adjusted for cost of living is strongly negative. Regardless of culture or geographic location, there are no very corrupt rich countries and few honest poor countries.

To maintain a reasonable size, this essay focuses on corruption of Iraqi officials and institutions. Therefore, it excludes the increasing number of studies on the corruption of international institutions such as the United Nations during the sanctions period as well as evidence of corrupt acts on the part of representatives of other nations, such as the USA, that have played major roles in Iraq’s recent history.

## CORRUPTION UNDER SADDAM

Under Saddam (1979–2003), corruption was controlled from the top in a classic case of “state capture”. With Arab Ba’athist Socialist Party control, almost all of the Iraqi economy was nationalized. Positions of power in the economy were assigned to members of Saddam’s family and his loyal supporters. As was expected, this elite received a dominant share of the benefits from any economic activity. This pattern is consistent with that of most socialist developing countries. In fact, according to Gordon Tullock (2005, p. 29): “what is called socialism in much of the backward world is simply an elaborate mechanism for transferring rents to friends and close supporters of the dictator”.

But corruption under Saddam’s dictatorship differed in two fundamental ways from the corruption that currently exists in Iraq. First, Saddam’s family and his immediate ring of supporters captured a large proportion of the bribes and other gains from corruption (Allawi 2020, pp. 9-10; Marr and al Marashi 2017, p. 130). Consequently, those at the base of the government pyramid captured relatively small amounts of the gains from corruption. In contrast, current Iraqi corruption is more “democratic” with corrupt gains more widely distributed.

Second, under Saddam corruption was more “honest” – honest in the ironic sense that one refers to an “honest judge” as one who, once bribed, stays bought. Since corruption under Saddam tended to be more structured, when bribes were paid to a public official, there was a high degree of confidence that the promised favor would be rendered. Current Iraqi corruption is more entrepreneurial. Government officials are engaged in sometimes cooperative, sometimes competitive efforts to extract the maximum rents from not only private citizens but also from other branches of the state bureaucracy. As a result, it is difficult to discover the proper person to bribe in order to obtain a specific favor and there is less confidence that that favor will be provided even if the bribe is paid. (This is a not-uncommon phenomenon. See Rose-Ackermann 1999, p. 32.)

It is likely that, although Saddam, his family, and supporters were able to capture a larger proportion of the nation's economic income through their well-organized corruption; current entrepreneurial de-centralized corruption imposes a more serious burden on Iraq because of increased uncertainty (Bardhan 1997, p. 1324).

## EXTENT OF CORRUPTION AFTER SADDAM

Estimating the amount of corruption in Iraq is difficult for several reasons. First, this offense is often perceived as lacking a victim. For example, Iraqi private citizens may find themselves excluded from business opportunities because of the length of time, expense, or complex procedures required to pursue the opportunity legally. If, in order to speed up the bureaucratic process, citizens either offer bribes or agree to public officials' demands, citizens often see the officials as doing favors – not imposing burdens. Even if Iraqi bribe paying citizens feel victimized, they hesitate to report corruption for fear of retaliation or legal sanction. Second, conflict with al Qaeda and ISIS increased both the opportunities for corruption and makes it easier to conceal it. This symbiotic relationship between corruption and the insurgency is discussed in greater detail below.

Victims in Iraq rarely report the crime of corruption, so almost all information on corruption is obtained from investigative reporting including publicized corruption investigations or surveys. In Iraq as elsewhere, publicized investigation reports tend to grossly underestimate actual levels of corruption because only a fraction of corruption cases are investigated, and the results of some investigations are often not released to the public. Further complicating the analysis is the fact that decisions to initiate corruption investigations in Iraq are often political in nature. However, reported investigations help reveal the scale of the corruption problem in Iraq.

Corruption in Iraq extends from the top to the bottom of official Iraq. Allawi (2020, pp. 13-15 and 2007, pp. 348–68) in his excellent discussions of Iraqi corruption went as far as to state that corruption had turned Iraq into a “Potemkin State”. Ministers responsible for Defense, Trade, Electricity, Oil, and Interior have been investigated for corruption and several have fled the country with hundreds of millions of dollars. Former provincial governors have been arrested and charged with large scale theft of public funds. (Salih 2019) It has been estimated that one-third or more of some agencies' budgets are lost to corruption (see Al-Rahdi 2007; Rubin 2008; Sattar 2012; and Shilani 2020). Entire initiatives such as the construction associated with Baghdad's 2013 celebration as a “Capital of Arab Culture” are defeated by corruption. For example, almost 25 billion dinars was spent on a new opera house, but little construction actually occurred. (Saqr 2019)

One of the major examples of corruption at the highest levels of Iraq's government is the muhasasa system. Muhasasa is an organized sectarian power sharing among Shi'a, Sunni, and Kurds justified as a means of preventing one group from dominating Iraq. It has devolved into a division of spoils where each group obtains control of various ministries. A group's control

of a ministry provides not only jobs for the groups' members but also the possibility of diverting ministerial spending to favor the group. (Tabaqchali 2019) As an example, the formation of the government in early 2020 resulted in Sunni groups gaining/maintaining control of six ministries - Planning, Defense, Trade, Industry, Education, and Sports – nine commissions, and more than 60 special grade positions. Other ministries will be controlled by Shi'a and Kurdish groups while even the Turkmen and Christians demanded a ministry each. (Haddad 2020, p. 7)

At the other extreme, there is evidence that the official village grain merchants who are responsible for distributing the monthly food baskets (PDS) are substituting lower quality items in the baskets and selling the higher quality products. That corruption is ubiquitous is exemplified by the findings of the Inspector General of the Higher Education Ministry that as many as 4000 of the almost 14 000 candidates in the January 2009 elections had forged university degrees (Al-Jawari 2009).

*Table 1: Corrupt Institutions*

<b><i>Iraqi Institutions</i></b>	<b><i>Perceived Corruption</i></b>	<b><i>Paid Bribe (last 12 months)</i></b>
Political Parties	47%	
Legislative Bodies	34%	
Civil Servants	32%	
Land Services		39%
Registry and Permits		27%
Tax Services		17%
Utilities		14%
Police	30%	35%
Medical Services	28%	23%
Judiciary	26%	22%

*Source:* Transparency International 2015

For Iraq's economy, widespread corruption has adverse effects similar to or worse than those accompanying a civil war. The estimated 700 Iraqis murdered during protests against corruption and the associated failure of essential services are only the visible victims. Much of the serious damage done by corruption is invisible. Houses are not built, roads are not constructed or maintained, needed clinics and schools never proceed further than planning documents, children are not educated, electricity and water are not reliably delivered, and overall economic opportunities are severely constrained. Even less quantifiable is the damage done to the morale and confidence of Iraq's young people. Many of the young become convinced that, despite their best efforts to build a better life, corruption will always win.

