Part two

Special feature – Corruption in post-conflict reconstruction

Some 2,000 Iraqis work on one of the largest landfill sites in Iraq in a project to create a waste treatment plant and sewage facility to serve Baghdad. The project is bankrolled by a small part of the US $18.4 billion reconstruction package approved by the United States in 2003. (ROSLAN RAHMAN/AFP/Getty Images)
Overcoming corruption in the wake of conflict

Philippe Le Billon

Many post-conflict countries figure among the most corrupt in the world, and corruption is one of the key concerns of local populations. Corruption often predates hostilities, and, in many cases, it features among the factors that triggered political unrest or facilitated conflict escalation. Wartime generally sees an entrenchment and diffusion of corrupt practices as governmental structures break down. Armed factions use corruption as a tool for sustaining power structures, justifying it in the context of war. For lack of an alternative, ordinary people resort to corruption in order to deal with the hardships of war. Corruption is thus frequently entangled in the political economy of many contemporary conflicts, whereby economically motivated abuse of power by public authorities, and informal survival practices by ordinary people, prolong war. In Cambodia, for example, the corruption of local and regional authorities as well as the participation of ordinary people in the (official) illegal logging sector benefited the Khmer Rouge, helping to sustain the conflict for several years.

War generally strengthens corruption, but not always. Ideals and strict discipline have restrained corrupt practices in many rebel movements, such as the Eritrean People’s Liberation Front and, in its early days at least, FRELIMO in Mozambique. In Afghanistan, the Taliban regime was initially well received by the population for putting an end to the corruption of mujahedin warlords. Years of discrimination, repression, and fraud can also strengthen the political will of local politicians and civilians to resist and combat corruption, as in the case of Kosovo.

Many authorities become more corrupt in peacetime, suggesting that the transition to democracy, and in many instances to a market economy, is also to blame. Immediate private gain is undeniably attractive when facing the uncertainties and opportunities of the transition from war to peace. For war veterans and exiles freshly in power, reconstruction can become a ‘pay-back’ scheme, with wartime ‘sacrifices’ being used to justify the misuse of newly controlled public offices and positions.

Post-conflict ‘national reconciliation’ often results in politically driven distribution of state assets, sometimes with a tacit agreement on corruption built into peace accords. Power-sharing arrangements can undermine institution building and reduce accountability as each faction asserts ‘sovereignty’ over its territorial or institutional turf. For example, the failure of the UN to secure the result of the 1992 elections in Cambodia led to a ‘coalition’ government led by the newly elected prime minister and the outgoing...
prime minister who refused to cede power. This government was characterised by widespread corruption before ending in a bloody coup d’état in 1997.

Post-conflict political transition may reinforce the importance of party financing. A shift from overtly coercive modes of political control to a regime of patronage and vote buying may aggravate political corruption in the form of illegal (or dubious) political donations and economic activities, misappropriation of public funds, or abuse of state resources. There is therefore a high risk that the transition to democracy increases political corruption in the absence of formal instruments of party financing. The biased control and wholesale disposal of public assets by political factions has characterised many transitions to peace.

The transition to a market economy that has accompanied many post-conflict reconstruction processes in the 1990s offers major corruption opportunities that post-conflict institutions may be unwilling or unable to address. Corrupt practices were particularly widespread in many former communist countries, such as Mozambique, where inadequate institutional safeguards were in place to curb abuses by politicians and their cronies. The prioritisation of private over public ownership by international agencies may unintentionally play into the hands of local corrupt elites.

Economic and political transition often takes place in a weak or highly politicised institutional framework. Recurrent problems affecting the level of corruption include poor fiscal leverage, judicial backlogs and bias, low-wage-related corruption and shadow economic control. Anti-corruption institutions frequently remain weak or instrumentalised, and critics are often silenced or co-opted.

