



FIXING THE ECONOMY AND PUBLIC SERVICE PROVISION IN IRAQ

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In October 2019 Iraq was gripped by mass protests that lasted several months until they were disrupted by the Covid-19 pandemic. There were two aspects to the demands voiced by protesters. First, they reflected a deep dissatisfaction with the state's performance in ensuring social justice, addressing endemic corruption and delivering public services. But second, they also revealed widespread discontent with the very nature of a political system that prioritizes identity politics over issue-based policies and citizenship rights.¹ The protesters established a direct link between the governance system characterized by ethnosectarian power-sharing and corruption on the one hand and failing public services and deteriorating infrastructure on the other.²

While fundamental reform of the political system itself is needed, it is unlikely in the short term. Instead, this policy brief explores what can be done to reform and improve governance and public services

within the system, despite its shortcomings.³

UNDERSTANDING THE POLITICAL SYSTEM AND THE CHALLENGES FOR GOVERNANCE

Iraq has endured decades of conflict and violence. In the post-2003 political order, power-sharing was adopted as a mechanism to give various ethnosectarian groups an incentive to engage in peaceful relations. Over the years, however, the political system has impeded the development of strong institutions or mechanisms of accountability and oversight that are necessary for power-sharing to deliver better state performance and good governance.⁴

Iraq's political system, known as *muhāsasa taifia* (ethnosectarian apportionment) was established following the first national elections and the adoption of a new constitution in 2005 in the aftermath of the 2003 US-led invasion. At the heart of this

³ This brief is based on the findings of a longer report, Bourhrous, A. et al., *Reform within the System: Governance in Iraq and Lebanon*, SIPRI Policy Paper no. 61 (SIPRI: Stockholm, Dec. 2021); and on interviews with current and former Iraqi officials and experts.

⁴ Dodge, T., 'Iraq's informal consociationalism and its problem', *Studies in Ethnicity and Nationalism*, vol. 20, no. 2 (Oct. 2020).

¹ O'Driscoll, D. et al., *Protest and State-Society Relations in the Middle East and North Africa*, SIPRI Policy Paper no. 56 (SIPRI: Stockholm, Oct. 2020).

² Dodge, T. and Mansour, R., *Politically Sanctioned Corruption and Barriers to Reform in Iraq* (Chatham House: London, June 2021).

SUMMARY

● Iraq's ethnosectarian power-sharing system, with its weak institutions and low levels of accountability, has penetrated the economy and hindered the performance of the state and provision of basic services. Lack of access to economic opportunities and quality public services has been a recurring grievance during the protests in Iraq. The state's failure to fulfil the protestors' demands is widely seen as a symptom of its weakness, which has resulted in calls from protestors for the complete overhaul of the political system. This, however, is unlikely in the short term.

Based on interviews with current and former government-level officials and experts in Iraq, this policy brief presents recommendations that focus on reforms within the system to address some of the governance problems besetting Iraqis while the prospect of changing the political system remains remote.



political system is an informal bargain among the elite that divided the country along ethnosectarian lines and used this as a basis for allocating public resources and positions in the state.⁵ This power-sharing arrangement determines all aspects of the political process, including government formation, the composition and staffing of ministries and state institutions, and the management and distribution of public resources. The process of government formation is thus subject to a series of negotiations concerning the distribution of ministries, their budgets, public appointments, and so on, rather than being based on policy considerations. This process is fraught with backroom deals, especially as fractures within ethnosectarian blocs have started to emerge, preventing the formation of large parliamentary blocs.⁶

The political system also makes political action extremely difficult outside the confines of ethnosectarian communities and renders any assertion of the entitlements of citizens dependent on mobilizing ethnosectarian identities.⁷ Public policy is largely devoid of an aspiration to achieve public good for all citizens. Instead, the main incentive is to cater for the interests and demands of political blocs and elites. The prioritization of the ethnosectarian distribution of power is thus to the detriment of effective management of public resources, which has adverse

consequences for the coherence and continuity of development strategies and programmes. However, the gap between the ethnosectarian elite and the communities that they claim to represent has significantly widened amid growing intra-group competition and tensions.

In the context of the recent elections, these fractures and the growing rift between some militias and the government have revealed the difficulties that the political elite face to mobilize wider communities along ethnosectarian lines beyond their loyal supporters.⁸ Meanwhile, the October 2019 protests emphasized the widespread discontent and dissatisfaction with the ruling elite and a deep distrust in the state and its institutions.⁹ Although a snap parliamentary election was held in October 2021, under a new electoral law demanded by the protesters, voter apathy and the low turnout demonstrated that the population's grievances remain high.¹⁰

A STRUGGLING OIL-DEPENDENT ECONOMY

Iraq's struggling and undiversified economy is largely the product of political inaction, systemic corruption and the elites' abuse of their official positions to advance their own interests. The country's financial troubles stem from the combination of, and the interplay between, the elite bargain at the core of Iraq's political system and its markedly rentier economy. On the one hand, the rentier state model—with its heavy dependence

⁵ Dodge, T., 'The failure of peacebuilding in Iraq: The role of consociationalism and political settlements', *Journal of Intervention and Statebuilding*, vol. 15, no. 4 (2020).