At the individual level, corrupt acts are inequitable. They allow some to avoid laws, regulations, and practices that others must follow. Thus, corruption undermines the average Iraqi's confidence that success results from individual effort, rather than from bribery or political connections. As shown in Table 1, most of the key institutions of Iraq are perceived to be corrupt. Political parties are perceived to be the most corrupt institutions with 47 percent of Iraqis stating that they are corrupt. At the other extreme, the same survey showed that the Judiciary is perceived to be the least corrupt institution at only 26 percent. With respect to the percentage of Iraqis who paid bribes within 12 months of the survey, 39 percent paid bribes to Land Services and 35 percent to the Police.

Corruption is good for insurgencies. Or as an Iraqi President stated, corruption is the political economy of conflict. (al Monitor 2019a) Terrorist groups in Iraq finance their operations, in part, with the proceeds from corruption. Some state factories, including an oil refinery, were taken over by insurgent groups or by groups that are willing to pay the insurgent groups for security. Organizations and ratlines that handle smuggled or other black-market goods provide terrorists with routes into and out of the country as well as safe houses for the terrorists, their weapons, and the making of improvised explosive devices (IED) (Gunter 2007; Looney 2006). Not only is corruption good for the insurgency but also an insurgency facilitates corruption because it justifies bypassing accounting and regulatory procedures. It also increases the urgency of getting things done regardless of the cost and provides an acceptable excuse for corruption-related losses. Corruption directly undermined the GoI's anti-insurgency efforts against al Qaeda and ISIS. One of the key elements of a successful counterinsurgency endeavor is to immediately begin reconstruction especially the restoration of essential services in order to build confidence and support for the government and counterinsurgent forces (Gunter 2007; US Army 2006, p. 272). However, since 2003, massive corruption has restricted or delayed reconstruction and the provision of food, electricity, water, medical care, and so on to the Iraqi population.

In addition to its impact on the GoI's anti-insurgency campaign, corruption adversely affects the Iraqi economy. In fact, there are two economies in Iraq; an oil-funded public sector economy (which employs about 50 percent of Iraq's labor force – author's estimate) and a non-oil-funded economy with a large informal sector. Both sectors are burdened by corruption although employees in the public sector often have the opportunity to accept bribes as well as pay them. The weak performance of the non-oil Iraqi economy is one factor in the

growing number of unemployed and underemployed. This further undermines support for the government among the Iraqi public.

In Iraq, the burden on private businesses is substantial. When asked about the impact of corruption on business, a 2011 survey of about 900 firms in nine Iraqi provinces showed that it is prevalent in such “basic business transactions as business registration, banking and even garbage collection” (CIPE 2011, p. 29). In Basrah, a study stated that 100 percent of government construction contracts required a bribe. (World Bank 2011b) With respect to the costs of corruption compared to the overall costs of doing business, 51 percent of businesses surveyed thought that corruption increased costs by more than 20 percent. In addition to increased costs for businesses, Iraqi markets for goods and services tend to be inefficient because of the uncertainty and risk associated with corrupt activities. Firms deliberately stay inefficiently small and organize their activities in complex manners to avoid coming to the attention of those in authority who will seek payoffs. The amount of directly unproductive economic activity – labor and resources used not to produce or trade but to “get around” artificial barriers to production and trade – is large. Also, since the Iraqi banking system rarely lends to firms in the informal economy, less efficient high-interest money lenders or more prosperous family members are asked to provide financing.

Not only does corruption in Iraq lead to slower real growth but also it worsens the distribution of income. The poor in Iraq must pay bribes but rarely receive them. The impact of corruption also leads to an expansion of the budget deficit, reduced services for the money spent and a waste of needed investment spending. Because of corruption, the Iraqi national government has to spend much to get little.

For example, an estimated 10 – 25 percent of Iraqi government workers are “ghosts” who receive a paycheck but rarely show up for work. Instead, these “ghosts” give a portion of their pay to their supervisor to ignore their absence while the ghosts stay home or work at another government or private sector job. Other government workers use their government office, equipment, staff, and so on for private businesses. The completion of a biometric census of all government employees would allow the identification of ghost workers, but this census has been delayed for over fifteen years. Census takers have been bribed, threatened, and beaten in government offices to prevent them from providing an accurate list of government workers.

Of those employees who do show up for work, many of them may not be actually qualified for the job they are employed to do. According to the 2010 investigation by the Iraqi Commission of Integrity and the Ministry of Justice, between 20000 and 50000 government employees obtained their positions with forged education documents (*Niqash* 2011a).

Finally, the widespread perception of corruption tends to discourage legitimate foreign entities from trading, lending, or investing in Iraq. Corruption was one of the major reasons that the \$53 billion Common Seawater Supply Project to pump seawater into oil fields to maintain pressure has stalled. (Oil Price 2019) In addition, outside of the oil sector, corruption and associated pathologies tend to discourage much needed foreign

investment in Iraq. (Iraq Britain Business Council 2020, US-Iraq Business Council 2020, Cheung 1996, and Thede and Gustafson 2010)

Corruption in Iraq is not static; in the absence of an effective anti-corruption strategy, it tends to worsen over time. Corrupt officials are motivated to increase the inclusiveness and complexity of laws, maintain monopolies, and otherwise restrict legal, economic, or social activities in order to be able to extract even larger bribes or favors in the future. Perhaps the most damaging aspect of corruption is that it increases the level of uncertainty and forces individuals and organizations to expend a great deal of effort in attempts to reduce this uncertainty. Investors have to worry not only about changing market conditions but also whether various unknown officials in Baghdad will seek to block their investment in order to extract additional bribes. Reducing corruption is critical to Iraq's long-term economic development. But in order to develop an effective anti-corruption strategy, it is necessary to first determine the causes of corruption in Iraq.

### WHY IS IRAQ CORRUPT?

The determinants of corruption in Iraq can be divided into two general categories. Long-term demographic, environmental, and cultural aspects may be important causes of corruption but are difficult to change. On the other hand, there may be economic or political incentives for corruption in Iraq that, optimistically, may be subject to short-term policy solutions. Dependency on a single natural resource, petroleum in the case of Iraq, does not fit neatly into either category and, somewhat arbitrarily, will be discussed under policy.

*Table 2 Long-term institutional and environmental causes of corruption*

	References	Applicable to Iraq
Low levels of literacy	Glaeser et al (2004)	Yes – 74% Literate
Inhospitable climate	Acemoglu et al (2001)	Yes
History of French or socialist legal system	La Porta et al (1999) and Djankov et al (2002)	Yes - Socialist
Catholic or Muslim	Treisman (2000) and Landes (1998)	Yes – 97% Muslim
Cousin marriage		Yes – 335 or more

### Long-Term Determinates of Corruption

There is an extensive literature on the long-term causes of corruption. In Table 2, five of these determinants are listed along with their applicability to Iraq.