The post-conflict context is often dominated by informal and sometimes criminal activities. The presence of aid agencies, as well as large numbers of foreign troops, often leads to highly inflated local prices and salaries, thereby contributing to an economic context favourable to corruption. Greater ‘market’ access to land and other assets, and a ‘booming’ private sector will favour local actors with access to seed capital, often the proceeds of wartime criminal activities and corruption. Aid agencies are sometimes obliged to work with local firms under the control of these new ‘entrepreneurs’, and there is a high risk of fraud or politicisation. In some cases, international Western donors and financial institutions were aware (if not tacitly accepting) of this evolution and remained largely inactive, instead portraying this process as a ‘normal route to capitalist development’.

Box 5.1 Reconstruction and the construction sector

The importance of the construction sector in reconstruction efforts varies widely according to the economies and priorities of the particular country and the concerns of donors. For example, industrialised countries in the Balkans tend to receive a greater proportion of aid for construction than developing countries in sub-Saharan Africa. The bulk of large-scale capital expenditure projects are allocated to infrastructure projects.

Given the risks of corruption in the construction industry in general, special attention is warranted for this sector. However, available information suggests that most of the...
Corruption within post-conflict countries resides outside the donor-funded construction sector. Rather, most corruption occurs through the mismanagement of public utilities, privatisation of public assets, tax evasion and petty corruption in public services. The strict monitoring standards imposed by many international donors and implementing agencies largely explains this.

Many risks remain, however, and one of the foremost dangers is that infrastructure projects may be designed according to the needs of empowered officials and institutions, rather than of needy populations. This risk is particularly high with bilateral assistance, when major projects are sought to maximise capital return to the donor country through the use of construction companies from the donor country. In such cases, reconstruction aid acts as a subsidy for the contractor. Major construction projects also enable high-level corruption and influence peddling between a donor country, local politicians and local interests. Concentrating reconstruction in a particular geographic area, or infrastructure promoting powerful private interests, can easily take on a political bias.

A second risk factor is that post-conflict reconstruction is particularly prone to changes in land-use and urban planning. Access to land previously denied by hostilities, and rising prices in urban centres, lend themselves to speculation and fraud. Displaced populations are particularly vulnerable. Reconstruction presents an opportunity for officials colluding with developers to take control of ‘squatter’ settlements, some of which constitute prime real estate areas, such as the Boa Vista in the Angolan capital. The award of construction contracts and licences offers fertile ground for corruption and interference in allocation procedures. Similarly, construction projects may accompany new economic sectors that have opened up with the onset of peace, including through privatisation.

A third set of factors relates to the implementation of projects. The continued risk of violence often involves security measures and delays, which can provide opportunities for corruption. Contractors may need to pay protection money or build a ‘special project’ to get the protection of former warlords turned local politicians. Auditors may not be able to visit construction sites when the project has been completed – for ‘security reasons’. Widespread subcontracting on large projects with multiple sites may also undermine donor and governmental supervision. The attempt by donors to accelerate the pace of reconstruction, as in the case of Iraq, results in major risks of wastage and fraud.

High standards of supervision by donors and implementing agencies are not sufficient. Broad consultation and multilayered monitoring that involve local communities are necessary to reduce the risks of corruption. The case of the National Commission for Social Action Sierra Leone provides an interesting example where a chain constituted by consultative forums, technical committees and local community-based appraisal committees provides greater guarantees that a construction project will be locally relevant, cleanly funded and of good quality.¹

**Note**


**Consequences of corruption**

Corruption may occasionally have short-term positive effects, for example, in helping secure some degree of political, economic and social stability. It is also often very
difficult to address local sources of grievances and conflict rapidly and effectively. In these respects, some of the political and social effects of corruption may provide short-term solutions – such as buying out ‘peace spoilers’ or authorising informal economic activities.

Many examples, however, suggest that such ‘quick fixes’, tempting though they may be, may have long-lasting negative effects. Buying out spoilers is a risky venture, as impunity and economic rewards can sustain rebel movements, as demonstrated in Angola with UNITA or Sierra Leone with the RUF. Informal economic activities strengthen the grip of quasi-criminal groups in the economic and government spheres, and negatively affect future economic development.

The most immediate consequence of corruption is a negative effect on the volume, quality and targeting of reconstruction assistance provided by international donors and local authorities. But the harmful effects of corruption reach much further.

