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Corruption, Reconstruction and Oil Governance in Iraq

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Abstract

With the world's second largest oil reserves, Iraq is potentially a very prosperous country. Like many other oil-dependent countries, however, Iraq's recent history points to a pattern of authoritarianism, corruption and violence. The US administration has portrayed its occupation of Iraq as an effort to break with this pattern and ensure democracy, security and a shared prosperity for Iraqis. This article engages with the challenges of oil governance and reconstruction in Iraq, focusing on the role of corruption and the record of the Coalition Provisional Authority. Iraq's political legacy, oil dependence and transition under US occupation suggest that the new Iraqi regime

may once again rest on corruption-based patronage; but of a type more accommodating to US interests.

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Notes

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See ‘Wolfowitz interview with Sam Tannenhaus, Vanity Fair’, United States Department of Defense, 9 May 2003; and US Presidential addresses dated 10 April 2003, 9 February 2004, 10 April 2004 and 1 May 2004 from the US Office of the Press Secretary, at www.whitehouse.news/releases.

GW Bush, ‘Freedom and the future’, speech at the American Enterprise Institute, 26 February 2003; and PH Gordon, ‘Bush's Middle East vision’, Survival, 45 (1), 2003, pp 155–165. On the US geopolitical discourse linking oil and ‘freedom’, see P Le Billon & F El Khatib, ‘From free oil to “freedom oil”: terrorism, war and US geopolitics in the Persian Gulf’, Geopolitics, 9 (1), 2004, pp 109–137.

See R Williams, ‘New concepts for old?’, Third World Quarterly, 20 (3), 1999, pp 487–489. Corruption is defined here as the ‘abuse of public office or entrusted power for private gain’.

M Johnston, ‘Corruption and democratic consolidation’, paper presented at the conference on ‘Democracy and Corruption’ Shelby Cullom Davis Center for Historical Studies, Princeton University, 12 March 1999 (revised June 2000), p 6.

Iraq has estimated proven oil reserves of 112.5 billion barrels and probable reserves of 200 billion. M Radler, ‘Worldwide reserves increase as production holds steady’, Oil & Gas Journal, 100 (52), 2002, pp 113–145.

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I Warde, ‘L'Occupation Américaine en échec: Irak, l'eldorado perdu’, Le Monde Diplomatique, May 2004; and N Klein, ‘Baghdad year zero. Pillaging Iraq in the pursuit

of a neocon utopia', Harper's, September 2004, pp 43–53.

Corruption-based patronage can be defined as the illegitimate use of state assets to serve and protect the interests of specific groups in order to consolidate a political rule. See M Johnston, 'The political consequences of corruption: a reassessment', Comparative Politics, 18 (4), 1986, pp 459–477.

A review of the different forms of corruption falls beyond the scope of this paper. See S Rose-Ackerman, Corruption and Government: Causes, Consequences, and Reform, Cambridge: Cambridge University Press, 1999; and AK Jain, 'Corruption: a review', Journal of Economic Surveys, 15 (1), 2001, pp 71–121.

E Brown & J Cloke, 'Neoliberal reform, governance and corruption in the South: assessing the international anti-corruption crusade', Antipode, 36 (2), 2004, pp 272–294; H Marquette, 'Corruption, democracy and the World Bank', Crime, Law and Social Change, 36, 2001, pp 395–407; and T Polzer, 'Corruption: deconstructing the World Bank discourse', destin Working Paper no 01-18, December 2001, London School of Economics.

A relationship of causality is to be noted between the two as the long-term impact of stable patterns of corruption-based patronage often contributed to the (violent) downfall of these regimes. See P Bardhan, ' Corruption and development: a review of issues', Journal of Economic Literature, 35, 1997, pp 1320–1346; C Freeland, Sale of the Century: Russia's Wild Ride from Communism to Capitalism, New York: Crown Publishing, 2000; and P Le Billon, 'Buying peace or fuelling war: the role of corruption in armed conflicts', Journal of International Development, 15, 2003, pp 413–426.

Johnston, 'Corruption and democratic consolidation'. As Johnston and many authors suggest, the context is not limited to these two dimensions and also includes for example socio-cultural factors. See, for example, JP Olivier de Sardan, 'A moral economy of corruption in Africa', Journal of Modern African Studies, 37 (1), 1999, pp 25–52. A discussion of the cultural embeddedness and social norms influencing corruption in Iraq falls beyond the scope of this paper.