Low levels of literacy provide a fertile soil for corruption. An illiterate population is not only vulnerable to exploitation by low-level government officials but also is unable to effectively monitor its government. While the quality of the data on literacy in Iraq is questionable, it is believed that in 2013 about 86 percent of the male population is at least basically literate compared to 69 percent of Iraqi females (CSO 2014, Figure 11, p. 24). Not only is this a lower level of literacy than in the average MENA or Upper Middle Income Country but also the level of literacy is believed to have declined since 2014 as a result of ISIS related population dislocation and school destruction. (World Bank 2018, pp. 25-30)

Acemoglu et al. (2001) found that countries with climates hostile to Europeans because of heat or disease tended to get lower quality administrators who left their families at home and lived in the colony as little as possible. There was a tendency for these administrators to have a short-term focus and establish “extractive” institutions in order to make as much as they could and get out while they still had their health (Acemoglu et al. 2001, p. 1370). However, this colonial influence on corruption was limited in Iraq. While commercial interests continued, the British mandate lasted only three decades from about 1918 (with the conquest of Mosul) to about 1948 (the Treaty of Portsmouth) (See Marr and al Marashi 2017, Chaps. 2-4)

If during the colonial or post-colonial period, countries adopted French or Socialist legal systems then they tend to be more corrupt (La Porta et al. 1999). Napoleonic code or socialist legal systems tend to be extremely bureaucratic with complex regulations covering every aspect of life. Corruption becomes a way of life in such societies as a way of dealing with the bureaucracy. The Arab Ba’athist Socialist Party that dominated Iraq from 1968 through 2003 imposed an extensive bureaucratic socialism on the country with important economic decisions made by party members in the ministries in Baghdad.

More controversial is the finding by Treisman (2000) and Landes (1998, Chapter 24) that countries with large Catholic or Muslim populations tend to be more corrupt than Protestant ones. Possibly this is because Protestants tend to be more distrustful of any authority – including the state – and therefore more aggressively monitor it. Also, both Catholics and Muslims may place less emphasis on education. Of course, Iraq is almost 97 percent Muslim. While there is a great deal of respect for religious leaders in Iraq, there are limits. Several analysts state that the significant losses sustained by religious parties in the January 2009 provincial elections were caused, in part, by the public losing confidence in the administrative competence or honesty of religious parties’ officials (Arraf 2009; *The Economist* 2009).

A demographic characteristic related to Iraqi corruption is cousin marriage. While the marriage of first and second cousins is not uncommon in Arab society, in Iraq it is estimated that about one-third of all marriages were formerly within this degree of consanguinity with the rate of cousin marriage rising to about 50 percent in some rural areas (Bobroff-Hajal 2006; COSIT 2008). In fact, Iraq may have had the third highest rates of cousin marriage in the world after Pakistan and Nigeria. Such marriages tend to strengthen the influence of families and clans because not only do they multiply the relationships between any two

members (your father-in-law is also your uncle) but also, they reduce interactions between different clans. With widespread cousin marriage, it is clear why nepotism is not seen as an act of corruption but rather as a positive virtue – caring for a member of your tight-knit family and clan.

### Short-Term Determinates of Corruption

While a society can possibly break its ties to its socialist past, it is difficult or impossible to change a country's physical environment, history, or culture. However, there are other determinants of corruption that are more of a function of policy error and therefore can potentially be improved in a reasonable period of time. Table 3 lists seven policy-related causes of corruption and their applicability to Iraq.

*Table 3 Policy-related causes of corruption*

References	Applicable to Iraq
Dominant natural resource	References Ades and di Tella (1999) and Leite and Weidemann (1999)
	Applicable to Iraq Yes – petroleum is two-thirds of GDP
Lack of market competition	References Ades and di Tella (1999), Djankov et al (2002), and Bliss and di Tella (1997)
	Applicable to Iraq Yes
Weak free press	References Brunetti et al (2003)
	Applicable to Iraq Yes – 1979 to 2005 No – 2004 to present
Lack of political competition	References Persson and Tabellini (2004)
	Applicable to Iraq Yes – 1979 to 2005 Partial – 2006 to 2008 No – 2009 to present
Large scale subsidies	
	Applicable to Iraq Yes
Weak legal sanctions	
	Applicable to Iraq Yes
Inadequate public sector salaries	References Rose Ackerman (1999) Mookherjee and Png (1995)
	Applicable to Iraq No – problem with excessive public sector salaries

## **Oil is the curse of Iraq**

In Leite and Weidemann's study (1999, pp. 22, 24), it was shown that export dominance by a single natural resource such as petroleum tends to be associated with greater corruption. Natural resources tend to have high economic rents – a large gap between the cost of production and the export price. This results in large incentives for corrupt behavior to capture these rents (Rose-Ackerman 1999, p. 19). Oil accounts for almost 99 percent of Iraq's export revenues and almost two-thirds of its GDP. In fact, Iraq has the highest level of natural resource dependence in the world (World Bank 2019, Table 5, p. 31; World Bank 2012, pp. 204–7).

In Iraq, the Baghdad ministries control the massive revenues from oil exports. Since the revenues from oil exports account for over 90 percent of total government revenues in Iraq, the ministries are not dependent on taxpayer voters. The Baghdad ministries use the oil funds primarily to maintain the salary and benefits of their employees including both those who are directly employed by the ministries as well as those employed by the SOE associated with many of the ministries. The perverse but predictable priorities of the ministries were dramatically revealed during the unexpected revenue shortfalls in 2006, 2009, 2014, and 2020. Maintenance and capital expenditures were slashed while government employment actually increased. The ministries and the associated SOE are, to a great extent, welfare programs providing generous salary and benefits in return for little work.

In addition, the independence that the Baghdad ministries enjoy as a result of oil export revenues, allows them to follow economic and social policies that block or undermine the economic liberalization goals set forth in the National Development Plans. (GoI 2005, 2007, 2010, and 2018)

## **Lack of market competition**

Lack of market competition is associated with corruption for at least two reasons. First, the possibility that the government may allow the creation or maintenance of monopolies tends to provide strong incentives for corruption. Individuals or groups would be willing to pay bribes or otherwise favor certain government officials in order to capture monopoly profits. Second, Iraqi firms will try to influence officials to reduce or eliminate competition from imports (Ades and Di Tella 1999; Djankov et al. 2002).

Under Saddam, detailed planning was done in Baghdad by dozens of ministries. These plans determined in exhaustive detail almost all economic activities from fertilizer consumption by farmers to setting the price for imported automobiles. Almost all of the manufacturing entities were combined into around 200 SOE. Although these SOE were generally low-quality high-cost producers, they served at least three purposes. First, they reinforced Saddam's Arab Ba'athist Socialist Party control of the political levers of power. Or to be more precise, political and economic power was joined. Second, control of the ministries and the SOE provided a means for Saddam to reward his supporters and, by

exclusion, punish those who were less than enthusiastic. Finally, the SOE provided multiple opportunities for government officials to extract bribes and divert funding for their personal benefit.

Since 2003, there has been little discernable progress in reducing the dominance of the SOE in the domestic economy. This dominance has been maintained both by continuing to provide large direct and indirect subsidies as well as by discouraging the private business sector. The burdens placed on private businesses in Iraq are onerous even by regional standards.

Table 4, adapted from the 2019 World Bank’s “Doing Business” series (see World Bank 2020), compares the bureaucratic burden of legally performing common business transactions in Iraq to those of 190 other nations.