Corruption can act as a deterrent to attracting donor support when it appears in local public finances, particularly when combined with a lack of commitment towards reconstruction goals and where local authorities appear to have the resources to finance some of the reconstruction. Despite massive reconstruction needs in Angola, donors have expressed reluctance to assist the government due to sustained allegations of large-scale corruption in this oil and mineral-rich country.

To the extent that economic variables are key determinants of the risk of renewed conflicts, corruption can also undermine peace building. Aid targeted solely at political constituencies, and biased bidding processes favouring companies serving the interests of politicians, can impair the security of the most vulnerable populations and overall economic growth. Poor beneficiary targeting, incompetent or wasteful contractors, inappropriate infrastructure and economic assistance projects can all contribute to major setbacks.

A political consequence of corruption may be the entrenchment of an imbalanced power or political status quo inherited from the conflict. As the groups empowered by the outcome of the war sustain dominant political and economic positions through corruption, they may prevent the redistribution of power, and stifle adequate checks and balances. In extreme cases, donors may end up dealing with war criminals as official interlocutors – a situation that has been avoided in some cases only through granting executive powers to international agencies through trusteeships and transitional authority mandates, as in the case of the Office of the High Representative in Bosnia.

Finally, post-conflict mismanagement and embezzlement of reconstruction assistance can also delegitimise the local government and lead to social unrest. Corruption facilitates criminality and persisting violence in post-conflict societies by compromising the conduct and independence of the police and judiciary, and through the recycling of former combatants into the private militias of corrupt politicians or organised crime.

**What can be done to reduce corruption in post-conflict reconstruction?**

For the effective reduction of corruption, three main areas need to be jointly considered, with relevant measures tailored to individual situations.⁶
Ensuring public support aims at ending apathy, defeatism, and complicity on the issue of corruption, and associating the transition to peace with new values. Such a process can start with a survey of corruption perception, followed by public awareness campaigns and feedback on instances of corruption and enforcement.

Providing an appropriate economic and regulatory context can help eliminate incentives and opportunities for corruption. Such a process can start with the regular payment of adequate salaries for public employees and the regulation of political party financing, reconstruction contracts and corporate practices.

Securing a legal framework for transparency and accountability can start with rules of disclosure for politicians and high-ranking civil servants, as well as the criminalisation of corruption in the legislation. Attention must be directed not only at local authorities, but also at aid agencies and contractors.

Measures within these three areas need to be built into the reconstruction process from the outset, as prevention measures are more effective than an often-elusive search for accountability. A comprehensive plan is crucial, but hard to design and to implement fully given the diversity of organisations involved in reconstruction and local politicians’ room for manoeuvre. Ongoing coordination and cooperation efforts should ensure that local authorities remain on board, and that donors and implementing agencies mutually reinforce one another rather than undermining each other’s activities. Both companies and civil society also play a major role and should be involved from the outset.

Good governance

Good governance is the key element for reducing corruption in post-conflict countries for the long term. The main measures include establishing adequate reconstruction management procedures, passing anti-corruption legislation, creating implementing agencies, and reforming political party financing, bureaucracies and the judiciary. Local authorities should make a public commitment to the priorities and principles guiding reconstruction, and demonstrate that clear and transparent fund allocation procedures and accountability mechanisms are in place to manage reconstruction efforts. The allocation of reconstruction funds, like all public budget expenditures, should be approved by the legislative branch of government and subject to the scrutiny of an inspector general’s office. Contracting should be submitted to proper tendering procedures.

Post-conflict transition often involves extensive transformation of legal instruments, including the constitution. Careful attention should be devoted to addressing the causes and mechanisms of corruption when revising legislation. A new constitution, for example, should include a commitment to fight corruption, and an effective separation of powers and government structures. It should also address immunity issues for high officials and due judicial process to protect political opponents against politically motivated accusations of corruption. The key role of the judiciary frequently necessitates a high degree of involvement of the international community to assist
with reforms, including the nomination of more independent judges, if necessary from foreign countries.

