

CIG Assessment, 21 July 2009

HOW CORRUPT IS IRAQ?

This paper was discussed by a Current Intelligence Group and approved on 21 July 2009.

Key Judgements

- I. Corruption [...] has a significant impact on the economy and governance. There are no definitive figures, but cost estimates range from 3.5% - 10% of GDP.
- II. There is no evidence to suggest that Prime Minister Maliki benefits personally from corruption, but his ministries are riddled with it. He has publicly vowed to institute reforms and root out graft in government, [...] The US draw-down will have an impact on oversight, resulting in less international scrutiny of institutional corruption.
- III. Corruption within the Oil Ministry acts as a deterrent to some foreign investment. Despite attempts to make bidding processes more transparent foreign oil companies willing to pay bribes are likely to receive preferential treatment.
- IV. The lack of effective anti money-laundering and counter-terrorism finance regimes deters foreign financial institutions from doing business with their Iraqi counterparts, and severely cramps the development of the Iraqi financial sector.
- V. The Iraqi public is growing tired of political graft. ISCI's poor performance in the January 2009 provincial elections [...] was partly a reflection of popular unhappiness with its record of corruption. This had led to an increase in anti-corruption rhetoric but little change in behaviour.
- VI. [...]

Assessment Base: [...]

HOW CORRUPT IS IRAQ?

At the request of DfID we consider the impact of corruption in Iraq.

Corruption: A second insurgency?

1. [...] In 2008 the global anti-corruption society Transparency International (TI) designated Iraq the third most corrupt country in the world, behind Somalia and Burma. TI's Global Corruption Barometer 2009¹ reported that 44% of Iraqis had paid some form of bribe in the last 12 months, compared to 3% in the UK and a worldwide average of 11%. 42% of Iraqis polled in TI's survey felt that corruption was most prevalent in the public sector and civil service, while 27% considered political parties most tainted. The survey suggested that public trust in the judiciary and news media was much higher.

2. [...] Iraq's Commission on Integrity (CI) has identified the Ministries for Oil and Foreign Affairs as prominent embezzlers[...]. In December 2006 Stuart Bowen, the US Special Inspector General for Iraq Reconstruction, described a "virtual pandemic" of corruption, costing the country \$4bn a year (equivalent to approximately 3.5 % of GDP). Later estimates suggest the cost of corruption in the South alone could be as high as \$12bn pa. This range of cost estimates suggests corruption at a level which is significantly hindering macroeconomic recovery, as well as damaging local economies. In March 2007 Rhadi Hamza al-Rhadi, CI Chairman, claimed that corruption was worse than under Saddam's regime. CI had brought corruption charges against eight Ministers and forty Directors-General but all had fled abroad. Bowen described al-Rhadi as Iraq's most prominent corruption enforcer, but by September 2007 al-Rhadi had resigned following repeated death threats, and subsequently sought asylum in the US. Bowen called the corruption problem "the second insurgency" for its destabilising effects on Iraq. We judge that the US draw-down will have an impact on oversight, making international scrutiny of institutional corruption more difficult.

3. Corruption is driven both by a desire for personal enrichment and by political considerations. [...] The practice of soliciting bribes at checkpoints is commonplace. Shia militias have exploited their control of economic assets for political gain. [...]

4. We judge that the Iraqi public is more tolerant of certain kinds of corruption such as nepotism than in the West, but is growing tired of political graft. In March, we judged that ISCI's poor performance in the January 2009 provincial elections [...] was partly a reflection of popular unhappiness with its record of corruption (it used governorships to fund its political activities between 2006 – 2009). This has led to an increase in anti-corruption rhetoric, but little change in behaviour.

[...] Baghdad...

5. In May CI announced that 997 officials were under investigation for graft, including 53 ranked as Directors-General or higher, and that 120 Iraqis had been arrested for corruption in April and May. On 30 May former Trade Minister Sudani was arrested on charges of embezzlement and corruption regarding food imports and rations under the Public Distribution System, which was established in 1995 as part of the UN

¹ The Barometer aims to provide information on trends in public perceptions of corruption, including the effectiveness of governments to fight corruption.

Oil-for-Food Programme following the 1991 Gulf War. In contrast, we judge that Maliki does not benefit personally from corruption, though he has accepted financial support for his party from foreign state actors,, including Iran.

6. [...] in mid-June Muhammad Rida Sistani, the son of Grand Ayatollah Sistani urged Maliki to lead the fight against political corruption, warning him that failure to do so would put his reputation at risk. Sistani, who backed Maliki for PM in 2006, felt that corruption and the provision of public services would be the public's fundamental preoccupations in the coming elections. In the wake of Sudani's arrest, Maliki publicly vowed to institute reforms and root out graft in government, promoting the affair as a victory over corruption. [...] Maliki has complained publicly about CoR double-standards. We judge that while Sammara'i's goal is a more robust, effective government, other CoR members may be motivated by political considerations.

7. Following Sudani's arrest, the CoR issued summons to question Oil Minister Shahrstani and the Ministers of Electricity and Health. [...]

[...] Irbil

8. Nepotism and cronyism are widespread in Kurdistan, [...] Lucrative construction contracts are regularly awarded to families of party or regional government officials. Corruption has become a prominent issue in the run up to the KRG parliamentary elections, scheduled for 25 July. [...]

Local jobs for local people

9. Corruption also affects governance at regional and local levels. [...] Endemic public sector corruption in Basra has prevented the delivery of social security payments, and health and education services. [...]

The Oil Industry and financial institutions

10. Institutionalised corruption in the oil industry has been active to some degree for the last 30 years. We judge that corruption within the Oil Industry acts as a deterrent to some foreign investment. Despite attempts by Shahrstani to make bidding processes more transparent, we judge that foreign oil companies willing to pay bribes are likely to receive preferential treatment. At a local level, both the Oil Ministry and Iraqi citizens profit from oil theft. [...]

11. The lack of effective anti money-laundering and counter-terrorism finance regimes deters foreign financial institutions from doing business with their Iraqi counterparts, and severely cramps the development of the Iraqi financial sector.

Outlook

12. Corruption is strongly associated with the slow pace of development and reconstruction. These issues resonate with voters. As the January 2010 national elections approach, we judge that Maliki is likely to intensify his policy focus on corruption as a vehicle for popular appeal and as a tool with which to attack

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political opponents. Parliamentary anti-corruption initiatives in the Middle East typically face challenges due to weak accountability mechanisms as well as the social and political context in the region. [...]

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