*Table 4 Relative ease of doing business in Iraq, MENA, and the USA*

<b>2019 Relative Rank (190 countries)</b>	<b>Iraq</b>	<b>MENA Range</b>	<b>USA</b>
<i>Starting a business</i>	154 <sup>th</sup>	31 <sup>st</sup> to 169 <sup>th</sup>	55 <sup>th</sup>
<i>Getting credit</i>	186 <sup>th*</sup>	20 <sup>th</sup> to 186 <sup>th</sup>	4 <sup>th</sup>
<i>Trading across borders</i>	181 <sup>st</sup>	41 <sup>st</sup> to 189 <sup>th</sup>	39 <sup>th</sup>
<i>Closing a business</i>	168 <sup>th**</sup>	63 <sup>rd</sup> to 168 <sup>th</sup>	2 <sup>nd</sup>

\*Worst in MENA

\*\*Tied for worst in world

*Source:* World Bank (2020) *Ease of Doing Business*

The same data for the MENA countries and the USA is included for comparison purposes. Not only does Iraq possess one of the most hostile regulatory environments for private business in the world but also there has been little progress over the last 12 years. While there has been some improvement in reducing the regulatory burden involved in the categories of Getting Electricity and Dealing with Construction Permits; most other categories have deteriorated.

Legally starting a business, obtaining credit, engaging in foreign or domestic trade, or going bankrupt are extremely complex and expensive processes in Iraq. The bureaucratic complexities that tie Iraqi businesses into knots are not random or unloved artifacts of earlier days. Government ministries continue to expend a great deal of influence to preserve these complex procedures for a very simple reason. The more complex, illogical, and time-consuming the procedures are – the greater the number and size of bribes that can be extorted

from businessmen (Cheung 1996, p. 3; Tanzi 1998).

### **Weak free press**

A free press reduces the potential for corruption both by increasing the likelihood that corrupt acts will be uncovered and providing a mechanism with which public opinion against corruption can be marshaled and expressed (Brunetti and Weder 2003). Iraq has made a rapid transition from an extremely restrictive media environment before 2003 to a media free for all with a sharp rise in the number of media outlets (Brookings Institution 2012, p. 45). This increase in outlets was accompanied by an increased variety of views and opinions. Stories about corruption are common. A few are careful investigative pieces, but most make undocumented claims of responsibility combined with calls for action. Based on a sample of stories, letters to the editor, and the call-ins to radio shows in the Arabic media, there appears to be little patience with the notion that corruption is part of Arab or Iraqi culture. The more common view is outrage at corrupt government officials.

Unfortunately, there is strong opposition to a free media. The government offers cash bonuses, subsidized apartments, and, in some cases, free land to a select list of journalists. The government states that these benefits recognize the courage of these journalists and are not an attempt to purchase favorable coverage. Other media outlets have been constrained by a flood of lawsuits requiring, in some cases, that editors spend one-third or more of each month in court defending their coverage of the news (Al-Ansary 2011).

In some cases, media outlets have been shut down for aggressive corruption coverage. Alhurra, a popular Arabic language, US Government funded broadcaster had its license temporarily suspended as a result of its investigative report alleging corruption within waqfs, religious endowments. (Al Monitor 2019b)

In addition to corruption, the authorities have tended to crack down on any reporting unfavorable to the government concerning the protests that began in late 2019 and the government's reaction in 2020 to the Covid-19 virus. At least ten news organizations have been forced to suspend coverage of these issues and violence against news agencies or their employees is not rare. In the last four months of 2019, five journalists died under suspicious circumstances. According to the Reporters Without Borders' World Press Freedom Index, Iraq has dropped from 153<sup>rd</sup> to 162<sup>nd</sup> out of the 190 countries evaluated.

### **Lack of political competition**

Political competition serves a similar role as a free press in reducing the prevalence of corruption (Persson and Tabellini 2004). From 1979 through 2004, Iraqis did not have a realistic chance to express themselves politically but after the approval of the Constitution in October 2005, there have been three national elections with the most recent in October 2018. Over the same period there were three provincial legislative elections in 2009, 2013, and 2019. The election results showed that there is a realistic opportunity for opposition parties to gain power through elections. (Freedom House 2020)

News stories in both the Arabic and English language press emphasized that perceived corruption was an important determinant in the repudiation of previously dominant parties (see Black 2009; Crisis Group 2009, p. 27; Parker and Redha 2009). However, there appears to be little difference in the willingness of various political parties or coalitions to engage in corruption. All parties divert funds from the ministries they control and take bribes for government contracts.

### **Large-scale subsidies**

The greater the value of the good or service controlled by the government official, the greater the value and possibly number of bribes that he or she can extract. In other words, the existence of large government subsidies leads to increased corruption since the maximum bribe – the difference between the official and market prices – is greater.

Under Saddam, gasoline, kerosene, diesel, and other fuels were almost free and the post-Saddam governments continued this policy although the size of the subsidy was reduced beginning in December 2005. For example, while the average price of premium gasoline in the Gulf in September 2005 was \$1.06 per gallon (28 cents/liter), in Iraq the same fuel sold for 13 cents per gallon (3 cents/liter). This gap provided tremendous profits for corruption. If a single tanker truck of premium gasoline was diverted from the official market and its cargo sold in the Iraqi black market or smuggled to a neighboring country, a profit of \$6000–\$7000 was possible. A poorly paid customs official or border guard could easily double his annual income by accepting a cash bribe to turn a blind eye to such diversions. Surprisingly, in the face of political opposition and street protests, the GoI raised the official fuel prices to approximately equal to the prices in neighboring countries. However, this left the official price below the market-clearing price and there are still large profits to be earned from diverting fuel from official channels into the black market. For example, in one month in 2011, 120 fuel tankers that were headed to Samarra and 260 Baghdad-bound tankers went missing and were believed to have delivered their fuel to the black market (Faruqi 2011).

Similar situations exist with other essential goods and services such as water, electricity, or food. There is widespread divergence from official channels into the black markets. For example, food is heavily subsidized through the system of monthly food baskets for every Iraqi family. One survey showed that in some provinces almost 82 percent of the food rations (PDS) were illegally diverted between the seaports (most of the subsidized food is imported) and the village or town food distribution centers. (*Khaleej Times Online* 2011).