⁶ Dodge (note 4)

⁷ Yahya, M., *The Summer of Our Discontent: Sects and Citizens in Lebanon and Iraq* (Carnegie Middle East Center: Beirut, June 2017).

⁸ Dodge and Mansour (note 2).

⁹ O'Driscoll et al. (note 1).

¹⁰ Alkhudary, T., 'Elections usher in a new wave of political opposition in Iraq', *New Arab*, 20 Oct. 2021.



on oil revenues and limited reliance on taxation—has increased the autonomy of the state from society and reduced the accountability of the ruling elites. On the other hand, ethnosectarian power-sharing has made apportionment of public resources, inefficient management and resource capture common practice.¹¹

Heavy reliance on oil revenues—oil revenues constitute 95 per cent of the budget—leaves the economy vulnerable to market fluctuations. The oil price plunged in 2020 (as in 2014) and caused huge loss in revenues.¹² As a result, the government has struggled to pay the pensions and salaries of the bloated public sector.¹³ Having a reliable budget is difficult, which impedes long-term strategic planning and hampers economic growth and development. However, even when oil prices are high, it does not translate into an improved socio-economic situation for citizens due to mismanagement, fraudulent contracts and the elite's predation of public resources.¹⁴ Unemployment has soared in the past decade, up from 8 per cent in 2010 to 14 per cent in 2020.¹⁵ The rate varies across region, being much higher in the

historically poorer south and also among women and youth.¹⁶

Although Iraq's macroeconomic and fiscal conditions showed signs of improvement in 2019, the twin shocks of the Covid-19 pandemic and plummeting oil prices have since reversed the economic outlook.¹⁷ Iraq's fiscal deficit increased considerably in 2020 as public debt reached 65 per cent of gross domestic product (GDP), while GDP fell by 16 per cent in real terms.¹⁸ Poverty levels have also soared, with estimates suggesting a rise in the poverty rate from 20 per cent in 2017–19 to 31 per cent in 2020.¹⁹ Dwindling oil revenues forced the government to devalue the currency by 20 per cent in December 2020, thus adding inflation and a significant cost-of-living increase to the list of hardships facing the population, with disproportionate effects for vulnerable households.²⁰

THE STATE OF PUBLIC SERVICES

The dismal condition of public services and the crumbling infrastructure, resulting from mismanagement and misappropriation of public resources, are symptomatic of state weakness and a failure of the governance system.²¹ Inadequate

¹¹ Kullab, S., 'How Iraq's oil revenues evaporate', *Arab Weekly*, 17 Nov. 2019.

¹² World Bank, *Iraq Economic Monitor: Seizing the Opportunity for Reforms and Managing Volatility* (World Bank: Washington, DC, spring 2021).

¹³ Arraf, J., 'Iraq, struggling to pay debt and salaries, plunges into economic crisis', *New York Times*, 4 Jan. 2021.

¹⁴ Sassoon, J., 'Iraq: Oil prices and economic management', 15th Middle East Economic Association (MEEA) Conference, Doha Institute for Graduate Studies, 23–26 Mar. 2016.

¹⁵ World Bank, Data, 'Unemployment, total (% of total labour force)—Iraq', <<https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=IQ>>, accessed 8 Nov. 2021.

¹⁶ World Food Programme (WFP), *Iraq Socio-economic Atlas 2019* (WFP: Baghdad, 2020).

¹⁷ UN Development Fund (UNDP) in Iraq, *Impact of Covid-19 on the Iraqi Economy* (UNDP: Baghdad, Oct. 2020).

¹⁸ World Bank, *Macro Poverty Outlook* (World Bank: Washington, DC, Oct. 2021), pp. 156–57.

¹⁹ UN Development Fund (note 17).

²⁰ World Food Programme (WFP), *Iraqi Dinar Devaluation and the Price of the Food Basket* (WFP: 2021).

