

CORRUPTION IN IRAQ: POOR DATA, QUESTIONABLE POLICIES

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WHAT IS CORRUPTION?

Corruption is the abuse of public power for private benefit.

Bribery gets the most attention, but corruption can also include nepotism, official theft, fraud, certain patron-client relationships or extortion.

ROAD MAP

- Scale and cost of corruption in Iraq
- Who are the corrupt?
- Long-term determinants of corruption
- Policy issues
- Successful anti-corruption policies
- Questions

CORRUPTION IN IRAQ

- Iraq is perceived to be one of the most corrupt countries in the world.
- According to Transparency International 2006 report
 - Iraq is tied with Guinea and Mynamar as the 160th most corrupt country out of the 163 countries listed
 - Iraq is rated about a 2 (10 is most honest and 0 is completely corrupt)

INDIRECT IMPACT OF CORRUPTION ON IRAQ

- Reduces economic growth
- Worsens distribution of income
- Increases government inefficiency
- Worsens international balance
- Reduces confidence of Iraqi people in own government
- Reduces foreign loans and grants

CORRUPTION AND THE INSURGENCY

- Insurgency is good for corruption
 - Justifies bypassing procedures
 - Increases urgency of getting things done regardless of the cost
 - Provides excuse for corruption related losses
- Corruption is good for the insurgency
 - Terrorist groups finance their operations, in part, with proceeds from corruption
 - Organizations and ratlines that handle smuggled or stolen goods provide routes and safe houses for terrorists, IED makings, etc.
 - Corruption undermines confidence in GOI

WHO ARE THE CORRUPT?: SURVEY OF IRAQI CITIZENS

Evaluation	Institution	Rated 8, 9 or 10
Very Corrupt (30% or more)	Customs	41%
	Political Parties	39%
	Police	35%
	Legislature	32%
	Corrupt (15% to 30%)	Utilities
	Military	28%
	Judiciary	26%
	PDS (Food Distribution)	23%
	Registry	22%
	Media	21%
	Medical Services	20%
	Education	20%
Honest (Less than 15%)	Housing Bureau	4%

TWO WORST MINISTRIES

- **Ministry of Interior (National Police)**
 - Extremely corrupt – police payrolls are regularly stolen by Mol
 - Obstructs corruption investigations
 - External – Mol demands bribes from those under investigation
 - Internal - Investigators of Mol corruption – threatened, arrested or simply disappeared
 - Investigations of Mol corruption are rare and less than 1 % of investigations result in conviction
- **Ministry of Trade (MoT) – responsible for PDS**
 - Most corrupt ministry
 - Same officials write regulations, execute them and “investigate” problems
 - Almost zero transparency
 - Few investigations and no convictions

WHY IS IRAQ CORRUPT? LONG-TERM FACTORS

	Applicable to Iraq?
1. Low levels of literacy	No – literacy high by ME standards
2. Inhospitable climate	Yes
3. French or socialist legal system	Yes - Socialist
4. Catholic or Muslim	Yes – 97% Muslim
5. Cousin marriage	Yes – Almost 50%
6. Corrupt neighbors	Yes – Five out of eight

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IRAQ'S NEIGHBORS

	Corruption	Freedom	Income	Pop (young)
Iraq	160 (1.9)	Not Free	\$1,800	26.8 m(40%)
Iran	105 (2.7)	Not Free	\$2,800	65.0 m(24%)
Turkey	60 (3.8)	Partly Free	\$4,700	70.4 m(26%)
Syria	93 (2.9)	Not Free	\$1,400	18.9 m(37%)
Saudi Arabia	70 (3.3)	Not Free	\$11,800	27.0 m(38%)
Israel	34 (5.9)	Free	\$18,600	6.4 m(26%)
Lebanon	63 (3.6)	Partly Free	\$6,200	3.9 m(27%)
Jordan	40 (5.3)	Partly Free	\$2,500	5.9 m(34%)
Kuwait	46 (4.8)	Partly Free	\$24,000	2.4 m(27%)

WHY IS IRAQ CORRUPT?