### **Weak legal sanctions**

There are weak disincentives to accepting a bribe. In Iraq, although laws may call for severe punishment for bribery, the chances of being caught and convicted are low. Over a fifteen-month period in 2017-2018, 1,366 arrest warrants for corruption were issued (out of almost 3 million government employees) but only about 28 percent of these warrants were executed. And of those cases that reached trial, only about 56%

resulted in a conviction. (Commission of Integrity 2018a, pp. 5-7) While the number of investigations has increased substantially; it is still extremely unlikely that a corrupt act will be discovered, investigated, prosecuted, adjudicated, and punished. Due to corrupt police and other justice officials, many suspects are notified of their potential arrest in time to flee the country with their ill-gotten gains. While these officials may be convicted in absentia, the odds that they will be punished, or their corrupt gains recovered are very low. In fact, despite the massive insider theft of ministerial funds, “not a single senior official has been indicted, tried and then jailed for corrupt practices.” (Allawi 2020, p. 12)

### **Inadequate public sector salaries**

A more controversial possible cause of Iraqi corruption is that inadequate public sector salaries motivate government employees to seek and accept bribes. In theory, raising the compensation of government employees will tend to discourage corruption although the pattern of incentives can be complex (Mookherjee and Png 1995, p. 154). Examining whether public sector compensation in Iraq is adequate is especially complicated. Immediately after the 2003 US led invasion, civil servants were seriously underpaid. (Allawi 2020, p. 11) In addition to motivating government employees to seek bribes in order to support their families, it also led to severe distortions. For example, a skilled Iraqi doctor quit a high-status but poorly compensated position at a Baghdad hospital to become a low-level translator for the US military. However, as a result of a series of salary increases, the typical government employee is now better compensated than a worker in the private sector. Combined with benefits, protection against dismissal, a less intense – some would say relaxed – pace of work; government employment is eagerly sought after. There are multiple applicants for each government service opening.

However, once anyone has obtained a government position, the financial rewards for advancement in Iraq tend to be meager. For example, a senior enlisted member of the US Army would earn almost 300 percent more than a Private even before adjusting for time in service raises. This is not true in the Iraqi Army, Iraqi Police, or in almost any other Iraqi institution. A senior enlisted member of the Iraqi Army earns only about 20 percent more than a Private.

The existence of generous compensation for entry-level positions combined with meager raises for seniority provides strong incentives for accepting bribes. New employees are expected to “purchase” their entry into government employment by bribing senior officials (classic rent-seeking; see Krueger 1974). The payment is usually some combination of an initial bribe – possibly financed by borrowing – and a monthly cash “contribution” to one’s supervisor. Of course, each level of management is expected to make a “contribution” to the next most senior level of management. As a result, the actual paycheck received by many senior members of the bureaucracy may account for only a small fraction of their compensation. Many seek bureaucratic advancement primarily to increase their ability to extract larger bribes.

## **REDUCING CORRUPTION**

Over the last fifty years, many countries have attempted to eradicate corruption in their economies. However, not only have there been no successful eradications of corruption but also most attempts to reduce it to tolerable levels have failed. Some of the failures were not surprising. Anti-corruption policies that are comprised entirely of exhortations to virtue and a spurt of well-publicized investigations tend to have little long-term effect. In addition, various political factions will often usurp anti-corruption campaigns to settle scores with their opponents and, as a result, anti-corruption efforts often collapse in mutual recriminations.

There has been some progress in Iraq's war against corruption. The Commission of Integrity reports increased prosecutions and recoveries of mis-appropriated funds. (Commission of Integrity 2020) This progress has been reflected in a gradual improvement in Iraq's Transparency International corruption rankings. Realistically, however, Iraq has only improved from being "extremely corrupt" to being "very corrupt". The remaining high level of corruption continues to undermine the Iraq economy, polity, and society. What Iraq needs is an integrated anti-corruption strategy and the political will to execute it.

Successful anti-corruption campaigns, such as Hong Kong's (Speville 1997), must take into account each country's cultural, social, political, historical, and economic situation. These campaigns include institutional changes to reduce the economic incentives for corruption combined with improved governance, transparency, and an aggressive effort to communicate the purpose and progress of the campaign to the public. Successful anti-corruption campaigns must have widespread support to enable them to move forward in the face of tenacious covert opposition. Finally, for lasting results, there must be a serious effort to change the culture of corruption. In summary, successful anti-corruption campaigns tend to be complicated, difficult, politically risky, and expensive. (Klitgaard 1988, Chapter 8; Rose-Ackerman 1999, Chapter 1).

In view of the costs of a possibly ineffective Iraqi anti-corruption campaign, is the game worth the candle? In view of the other security, political, health, and economic challenges facing the Iraqi government, should an anti-corruption campaign be put aside until a certain degree of stability is achieved? There are two contrary arguments.

First, the current cost of corruption is probably unsustainable. Corruption finances remaining insurgent activity. It slows economic growth and worsens income distribution. Corruption hurts Iraq's budget situation from both sides. Oil revenues and other government revenues are lower because of corruption while as much as one-third of government expenditures are diverted from their assigned purposes. (Arab Weekly 2020) Second, in the absence of an aggressive anti-corruption campaign, corruption tends to worsen.

The government of Iraq has long been aware of the criticality of the corruption fight although its emphasis has shifted. In Iraq's first *National Development Strategy: 2005–2007* (GoI 2005b), one of the primary goals was to eradicate corruption. This theme is continued in the revised *National Development Strategy: 2007–2010* that states: "Corruption – the abuse

of public office for private gain – is arguably the most critical component of governance in a natural resource rich country like Iraq” (GoI 2007, pp. vi, 92). However, the *National Development Plan: 2018-2020* reduced statements on fighting corruption to two paragraphs (GoI 2018, pp. 70 and 72).

Despite public statements of the importance of the anti-corruption effort in Iraq, follow-through on these statements has been weak and confused. The GoI did join the Extractive Industry Transparency Initiative in 2010 and, in March 2008, signed the United Nations Convention Against Corruption (UNCAC) with its more than 160 provisions. However, the required implementing legislation for both of these agreements is progressing slowly. In Iraq’s defense, the UNCAC is a very complex document that combines broad coverage – corruption in the private sector is included (Article 12, pp. 14–15) – as well as strange lacunae—it lacks a specific definition of corruption. The UNCAC concentrates on improved governance and rule of law (UN 2004).

It is challenging to find quality studies on countries that have most of the same characteristics as Iraq, including being a developing, post-conflict, natural resource-dependent country that is transitioning from socialism and is divided by religious/ethnic animosities. However, the 2020 paper by Ali A. Allawi; 2017 and 2015 studies by Transparency International (Chêne 2015) as well as Jon S.T. Quah’s 2013 (pp. 219-55) work have identified at least five lessons for countries fighting corruption that would appear to be applicable to Iraq.

## 1. Political Will and Good Governance are Needed for Effective Corruption Control

It is difficult to measure the political will to reduce corruption in Iraq. Iraqi politicians of all parties regularly speak against corruption and, periodically, there are well publicized arrests of senior government officials. However, the Iraqi public is cynical about these speeches and arrests believing that many of the latter are driven by political disputes, not extraordinary levels of corruption.