Party financing is a major cause of political corruption, but is particularly hard to tackle in a post-conflict environment. The incumbent party generally plunders the state in advance of elections and international donors are understandably reluctant to finance political parties directly. These issues need to be addressed at the stage of the peace agreement through preventative measures prohibiting the sale of state assets for an interim period, creating a framework for the international supervision of public accounts and laying out the rules for party financing.

Civil service reforms to depoliticise and professionalise the bureaucracy are key, with Bosnia and Herzegovina and Rwanda providing examples of relative success. In Cambodia, in contrast, coalition parties jockeyed to reinforce their position within a system of patronage that resulted in a bloated administration of underpaid staff, with corruption being orchestrated by ministers or heads of department.

A culture of integrity can be promoted through codes of conduct for civil servants and companies, mass education, or media programmes protecting and improving the standards of journalism.

**International assistance**

During the height of the cold war, foreign sponsors supported corrupt leaders as long as they remained allies. The past 15 years have seen a sharp evolution in the statements and policies of donors and international agencies in this regard. Most have emphasised good governance and condemned corruption, yet aid has continued to be allocated to corrupt governments. The record of the US administration in this regard is particularly poor: it has allocated the most aid to the most corrupt governments. On the grounds that a corrupt government is more likely to assist or tolerate terrorist organisations, there has been an increased call for public integrity and good governance since the terrorist attacks of September 11, 2001. However, practices continue to reflect ad hoc vested interests. On the frontline of the ‘war on terror’, it has been argued that the US has largely abetted, and continues to tolerate, the corruption of allied warlords in Afghanistan.

Donors and implementing agencies are generally not keen on denouncing corruption. They often fear a possible backlash in domestic public opinion that could undermine future support, the risk of local political instability or retribution from local authorities which may lead to the end of programmes benefiting vulnerable populations. Exposing corruption may also lead to a loss of credibility and reputation when direct mismanagement is involved. Donors’ preferences for long-term macroeconomic reforms may mean that governments that support trade liberalisation, tight fiscal discipline and political pluralism are less likely to face public criticism and pressure on the part of Western donors and International Financial Institutions (IFIs) – whatever their actual practices.

After a careful analysis of potential political and humanitarian consequences, donors and international agencies should be ready to suspend non-humanitarian aid to avoid consolidating the power of corrupt politicians. An example of this was when the EU
suspended its aid to the Republika Srpska in 1997, acknowledging a political impasse and widespread corruption.

Particular attention should be given to the risk of embezzlement of reconstruction funds. The monitoring of bids for reconstruction contracts should include background checks on bidding companies for political ties. Reconstruction programmes should be designed to ensure maximum transparency and hold officials, both local and foreign, accountable at both planning and implementation stage. Preventive measures should include maximum participation and supervision by local communities over projects and implementing companies, as well as built-in mechanisms of transparency and accountability.

Donors and agencies need to be exemplary in applying standards of transparency and accountability, beginning with the oversight of their own programmes. The example of Iraq is particularly dismal in this respect. The Coalition Provisional Authority (CPA) and Department of Defence initially had only 80 people examining the largest reconstruction programme in history, half the number needed according to the Association of Inspectors General, and eventually outsourced oversight to private companies giving rise to potential conflicts of interest. International supervision has been even worse: the work of the International Advisory and Monitoring Board for Iraq, set up to monitor the Development Fund for Iraq independently, has been substantially delayed.

Agencies representing the international community have increasingly been assigned executive powers in post-conflict countries since the mid-1990s, as in Bosnia and Herzegovina, East Timor and Kosovo. This allows for new anti-corruption standards and task forces to be put in place, such as the Anti-Fraud Unit and Legal Reform Unit of the Office of the High Representative in Bosnia and Herzegovina. It also allows for greater direct control of public works and services. This does not guarantee probity, however, as demonstrated by the case of Joseph Trutschler, convicted of financial fraud while in charge of the rehabilitation of the electricity sector for the UN Interim Administration Mission in Kosovo. Critics of UN interventions have pointed to the corrupting effect of the authority and money made available to international workers. Many seek to protect their jobs by sidelining capable ‘locals’ and prolonging their mandate and projects.