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On the 'resource curse' affecting many oil-dependent countries, see R Auty, Resource Abundance and Economic Development, Oxford: Oxford University Press, 2001; ML

Ross: ‘The political economy of the resource curse’, World Politics, 51, 1999, pp 297–322; Ross, ‘Does oil hinder democracy?’, World Politics, 53, 2001, pp 325–361; and Ross ‘Extractive sector and the poor’, Oxfam America Report, October 2001. For a counter-argument, see GA Davis, ‘Learning to love the Dutch disease: evidence from the mineral economies’, World Development, 23 (10), 1995, pp 1765–1779.

R Marques, cited in P Salopek, ‘CEOs of war bleed Angola’, Chicago Tribune, 2 April 2000.

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‘Statement by Dr Isam al Khafaji before the US Senate Foreign Relations Committee’, 24 September 2003, p 2, at http://foreign.senate.gov/testimony/2003/KhafajiTestimony030924.pdf.

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Abdul Jabbar Mandeel, ‘Corruption in Iraq’, Iraq Press Online, at www.iraqpress.org, accessed 24 August 2004; and PJ Luizard, La Question Irakienne, Paris: Fayard, 2002.

Kurdish communities were in part protected through a special quota allocated from the oil-for-food programme. Tripp, A History of Iraq; and F Rigaud, ‘Irak: Le temps suspendu

de l'embargo’, Critique Internationale, April 2001, p 15.

On the concept of the ‘shadow state’, see W Reno, Corruption and State Politics in Sierra Leone, Cambridge: Cambridge University Press, 1995. On its application to Iraq, see Tripp, A History of Iraq; and Dodge, Inventing Iraq.

F Rigaud, ‘Irak’; and A Baram, ‘Neo-tribalism in Iraq: Saddam Hussein's tribal policies 1991–1996’, International Journal of Middle East Studies, 29 (1), 1997, pp 1–31.

Among the most controversial—and most widely reported in the Western press—were the access of cleric Moqtada al Sadr to pilgrims' donations to the shrine of Imam Ali in Najaf, and accusations against Salem Chalabi—the director general of the Iraqi special tribunal for crimes against humanity—concerning the murder a Ministry of Finance official reporting on government property illegally seized by the party of Chalabi's family, the Iraqi National Congress. See B Whitaker & M Howard, ‘Wanted for murder of finance official’, Guardian, 10 August 2004.

R Rageh, ‘Iraqis: corruption still exists in Iraq’, Associated Press, 10 August 2004.

A list of 270 names was initially published in the Iraqi newspaper Al Mada, 25 January 2004. See also ‘Friends of Saddam’ website, at http://www.acepilots.com/unscam/.

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Le Billon & El Khatib, ‘From free oil to “freedom oil”’.

United Nation Security Council, Resolution 1483, 21 May 2003, approved by all members except Syria (abstained).

Cash inflow into the dfi since its inception on 28 May 2003 represented close to $20.6 billion; half of that amount came from oil sales, the rest coming from transfers of the now defunct oil-for-food programme and repatriated funds from the Saddam Hussein regime. ‘Development Fund for Iraq: financial reporting matrix’, Coalition Provisional Authority, at http://www.cpa-iraq.org/budget/DFI_26jun2004.xls.

icg, Reconstructing Iraq.

Budgets were considered highly confidential under the regime of Saddam Hussein; the oil-for-food programme failed to provide public accounts of the contracts involved. Rosett, ‘The oil-for-food scam’.

‘Duty to the future: free Iraqis plan for a new Iraq’, at http://usinfo.state.gov/products/pubs/dutyiraq/dutyiraq.pdf, posted April 2003. For a critique of ‘pre-war reconstruction’, see R Mac Ginty, ‘The pre-war reconstruction of post-war Iraq’, Third World Quarterly, 24 (4), 2003, pp 601–617.

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Coalition Provisional Authority Regulation No 3, 18 June 2003.

This policy, however, was not extended to the oil sector—at least in public declarations by the US government—probably for fear of confirming Iraqi public opinion that the US and UK had invaded Iraq for its oil. See Section 6.1, Coalition Provisional Authority Order No 39, 19 September 2003.

Employees of state companies fearing lay-offs and Iraqi businessmen fearing foreign competitors also resented it (although many welcomed the facilitation of foreign investment). For a review of criticisms, see R Looney, ‘Neoliberalism in a conflict state: the viability of economic shock therapy in Iraq’, Strategic Insights, 3 (6), June 2004; S Mulugeta, ‘Reform concerns: changes have Iraqi workers nervous’ Newsday, 14 December 2003; and Klein, ‘Baghdad year zero’.

Besides the 400 000 people who lost their Iraqi army job, up to 30 000 high-ranking Ba'ath party members were initially fired from public jobs, with about 12 000 subsequently re-hired. J Steele, ‘US decree strips thousands of their jobs’, Guardian, 30 August 2003; and icg, Reconstructing Iraq.