That this public cynicism about government anti-corruption efforts may be justified is illustrated by the August 2015 announcement of an anti-corruption program by a former Prime Minister. While the Iraqi Parliament initially passed these reforms by a unanimous vote, less than three months later, the Parliament revoked the Prime Minister’s mandate to implement his program. Instead, the Prime Minister was forced to renegotiate every specific anti-corruption step with various political groups in the Parliament. Needless to say, progress in these reforms ground to a stop. (Oldfield 2017, p. 7)

One simple way that officials can demonstrate commitment to fighting corruption is by personally abiding by anti-corruption regulations such as accurately reporting personal financial assets. However, a substantial proportion of Iraqi officials covered by reporting regulations have failed to submit their reports. Reporting rates were high for the executive and judicial branches, but poor for the legislative branch. According to the Iraq Commission of Integrity, the worst offenders were members of the national legislature—only 39% submitted their financial statements—and the members of the provincial counsels (non-KRG)—50%. (Commission of Integrity 2020) Achieving 100% reporting of personal financial assets should be an absolute

requirement. Officials who refuse to submit these reports on schedule should be immediately removed from their official positions. In addition, officials should also be required to document in detail the sources of their financial, real estate, and other assets. Forensic accountants should be tasked to report on the validity of official statements of personal assets. And these reports should be made public in a timely fashion.

With respect to improved governance, since 2003, the U.S. government, the International Monetary Fund, and several international NGOs have emphasized rationalizing governance mechanisms both to improve the operation of the Iraqi government and to reduce corruption. These initiatives include developing a professional civil service, a single integrated open budget in place of the multiple secret budgets of the Saddam era, and moving from paper to electronic records. Equally important is amending the guidelines for implementing procurement contracts to reduce the granting of exemptions to these guidelines. (Government of Iraq 2020, pp. 77-78) So far, efforts to reduce corruption by improving governance have led to little progress. Government employees have resisted procedural changes in part because increased efficiency may reduce the need for their jobs. However, even if these efforts at improving the quality of governance had succeeded, it probably would not have resulted in a substantial reduction in corruption. Improving governance may be necessary, but it is not sufficient.

A more radical initiative would be to shift many of responsibilities currently handled by the Baghdad ministries to regional or provincial governments. This might include most of the current functions of the Housing, Labor and Social Affairs, Trade, Health, Policy and Education. (Allawi 2020, p. 16, Notes 6-8) This option is consistent with Articles 105 and 114 of the 2005 Iraq Constitution.

## 2. Rely on a Single Anti-Corruption Agency (ACA) Instead of Many ACAs for Effective Corruption Control

Why have an independent ACA? In most corrupt countries including Iraq, the police and the courts are extremely corrupt. As shown in Table 1, one survey showed that 35% of the Iraqi population had paid a bribe to a police officer within the last twelve months. And 22% had paid a bribe to a judge or member of the court. (Transparency International 2013) Other countries have found that when there is widespread corruption among the police and judiciary, making the national police forces responsible for rooting out corruption in the rest of the government usually fails. Often, after the exposure of a particularly egregious case of police or court corruption, there will be calls to establish an independent ACA. However, a poor or badly managed ACA may prove ineffective or actually damage anti-corruption efforts. (Meagher 2005)

There are multiple reasons why countries tend to make more progress against corruption with a single ACA. First, if there are multiple ACAs, then responsibility for fighting corruption is diffused. (IMF 2019, p. 59) Incompetent or corrupt ACAs can attempt to shift the blame for lack of progress to another ACA. Second, several ACAs with overlapping areas of responsibility can lead to bureaucratic infighting that can lead to the spoiling of an anti-corruption investigations as one ACA withholds information from another. Attempts to prevent such overlap by delineating different areas of responsibility for each ACA intentionally or unintentionally can lead to gaps or “corruption free-fire zones,” where no ACA has statutory responsibility. Third, with multiple

ACAs, there is a greater likelihood that one ACA will be “captured” by corrupt senior politicians and/or senior officials in the government. The captured ACA then can be used to divert investigations of these senior officials. This is often the result when an ACA reports directly to the Prime Minister or Parliament. Fourth, a single ACA provides the public with a single unambiguous source of information on anti-corruption efforts as well as a single point of contact for reporting suspected corrupt acts. Countries with several ACAs often suffer from confusing or contradictory anti-corruption messaging that confuses the public. And multiple ACAs increase the likelihood that those citizens who muster the courage to report a corrupt official will report it to the wrong ACA resulting in either their statement being ignored or possibly released to the official involved. Finally, multiple ACAs compete for personnel and funding as anti-corruption resources are split multiple ways.

Iraq violates this guidance to have a single ACA. There are at least eight agencies with anti-corruption responsibilities in Iraq. (Pring 2015, pp. 7-10) The Joint Anticorruption Council (JACC) was established in 2007 and is composed on senior government officials. The JACC focuses on policy issues and is perceived to have little impact.

The Federal Board of Supreme Audit (FBSA), founded in the same year as independent Iraq, performs audits of government organizations and oversees public contracts in order to expose fraud, waste, and abuse. When the FBSA uncovers violations, it refers them to either the Commission of Integrity or the Inspector Generals. Performing these audits can be dangerous, and the FBSA at times has had to send auditors out of the country to protect them from physical attacks by thugs hired by persons at audited agencies. While progress has been made, the FBSA suffers from a shortage of quality staff and has been plagued by outdated technology. As a result, many of its audits are not completed and released in a timely manner and some fail to meet international standards. (Saeed 2016, pp. 91-100) There is a separate organization, the Kurdistan Board of Supreme Audit, with similar responsibilities in the KRG.

There are about thirty Inspector Generals (IG) who are supposed to unearth corruption within assigned ministries. This agency is generally considered to be the least effective of the major anti-corruption agencies. It is not simply that many of the IG are unqualified or corrupt themselves, rather each Ministry’s IG reports to the Ministry Director—not to an independent organization. As a result, while the IGs have exposed low-level corruption, there have been very few cases where an IG has exposed corruption involving a Minister or one of his senior staff members. (Allawi 2020, p. 16, Note 10) For these reasons, in March 2019, the CoR voted on a nonbinding resolution to phase out the country’s inspector generals. (Sattar 2019, March 31)

The Iraqi ACA that is perceived as being most effective is the Commission of Integrity (CoI). It not only investigates cases of corruption, but also seeks to educate the public on transparency related issues. Unlike other Iraqi ACAs, the CoI publishes a quarterly report providing data on investigations and arrests as well as whether government officials are meeting their personal income/asset reporting requirements. (Commission of Integrity 2020) The CoI faces two serious challenges. First, the CoI, the Iraqi equivalent of the U.S. Federal Bureau of Investigation (FBI), has limited authority and must rely on the police to make most arrests. But the police are often corrupt. There have been multiple cases where the police have either demanded bribes to release persons freed by the courts or accepted bribes to release persons that the courts have ordered to be

held. As a result, a large proportion of senior Iraqi officials charged with corruption are tried in absentia since they were able to leave the country before being arrested. A second challenge is interference from the highest levels of the Iraqi government. One former CoI Director resigned over such interference.

There are four other ACAs that are believed to be relatively ineffective. There is an Office of the Ombudsman that seems to be limited to publicizing corruption complaints. The Parliamentary Committee on Integrity is subject to substantial political pressure. The Central Bank of Iraq Monetary Laundering Reporting Office only has had limited success in reducing money laundering and the associated capital flight. Finally, the Financial Intelligence Unit launched in 2015 combines a very broad mandate with very limited power and resources.