International actors must avoid providing examples of institutionalised corruption. Restraint rather than lavish spending and salaries can help to reassert the values of public service. Donors should also think twice before contracting vastly more expensive foreign companies and NGOs simply for the sake of avoiding the risk of petty corruption by local entrepreneurs and officials.

Donors also need to keep their side of the reconstruction bargain and help prevent corruption in the first place rather than assign blame when it occurs. Timely disbursement of pledged funds can address one of the sources of corruption, whereby ministers, heads of department, and companies can rely on promised revenue flows rather than having to cut corners and engage in corrupt practices to ensure the payment of wages or avoid bankruptcy.
Private sector

Private consultancies and construction companies play a major role in reconstruction, often being allocated the bulk of reconstruction funds. Auditing of contractors is imperative. Audits should be conducted both externally and internally, with a reinforcing system of incentives and sanctions. The level of corruption in these cases can be significant.

Civil society and the media

Raising public expectations is key to the long-term success of reconstruction so that corruption becomes unacceptable rather than unavoidable. Local civil society organisations and media constitute a key element of corruption prevention and accountability. In many instances, however, such organisations are weak or non-existent.
Many have close ties to political parties, and end up channelling aid or opinions in the interests of their political patrons.

Although independent organisations can often flourish under favourable circumstances, they are often ill equipped to detect and report corruption and are vulnerable to pressure and coercion from powerful corrupt groups, as testified by the imprisonment or killing of numerous journalists and activists. Reconstruction assistance can help raise awareness and build capacity towards an effective, national, anti-corruption consensus. Early intervention in the reconstruction process is key, encouraging new media, civil society leaders and public institutions to emerge.

**Corruption, reconstruction and peace-building**

The challenges faced by conflict-affected countries are formidable, and rebuilding infrastructure is only one, albeit important, facet of the reconstruction and recovery process. Less corruption in post-conflict reconstruction means not only better-targeted, higher quality, and more efficient assistance, but also a greater contribution to the transformation of the local political economy, as well as the consolidation of more effective state institutions and legitimate political parties. In short, less corruption can help build a stronger peace.

Tackling corruption, however, should not take precedence over peace building, but rather complement it. The first priority in this regard is to maintain security for the population. An assessment of the capacity of corrupt ‘peace spoilers’ is needed before moving against them. The international community may wisely let corruption buy a temporary peace when the risk of renewed conflict is too high. The legacy of such an approach is risky, however, and a better tactic than complacency or complicity is to drive a wedge between peace spoilers and their main power base: combatants and economic interests. Amnesties and enticing demobilisation and reintegration packages can ensure the cooperation of middle and low-ranking combatants, while war crime indictments can isolate their leaders. International supervision can help to protect public finances and key economic sectors from embezzlement, and secure a smoother transition towards accountable and transparent economic management.

The second priority is to restore the confidence of the population, most notably in its government and the political process. A corrupt government rarely has the support of its population, but in many cases patronage is the legitimating link between individual rulers and the ruled. To move beyond corruptly financed modes of redistribution and power holding, both institutional arrangements and political culture have to change. Better detection and accountability mechanisms should ensure the validity of accusations of corruption, a prominent political dimension in the reconstruction period.

Confidence in foreign interveners is also necessary to ensure an optimum partnership. Institutional reforms are key in building transparency and accountability, but their implementation is slow and difficult. A short-term priority is to keep the public informed about what is happening and how it affects the general citizen. Broad-reaching and high quality information is crucial to ensure that the goals of transparency and accountability are more rapidly achieved.
Notes

1. Philippe Le Billon is assistant professor at the Liu Institute for Global Issues and the Department of Geography at the University of British Columbia.

Case study: Corrupting the new Iraq

Reinoud Leenders and Justin Alexander

Wednesday 9 April 2003 was not only the day that most Iraqis rejoiced at the fall of Saddam Hussein’s regime. In the eyes of many Iraqis, it was also the day that marked the beginning of a new era of intensified theft of state property, corruption and conflicts...
of interest. When asked to give their views on the birth of the new Iraq, the probability is high that Iraqis will refer not only to the widespread looting by ‘Ali Babas’ but also to the looting by Iraq’s new democratic leaders.