²¹ Dodge and Mansour (note 2).



access to quality healthcare, education, water and electricity are among the main grievances fuelling protests. Data from the Arab Barometer opinion survey of April 2021 shows that Iraqis have low rates of satisfaction with service provision: of those surveyed, only 26 per cent indicated complete or partial satisfaction with healthcare and only 17 per cent with the education system.²² In addition, the impact of inadequate services is felt differently by different segments of society, as factors such as gender, socio-economic position, regional disparities and rural–urban divides, and status as an internally displaced person deeply influence experiences.²³

The healthcare system is a shadow of its past and has been severely affected by decades of conflict.²⁴ Uneven distribution of health facilities prevents many Iraqis—especially those living in remote areas and those forcibly displaced—from having adequate access to medical care.²⁵ Iraq also suffers from a shortage of medical staff, as many have emigrated, partly due to bad working conditions.²⁶ Healthcare is slightly better in the Kurdistan Region of Iraq (KRI), which has 1.5 hospital beds and 1.4 doctors for every 1000 people, while the rest of Iraq has 1.1 beds

²² Kayyali, A.-W., *Arab Public Opinion on Domestic Conditions: Findings from the Sixth Wave of Arab Barometer* (Arab Barometer: Princeton, NJ, 22 June 2021).

²³ Price, R., 'Iraqi state capabilities', Helpdesk report, K4D, 18 May 2018.

²⁴ Dewachi, O. et al., 'Changing therapeutic geographies of the Iraqi and Syrian wars', *The Lancet*, vol. 383, no. 9915 (1 Feb. 2014).

²⁵ Webster, P. C., "'Under severe duress": Health care in Iraq', *The Lancet*, vol. 388, no. 10 041 (16 July 2016).

²⁶ Omar, O., 'Medical doctors, a disappearing profession in Iraq', *Arab Weekly*, 31 Mar. 2019.

and 0.8 doctors.²⁷ Budgetary constraints and mismanagement have long been a serious problem, and the situation is aggravated by rampant corruption through the diversion of funds intended to improve healthcare. Deadly hospital fires in Baghdad and Nasiriya in 2021 have further revealed the substandard condition of healthcare facilities and the extent of negligence and corruption that prevail.²⁸ The pandemic has dramatically exposed the multiple vulnerabilities of the healthcare system and revealed the high level of distrust that Iraqis have in the state and the public healthcare infrastructure.²⁹

As with the health sector, Iraq used to have one of the best education systems in the region. Conflict and insecurity have contributed to the decline of the education sector and have obstructed access to quality education and learning for children. In addition, the education sector has not been spared from corruption. According Arab Barometer, 52 per cent of Iraqis surveyed think that it is highly or somewhat necessary to pay bribes to receive a better education.³⁰ Fraud and the use of personal connections to obtain fake degrees are also common.³¹ Iraq

²⁷ Aboulenein, A. and Levinson, R., 'The medical crisis that aggravated Iraq's unrest', Reuters, Mar. 2020.

²⁸ Fasano, S. and Provos, A.-M., 'What was really behind Baghdad's deadly hospital fire?', *New Humanitarian*, 29 Apr. 2021; and 'Iraq hospital fire: Protests as Covid ward blaze kills at least 92', BBC, 13 July 2021.

²⁹ Calabrese, J., 'Iraq's fragile state in the time of Covid-19', Middle East Institute, 8 Dec. 2020.

³⁰ Arab Barometer, 'Are Arab Citizens satisfied with the education system?', Fact sheet, 13 Jan. 2020.

³¹ Zidane, S., 'Corruption, deceit plague private education in Iraq', *Al-Monitor*, 5 Apr. 2017.



spends 6 per cent of its national budget on the education sector, but this must be contextualized by the fact that over 60 per cent of the population is under 25.³² Insufficient investment in the education sector has led to the deterioration of public infrastructure, such as schools and universities, and to the quality of education in general.

Iraq's electricity crisis is more complex. Large segments of the population must endure chronic power cuts especially amid scorching summer temperatures, when demand is at its peak. The gap between the limited supply and growing demand forces Iraqis who can afford it to rely on more expensive private neighbourhood generators. Blackouts are largely the result of technical losses and antiquated infrastructure along with attacks on transmission towers by the Islamic State group.³³ Unreliable electricity supply and water shortages have been the trigger for many protests. In 2018 mass protests sprung up in Basra after water contamination poisoned almost 100 000 people.³⁴ In July 2021 the minister of electricity resigned after power outages hit Baghdad and southern provinces amid a heatwave, which stirred renewed concerns of widespread unrest.³⁵ Drought and high

salinity have further aggravated the water crisis. Climate change will only exacerbate both issues.³⁶ Finally, population growth and rapid urbanization continue to increase the demand for water and electricity.

The state's failure to respond to citizens' needs in terms of economic opportunities and provision of basic services forces the population to turn to ethnosectarian elites, political parties and civil society organizations for help. Consequently, this precarious situation gives the ruling ethnosectarian elite the opportunity to further entrench their power and increase their influence by filling the vacuum left by the state's retreat.³⁷ The result is a vicious cycle in which the growing power of ethnosectarian actors undermines the state.