As discussed above, Iraq's multiple ACAs diffuse responsibility and resources and therefore retard the fight against corruption. One possible solution would be to reduce anti-corruption efforts to three organizations. Because of their important continuity and international roles, preserve an independent FBSA and Central Bank Monetary Laundering Reporting Office. Close the JACC and the Parliamentary Committee of Integrity as hopelessly compromised. Make all of the other ACAs part of the CoI with all of their budget and personnel decisions controlled by the CoI's Director. Carrying out such a change will require substantial restructuring of lines of responsibility. For example, if IGs are not phased out then they should no longer be assigned and report to their respective Ministries, but rather they would be assigned by and report to the CoI.

### 3. Importance of Cultural Values in Minimizing Corruption

Hong Kong and Singapore are among the few entities that have successfully changed their peoples' attitudes towards corruption within a short period of time. Their experiences appear to show that culture changing efforts such as billboards with anti-corruption messages and mandatory corruption classes for government employees are necessary but insufficient. (Allawi 2020, pp. 15-16) If this is the limit of attempts to change the culture of corruption then the anti-corruption strategy will fail. As expected, changing the culture of corruption is extremely difficult. The few successes have utilized a top-to-bottom approach with careful coordination of the different facets of creating an anti-corruption culture.

There is no single template for successfully creating such a culture. Many of the relevant country characteristics that will determine success or failure are hidden. Every country has both formal rules and regulations as well as informal norms. And changing the formal rules is much easier than changing the country's informal norms. During the 2003 invasion and the fights against al Qaeda and ISIS, there was a withdrawal of the state, a reduction in government authority, in Iraq. This withdrawal reduced the effects of formal rules and motivated greater reliance on the informal norms of community, tribe, political or religious groups. These groups were not only providers of security and other public goods but also established standards governing political, social, and economic relationships. Changing the culture of corruption in Iraq will require more than changing formal rules and regulations. It will also require identifying and motivating changes to the country's informal norms.

In the case where formal and informal rules or norms differ, there are several decisions that

must precede proclaiming anti-corruption cultural initiatives. Otherwise, contradiction and confusion will weaken the effort.

First, there must be a clear definition of corruption or rather the type or types of corruption that are targeted. Is the intent to reduce/eliminate grand corruption also known as state capture? An example would be when an oligarch uses political influence to gain wealth “legally.” Or illegally. There have been reports that some ministries - with potentially large number of jobs available – are actually for sale. An alternative is to target petty corruption. While state capture may do more damage to the national politics and economy of Iraq, Iraqi citizens may experience greater frustration at the daily demand for small bribes by a hoard of low-level officials.

Second, should private corruption such as insider trading be included or only corrupt acts involving officials? Third, should there be a lower limit to acts of corruption that will be investigated? In a society with a long tradition of gift giving to persons in authority, should small bribes—a cup of tea for a policeman—be ignored or should the standard be an unambiguous “not one dinar?”

The final question to be answered before an effort to change the corruption culture is launched is especially controversial. Should there be an amnesty for corrupt acts that occurred before a certain date? On the one hand, an amnesty weakens the anti-corruption message by saying that the same act that would be prosecuted as a serious offense if it occurred in, say, 2019 would be forgiven and forgotten if it occurred earlier. However, in Iraq, it is a safe bet that most current Iraqi officials have engaged in corruption sometime in their careers. Without an amnesty, there would be little official support for and maybe active opposition to anti-corruption enforcement. It should be noted that Hong Kong initially decided against an amnesty before adding one in order to gain police support for the anti-corruption effort.

Once the tough strategic decisions discussed above have been made about the scope of Iraq’s anti-corruption strategy, it will be important to have many influential individuals and groups openly support the effort. Which individuals and groups will have the most influence on public attitudes towards corruption varies from place to place within Iraq. However, previous efforts in Iraq show that politicians and sports figures seem to have little credibility in the anti-corruption fight. On the other hand, young protestors and the families of the estimated 700 protestors murdered over the last two years, religious leaders, and writers seem to have a strong impact on the average Iraqi’s attitude towards corruption. The Iraqi government has made efforts to encourage religious leaders to add an anti-corruption message to their Friday sermons. (Commission of Integrity 2018) It also may be possible to encourage writers and performers to add an anti-corruption element to their works on print, radio, and television. However, progress has been uneven. The Ministry of Culture and Cultural Heritage has denounced the Iraqi television drama “Al Funduq” (The Hotel) for openly discussing prostitution, drugs, and corruption. Al Funduq’s station, Al Sharqiya, was forced to apologize. (The Arab Weekly 2019)

Just as important is adding strong anti-corruption modules to school instruction starting in the first grades and continuing through secondary and tertiary education. The intent is not only to make corrupt acts unacceptable to the young, but also to encourage them to object to such acts by their parents and wider society. Combined with a well-designed anti-corruption media campaign, the

support of well-regarded individuals/groups and integrating anti-corruption into education curricula gradually could change Iraq's culture of corruption.

Among the Iraqi ACA, only the Commission of Integrity appears to be making a serious attempt to change the culture of corruption. It has begun distributing anti-corruption messages to Iraqi newspapers, television, and radio programs. In addition, anti-corruption material has been prepared for children in kindergarten, primary, and secondary schools. (Commission of Integrity 2018) However, these efforts are in their infancy, and there are no published studies of the effectiveness of these efforts or even the coverage—what percent of the Iraqi public is aware of these efforts.

#### 4. Adequate Salaries are Necessary, but Insufficient for Effective Corruption Control

It long has been recognized that inadequate salaries for police and other government officials tend to lead to corruption. (Rose Ackerman 1999 and Krueger 1974) However, as discussed above, the application of this general rule to Iraq may be counterintuitive. In theory, raising the compensation of government employees will tend to discourage corruption. (Mookerjee and Pring 1995) Whether public sector compensation in Iraq is adequate is especially complicated. If one looks at average salaries alone, then the typical government employee is better compensated than a worker in the private sector. However, as discussed above, once anyone has obtained a government position, the financial rewards for advancement in Iraq tend to be meager.

What can be done about corruption encouraged by excessive government wages and benefits in Iraq? It is probably political suicide for the government to attempt to reduce public sector wages to the level of those in the small private sector with similar skills and responsibilities. A more politically realistic approach would be to hold the line on public sector wages and benefits and wait for inflation—about 3% in 2020—to gradually reduce the real value of government employment to levels competitive to those in the private sector.

#### 5. Constant Vigilance is Needed for Sustained Success in Corruption Control

The fight against corruption is never over. Especially if there are great financial incentives for corruption, each “generation” of government officials will find it difficult to resist the temptation. Since 2003, three successive Iraqi Ministers of Defense have been charged with corruption. Each took office promising to clean house, but the opportunities to amass \$100 million or more in illegal funds could not be resisted. In summary, if a society isn't constantly fighting corruption in accordance with a well-planned strategy, then corruption will get worse. And every failed anti-corruption policy in Iraq since 2003 has led to increased public cynicism making eventual success more difficult.