If about $9 billion were allocated to the 2004 budget of Iraqi ministries (with much controversy about their lack of accountability), close to $2 billion were committed in the last six weeks of cpa administration to special projects. ‘Iraqi fire sale: cpa giving away oil revenue billions before transition’, Briefing Paper 7, Iraq Revenue Watch, New York, June 2004; and Regulation no 11 (CPA/REG/18 June 2004) seeking to secure outstanding contracting liability under the dfi beyond 30 June 2004, at the cpa website, accessed 18 August 2004. At least an additional $1.1 billion in frozen Iraqi assets held by non-US UN members could be released to the Iraqi government.

SR Weisman, ‘US is quietly spending $2.5 billion from Iraqi oil revenues to pay for Iraqi projects’, New York Times, 21 June 2004.

Arguably the Iraqi budget will benefit from a continued oil revenue stream, while donor commitments are bounded in time (2003–07/08).

For example, Deputy Defense Secretary Paul Wolfowitz emphasised to Congress that: ‘There's a lot of money to pay for this [reconstruction] that doesn't have to be US taxpayer money, and it starts with the assets of the Iraqi people’. House Committee on Appropriations Hearing on a Supplemental War Regulation, 27 March 2003, emphasis added.

Only $140 million had been budgeted from US appropriated funds for this purpose and the Commander's Emergency Response Program was essentially financed by Iraqi funds.

J Chaffin, ‘Focus on Halliburton masks deeper problems with Iraq contracts’, Financial Times, 30 March 2004; Windfalls of War project, Center for Public Integrity, at www.publicintegrity.org; and TF Armistead, ‘Halliburton reveals $6-million overcharge in alleged Iraq corruption’, Engineering News-Record, 23 January 2004.

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M Shapiro, ‘Spoils of war’, MarketPlace, Center for Investigative Reporting, 21 April 2004; and B Crossette, ‘No simple place to pin blame for Iraq oil-for-food problems’, UN Wire, 10 May 2004.

L Margasak, ‘Audit: $9 billion unaccounted for in Iraq’, Associated Press, 31 January 2005.

The delay in its creation was the result of sharp disagreement over the extent of its mandate between the cpa and iamb members (the UN, World Bank, imf, and Arab Fund for Economic and Social Development). Press releases from http://www.iamb.info/pressrel.htm; and ‘Racing the deadline: the rush to account for Iraq's public funds’, Revenue Watch 6, Open Society Institute, April 2004.

Many fear that only administrative sanctions will be taken against offenders and that contracted companies will only undertake minimal repayment for over-pricing and other frauds.

Coalition Provisional Authority Order No 59, 1 June 2004.

D Haynes, ‘New watchdog to sniff out corruption in Iraq’, Agence France Press, 20 June 2004; and icg, Reconstructing Iraq.

Coalition Provisional Authority Order No 77, 18 April 2004. This move was seen by some as a delaying mechanism to protect the reputation of the UN from the oil-for-food programme scandal until UN-supervised elections could be undertaken. See B Pisik, ‘Iraq oil probe to take many months’, Washington Times, 28 May 2004; and M Rubin, ‘The growing gap. Bremer has alienated Iraqis’, National Review Online, 21 May 2004.

Many critics question the ‘sovereignty’ of interim Iraqi authorities, pointing to continued reliance on US security, policy advisers and funds. The interim prime minister, Ayad Allawi, has long had connections with the cia and mi6, and purveyed some of the (dubious) intelligence upon which the war on Iraq was justified by the USA and Britain. See press reports at www.sourcewatch.org.

Tripp, A History of Iraq.

Rigaud, ‘Irak’, p 19, translation by the author.

J Thierney, ‘The struggle for Iraq: Iraq's wealth; a popular idea: give oil money to the people rather than the despots’, New York Times, 10 September 2003; and TI Palley, ‘Combating the natural resource curse with citizen revenue distribution funds: oil and the case of Iraq’, Foreign Policy in Focus Special Report, December 2003. On the viability of direct aid disbursement to individuals, see J Hanlon, ‘It is possible to just give money to the poor’, Development and Change, 35 (2), 2004, pp 375–383.

Critiques of this ‘oil-for-the-people’ option point out that the current public service could not be relied on to distribute the money honestly. See ‘Oil revenue accountability in Iraq: breaking the resource curse’, Briefing 5, Iraq Revenue Watch, New York, 2003.

The Transitional Iraqi Government (post-elections in early 2005) can request the UN Security Council to review this policy. UNSC S/RES/1546, 8 June 2004.

See Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, 21 November 1997; and www.eitransparency.org/.

See T Mitchell, ‘McJihad: Islam in the US global order’, Social Text, 73, 20(4), 2002, pp 1–18.

Additional information

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