RECOMMENDATIONS

Iraq is on the edge of a precipice. Pathways out of the current crises are urgently needed to mitigate their impact and prevent further deterioration of state–society relations. The complex crises facing Iraq not only have damaging impacts on citizens, but also threaten the very stability of the state and increase the likelihood of tensions and violence.

Moving away from ethnosectarian power-sharing is seen by many as the only way out of the state of persisting crisis. However, such a transition may take years, particularly as the system

³² UNICEF Iraq, 'Education: Every child in school, and learning', 2021; and United Nations, Department of Economic and Social Affairs, *World Population Prospects 2019, vol. 2, Demographic Profiles* (United Nations: New York, 2019).

³³ Ashwarya, S., 'Iraq's power sector: Problems and prospects', *Georgetown Journal of International Affairs*, 13 Jan. 2020.

³⁴ Aldroubi, M., 'Basra hospitals overwhelmed as water poisoning cases near 100,000', *The National* (Abu Dhabi), 25 Sep. 2018.

³⁵ 'Iraq power cuts stir protests as summer temperatures scorch country', BBC, 2 July 2021.

³⁶ Dawod, S., 'Iraqi Kurdistan water crisis blamed on climate and Iran', *Al-Monitor*, 29 July 2021.

³⁷ Mansour, R. and Khatib, L., *Where Is the 'State' in Iraq and Lebanon? Power Relations and Social Control* (Chatham House: London, Apr. 2021).



continues to be deeply entrenched and changes would have to be implemented by the very actors that benefit from it. Instead, opportunities for reform must be found within the system. Such reforms have the potential to at least improve some of the governance problems besetting Iraqis while the prospect of a complete overhaul of the political system remains remote.

The stability and functioning of the next government is a key priority

It is important that political blocs avoid the characteristic wrangling and delays in the government-formation process following the October 2021 election. The new government needs to reflect the choices of the electorate, rather than the interests of the political elites. It needs to formulate a coherent and realistic programme to address the challenges that the country faces.

Addressing and reducing corruption should be a key priority for the new government

The adoption of anti-corruption strategies and policies is a first step to tackle corruption, but more needs to be done to actually enforce them. Making corrupt practices more difficult in the first place should be the core priority through establishing and strengthening independent bodies to curtail corrupt practices and investigate corruption allegations. Accountability and transparency are essential to rebuilding public trust.

Reforms to the banking sector and access to banking services are long overdue

The government needs to prioritize the development of the banking sector along with the introduction of robust financial controls. The government and the private sector need to make the banking system more accessible and trustworthy. This will also address corruption by increasing transparency and financial oversight and by encouraging citizens to move away from the cash-dominated economy, which facilitates corruption.

Economic recovery in Iraq hinges on promoting and strengthening productive sectors

Economic diversification and job growth are imperative. Yet it remains difficult to do business in Iraq due to bureaucratic policies—these need to be reversed and Iraq needs to facilitate international investment. Building a green economy is also important, but first Iraq needs to quickly implement policies to revitalize its productive sectors such as agriculture and tourism.

Iraq needs to increase government spending on its healthcare and education systems

Public infrastructure needs to be strengthened to improve citizens' access to quality healthcare and education, especially for those with limited financial resources. In particular, it is necessary to improve the working conditions of medical staff and provide them with incentives to stay and work in Iraq.



Investment in education needs to be closely connected to the diversification of the economy and the move towards renewable energy

A clear educational plan that meets Iraq's human development needs and the future needs of its economy is necessary. This plan must aim to ensure that graduates acquire the skills needed to enter the job market.

Iraqi authorities must urgently depoliticize the management of the electricity and water sectors. These resources are critical in people's daily lives

Political and ethnosectarian considerations must not hamper their management. Service-level agreements can be used to organize the relationship between service providers and users according to standards of efficiency and equal and inclusive access. This means defining terms of reference regarding delivery, quality, cost and fair distribution.

Iraq needs to establish independent electricity and water-management bodies

These bodies would take charge of implementing long-term strategies

to restructure the electricity and water sectors. They must work in close coordination with the relevant ministries and elected institutions to ensure continuity of implementation despite changes in government. Robust oversight and anti-corruption mechanisms should be put in place to monitor the work of these independent bodies and to evaluate their progress in achieving the reform plans.

The government needs to adopt measures for short-term stabilization of the energy sector, while also taking steps towards long-term sustainability

Iraq must make better use of its renewable sources of energy to address chronic power shortages. A green energy transition promises long-term sustainability. Combining climate adaptation with economic reforms would set Iraq on track to meet the socio-economic demands of its growing population. The transition to a green economy is also an area where Iraq can benefit from the support of the international community through expertise and access to finance.

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