#### The Missing Component: Reducing Economic Incentives for Corruption

A serious lacuna in Iraq's current anti-corruption strategy is the absence of meaningful efforts to reduce the economic incentives for corruption. This is somewhat surprising because the first post-2003 National Development Strategy: 2005-2007 contained a substantial discussion of reducing government subsidies as part of the anti-corruption effort. However, reducing economic incentives for corruption disappeared from later five-year plans and was not included in either the

Iraqi government anti-corruption plan of 2008 or the U.S. government anti-corruption strategy of 2009.

Iraq's National Anti-Corruption Strategy 2010-2014 (Joint Anti-Corruption Council 2010) contained a detailed action plan for combating corruption with 201 elements, while the Commission of Integrity's 2018 Anti-Corruption Roadmap (Commission of Integrity 2018) discusses 43 critical initiatives—however, there are only a few ambiguous references in either document to reducing economic incentives. In economic terms, Iraq's current anti-corruption strategy focuses primarily on reducing the supply of corrupt acts by government officials but with little attention paid to the demand for corrupt acts by the Iraqi public. Such an unbalanced strategy is doomed to fail. Investigating, prosecuting, convicting, and punishing corrupt officials has little long-term effect if the replacement officials face the same strong economic incentives to accept bribes. Currently, Iraq provides strong economic incentives for corruption in two overlapping areas: the Government of Iraq provides generous subsidies and has created a regulatory environment which stifles the non-energy private sector.

Iraq has an extensive system of subsidies and price controls. The International Monetary Fund estimates that direct subsidies of food, electricity, and fuels amounted to almost 13 percent of total government expenditures. (IMF 2019) Including indirect subsidies, the cost may reach 12% of Iraq's GDP. These generous subsidies result in low or zero official prices for food, electricity, fuels, water, medical care, etc. As a result, at the official price, the amount demanded of these goods or services are substantially greater than the amount supplied. In effect, Iraqi families are competing with each other to obtain these subsidized items. Each must try to persuade some government official to favor their family over another family in the distribution of scarce subsidized goods and services. Families may use political pull, tribal membership, or religious connections to persuade officials to favor their request for scarce items. However, the most common means of persuading an official to part with a subsidized good or service is to offer a bribe.

### Changing the Regulatory Environment

The need for relaxing regulatory hostility towards private business long has been recognized in Iraq. It was a major topic in all five post-invasion economic development plans. But little has been done for two overlapping reasons.

First, strict government regulation of private business is part of the government's DNA following four and a half decades of dominance by the Arab Socialist Ba'ath Party. The Ba'athist Party imposed complete government control of the private sector both because the party thought that doing so would increase economic efficiency—it was wrong—as well as a means to strengthen the dictatorship's control of the country.

Second, the government bureaucracy carefully maintains the existing rat's nest of regulations in order to motivate private businesses to pay bribes. For example, if a businessman is unable or unwilling to wait an average of 167 days to get government permission to build a warehouse, then he can speed up the process by paying several \$100 bills under the table. Also, research has shown that the impact of regulatory burden in motivating corrupt acts can be exacerbated if the regulations

are implemented in a bureaucratic way. (Duvanova 2014) This problem is especially severe in Iraq where almost every restructuring of a Ministry's organization increases the complexity of the bureaucratic process. One new Minister noted that for his Ministry to grant a relatively minor approval to a private firm required seventy-five signatures of various officials in the Ministry including his own signature—five times!

Some progress is being made. Over the last decade, Iraq has combined multiple registration procedures for starting a business, launched a new credit agency, allowed simultaneous processing of building permits, and enforced tighter deadlines on electricity connections. (World Bank 2018, p. 65) However, there are still requirements that most businesses in the modern global economy would consider primitive. For example, the GoI still requires “wet” signed and “live” rubber stamped documents rather than accepting electronic signatures. (US Iraq Business Council 2020, p. 26) Optimistically, it only will take another decade to complete a total overhaul of the country's commercial and labor codes. Unfortunately, with the expectation of a decade or more of low oil prices, Iraq cannot afford to wait another decade before freeing the private sector.

There are several options that could be adopted to speed up the process of rationalizing Iraq's incredibly complicated commercial code. First, instead of changing regulations one at a time, Iraq could adopt the best practices commercial code that has been developed by the World Bank. However, it is possible that the formal institutions and practices in this code are inconsistent with Islamic or Arabic cultures. Or the changes may conflict with informal institutions and practices that are widely accepted by the Iraqi people. If such inconsistencies exist, then imposing such a code regardless of its theoretical excellence probably will fail.

A second option would be for the Iraqi government rapidly to rationalize its regulations by substituting the existing commercial code of an Islamic Arab neighbor such as the United Arab Emirates (UAE). While far from perfect, the regulatory environment of the UAE is much friendlier to its private sector. For example, Iraq ranks 154<sup>th</sup> in the ease of establishing a new business since there are 9 procedures taking 27 days to complete at a cost equal to 43% of the average Iraqi's income. The Emirates rank 51<sup>st</sup> in establishing a new business with 5 procedures taking 9 days to complete at a cost of 13% of average Emirati income. (World Bank 2019)

A third option that has received less attention is to revitalize the “free zones” a form of special economic zone (SEZ). A SEZ is a geographic area within a country where the rules of business are different from those that exist in the rest of the country. (Farole and Akinci 2011, p. 3) Many developing nations have experimented with SEZs with two primary motivations. In some countries, SEZs are established primarily to encourage foreign direct investment in labor intensive production of goods for export. These SEZ often have been criticized as leading to not only the exploitation of labor, but also resulting in an industrial enclave that has little interaction with the rest of the country's economy. In others, such as the Shenzhen “miracle” SEZ in China, the primary motivation was to experiment with economic reforms before imposing these reforms nationwide. (The Economist 2015)

Most SEZs fail to achieve their stated goals. This failure often occurs when the government provides generous tax reductions, while failing to provide the physical and human infrastructure to connect the SEZ to the rest of the country. Also, it is difficult to achieve the necessary political

oversight without permitting unnecessary bureaucratic interference. However, in view of the great uncertainty about the appropriate level of private sector regulation in Iraq, a SEZ might provide a useful laboratory to experiment with a different level of regulation. And if this experiment is successful, then the revised regulatory environment could be extended to the whole country.

In the Free Zone Law of 1998, Iraq authorized such zones, but this law is inconsistent with modern SEZ management practices. However, a revised Free Zone Law might provide a viable transition route to a more rational regulatory environment in Iraq.

#### TIME IS RUNNING OUT

The widespread protests, now in their second year, highlight the importance of fighting corruption. The young protestors recognize that the country's ubiquitous corruption has thwarted job creation, condemning most of them to lives of limited opportunities and a substantial number to penury. If the Iraqi government fails to make visible progress in its anti-corruption efforts, there is the danger of increased political instability. But reducing corruption in Iraq will require not only a carefully developed anti-corruption strategy but also a willingness of the country's officials and especially its leaders to choose the hard road of patriotism and forego the personal and political benefits of corruption. Building a better Iraq will require as much courage as the fight against ISIS. But without this courage, the fight against corruption will fail.

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