Taking advantage of the power vacuum, scores of political factions took possession overnight of numerous public buildings and settled in opulent villas vacated by Saddam’s henchmen. The old regime’s car park became the scene of the new political elite’s gluttony, with hundreds of SUVs that once served as the status symbol of Saddam’s secret agents now being driven to the headquarters of the new political parties. Iraq’s new politicians found numerous justifications for this usurpation of state property; some of which could indeed be cited as mitigating circumstances. But in the eyes of dismayed Iraqis, the political parties had managed to ruin their reputation before the business of governance had begun. ‘The political parties took everything they could get hold of’, said one Iraqi businessman.3 ‘State property went up for grabs. If they could get away with this, how do they expect ordinary people to behave?’

**Perceptions, misperceptions and evidence**

One year into Iraq’s reconstruction programme, opinions are divided over what the Coalition Provisional Authority (CPA) and the now dissolved Interim Governing Council (IGC) have achieved in repairing the damage caused by decades of mismanagement, sanctions and wars. Yet across the board, corruption has been identified as one of the main obstacles to getting Iraq back on its feet. A survey held in early May 2004 revealed that 58 per cent of Iraqi respondents had heard of corruption in the reconstruction process, and 32 per cent believed that such malpractices involved CPA officials.4

Almost unanimously, Iraqi businessmen complain about bribery affecting virtually all government operations. Contractors alleged that inspectors checking up on the refurbishment of schools by Iraqi companies in September 2003 were bribed to turn a blind eye to shoddy or unfinished work.5 Iraqi protesters amassing in front of the gates of the ‘green zone’, the CPA headquarters in Baghdad, routinely mentioned corruption on their banners. In Nasariyya, Sunni Muslim clerics expressed their anger over what they believed was widespread corruption in the CPA and local authorities.6 Foreign company workers said they witnessed corruption ‘everywhere and on all sides’.7

None of these allegations should be taken at face value. Accusations of corruption are often made for reasons other than actually having witnessed it. Iraq is no exception. That the presence of public works in Basra is much lower than anticipated is cited as ‘proof’ that the local contracting process is rigged and that the funds have been pocketed. The fact that the governorate had not initiated any works because of a genuine lack of funds did not prevent local businessmen describing in graphic detail the crookedness of tenders that were never held.

Iraqis have felt largely excluded from the political process going on in Baghdad, and the impression that something dishonest is going on behind the scenes understandably makes Iraqis reach out for the c-word to make sense of developments. The weakness of Iraq’s political parties also encourages corruption, and allegations directed against opponents can serve as substitutes for party programmes or meaningful political
Yet there are plenty of reasons to believe that high levels of corruption have indeed taken hold in the new Iraq. At the Ghazil market in central Baghdad and the suq of old Basra, salesmen and consumers engage in a booming trade in stolen medicines and medical equipment supplied by corrupt public servants. CPA officials, contractors and high-ranking ministry employees have admitted to corruption in their midst. According to a senior official at the ministry for trade, corruption between ministry officials and traders permeates the distribution of rationed food and other consumer items at all levels of procurement, storage and allocation. A former trade minister, Ali Allawi, accused officials at his own ministry and the CPA of embezzling US $40 million in the procurement of wooden doors with funds of the ‘Oil-for-Food’ (OFF) programme, adding that the case represented ‘the tip of the iceberg’. 

**A context in which corruption can thrive**

Corruption thrives in a context of confusion and change. In Iraq, public institutions are even struggling to find out how many employees they have on their payrolls. Obvious institutional safeguards are yet to be put in place and ministries and state companies lack proper inventory systems. As one Iraqi director-general pointed out, ‘[i]t’s very easy to turn a three into a 30 for example, since the Arabic zero is a dot’. It is within this climate that the Iraqi state and US funding organisations are expected to spend nearly US $14 billion in 2004.