POLICY ISSUES

	Applicable to Iraq?
1. Dominant natural resource	Yes – Oil is 2/3 of GDP
2. Weak legal sanctions	Yes
3. Weak free press	Yes – 1979 to 2003 No – 2004 to now
4. Lack of political competition	Yes – 1979 to 2005 ? – 2006 to now
5. Lack of market competition	Yes – SOE dominance
6. Large scale subsidies	Yes but recent fuel price liberalization

1. THE IRON TRIANGLE: OIL – BUREAUCRACY – CORRUPTION

- Oil is the curse of Iraq
- National control of oil revenues
 - Massive revenues to divert
 - Ministries are independent of the voters
- Baghdad Ministries
 - Socialist attitude
 - Employer of first and last resort through SOE
 - Ministries resist any reduction in their authority
- Corruption
 - Ministries can buy off officials, tribes, sectarian groups
 - Ministerial positions allow accumulation of great wealth and power

2. CHALLENGES FACING ANTI-CORRUPTION ORGANIZATIONS

- Commission of Public Integrity (CPI) is undermanned, underfinanced and under gunned
 - No arrest or even detention authority.
 - CPI lack sufficient weapons, body armor and PSD to travel to Ministries
- Inspector Generals (IG) under thumb of Ministers
- Ministerial interference is constant
 - Ministers cancel investigations (Article 136B of the Criminal Code)
- Bureaucratic drag and sectarian bias
 - Records destruction
 - Gaming the corruption reporting system
- Court system buried in minor cases and subject to political pressure
- About 80% of those accused of high level corruption flee the country

3. WEAK FREE PRESS

- Number of media outlets exploded - 2002 to 2006:
 - Internet: 4,500 to 197,300
 - Commercial TV: Zero to 54
 - Commercial Radio Stations: Zero to 114
 - Newspapers/Magazines: Zero to 268
- Quality uneven - generally low:
 - Many outlets sponsored by religious, political, tribal groups
 - Confusion between news and opinion
- Many reports/editorials/cartoons on corruption
 - Strong on descriptions, accusations and exhortations to virtue
 - Weak on detailed investigations, analysis and policy recommendations

4. LACK OF POLITICAL COMPETITION

- Public will have opportunity to vote out corrupt officials
 - Initial 2005 elections – no incumbent – none responsible
- Issues:
 - Delayed provincial and local elections breed cynicism
 - Belief that to the victor belong the spoils
 - Fear that Iraq will have “One man, one vote, once” i.e. that as soon as the coalition leaves that will be the end to elections
 - Expectation of widespread vote buying and stealing

5. LACK OF MARKET COMPETITION

- Baghdad Ministries control the economy
- Roughly 200 State owned enterprises (SOE)
 - Bureaucratic – associated with Ministries
 - Mismanaged – generally low quality/high cost producers
 - Losing money despite subsidies
 - Massive over employment
- Besides agriculture – few private formal (legal) businesses
- Huge informal/underground/black market
 - Estimated 50% of all employment

6. LARGE SCALE SUBSIDIES

- Saddam bought loyalty using oil money to heavily subsidize necessities
 - Fuel 13 cents a gallon
 - Almost free food basket through PDS
 - Very low cost electricity
 - Free water, medical care, education
- Helped bankrupt Iraq
 - Massive drain on budget and finance
 - Very inefficient
 - Starved private sector of funding and resources
- Facilitated massive corruption

6. GOOD NEWS STORY: FUEL SUBSIDY REDUCTION

	Sept 2005 (NID per liter)	Dec 2006 (NID per liter)	June 2007 (NID per liter)
LPG(12kg)	250	1,000	3,000
Regular gas	20	250	350
Premium gas	50	350	Market price
Blended gas	N/A	350	450
Kerosene	5	75	200
Diesel	10	150	350

ROAD MAP

- Scale and cost of corruption in Iraq
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- Policy issues
- ***SUCCESSFUL ANTI-CORRUPTION POLICIES***
- Questions

SUCCESSFUL ANTI-CORRUPTION CAMPAIGNS

- IO campaign to create anti-corruption environment
- Reduce economic incentives for corruption
 - Eliminate subsidies for fuel, electricity, water and food
 - Liberalize business regulation and delegate enforcement of remaining rules to provinces
 - Close or privatize SOE
- Improve governance
 - Adopt generally accepted accounting principles
 - Greater transparency (eGovernment initiative)
 - Investigate, prosecute, convict and punish the corrupt
- Success is rare (Hong Kong 1974)

BREAK THE IRON TRIANGLE: FEDERALISM AND MARKETS

- Shift economic development spending to provinces
- Oil revenues pass-through Baghdad to Provinces
- De-scope the ministries

QUESTIONS

Relation of Perceived Corruption to Per-capita PPP Income