Under Saddam, loyalty to the regime was systematically bought by distributing favours, effectively creating a ‘shadow state’ in which bureaucratic procedures applied only to the unfortunate and underprivileged. However, it was not until the UN sanctions in the 1990s that corruption and facilitation payments became endemic at every level of society. The OFF programme exacerbated corrupt behaviour among senior Iraqi officials who enriched themselves by striking corrupt deals with foreign companies and politicians at the expense of ordinary Iraqis. For some public servants, corruption was the only way for them to feed their families on salaries as low as US $5 a month.

The former regime’s control of the economy also left a legacy of corruption. Heavy state procurement and subsidies still distort market prices increasing the temptation to sell low-priced goods on the black market or to smuggle goods to neighbouring countries. Reforming these state policies is not only going to hit the poor hardest, it will also generate new opportunities for corruption. There is a danger that rapid privatisation is soon to be enforced by the IMF and the Paris Club of official creditors as a condition for reducing and rescheduling some US $120 billion foreign debt accrued under Saddam. Experiences in the former Soviet Union, and other indebted countries that have been forced into rapid privatisation, suggest that the selling off of state-owned enterprises under conditions of opaque governance, combined with the lack of a free market, is almost certain to result in widespread corruption.

Another major factor that risks fuelling corruption is Iraq’s dependence on oil. Very few oil-producing countries have established effective mechanisms to prevent the
plunder of oil revenue. The transition period in Iraq has focused on power sharing along sectarian and regional lines and very little thought has been given to how the new Iraq can be more effective in managing oil revenues. As one senior Iraqi official put it, 'governance takes place on a day-by-day basis. We will repeat the same mistakes of the past if we don’t think this through.'

Ideas have been floated about establishing a transparent oil fund insulated from the daily bickering at cabinet and parliamentary levels, but serious debate on this issue is yet to begin and, as Iraq’s own experience in the 1950s established, an oil fund provides no guarantees of freedom from greedy politicians. In the meantime, Iraq’s oil revenues have been channelled into the UN-authorised Development Fund for Iraq (DFI) and managed by the CPA’s Programme Review Board (PRB). A UN body to audit the Fund, the International Advisory and Monitoring Board (IAMB), found gross irregularities by CPA officials in their management of the DFI, and condemned the United States for ‘lack of transparency’ and providing the opportunity for ‘fraudulent acts’.

**US contracting**

The lack of transparency and accountability in the CPA’s management of Iraqi oil revenues touches on a wider problem characterising the US’s handling of the reconstruction process. In its procurement strategies, the US has been a poor role model in how to keep corrupt practices at bay. Even before the invasion was launched, questions were being asked about the extensive contracts secretly awarded to Bechtel, Halliburton and others.

Critics of the Bush administration have argued that the reconstruction contracts have resulted in three levels of corruption. First, concerns have been expressed over the selection of companies that are close to the Republican Party – either as donors or through high-ranking members of the party serving on the boards of the private companies that were awarded contracts (for example, Vice President Dick Cheney, who was CEO of Halliburton prior to taking office in 2000). These concerns were reinforced by the highly secretive nature of the contracting process, especially during the war preparations, and the type of contracts awarded. For instance, according to the US Project on Government Oversight, ‘the Orwellian-sounding Indefinite Delivery Indefinite Quantity [contracts] allows the government to award an unspecified amount of future work to approved contractors’. This system restricts the ability of poorly connected and smaller companies from bidding for contracts. In addition, the phenomenon of ‘contract bundling’, which joins together two or more separate procurement requirements into a super-sized contract, effectively disqualifies smaller companies because only the very largest contractors are able to compete.

Second, many US contractors in Iraq have been wasteful and have taken what many would see as excessive profits, both of which can be attributed to ‘cost-plus’ contracts in which companies are reimbursed for all costs with an additional percentage added as guaranteed profit. Serious questions also arose about the subcontracting practices of the companies working in Iraq. Ed Kubba, a member of the American-Iraqi Chamber of...
Commerce, mused, ‘If you take US $10 million from the US government and sub the job out to Iraqi businesses for US $250,000, is that business, or is it corruption?’

Finally, individual employees of prime US contractors have been accused of being directly involved in bribe taking in the form of kickbacks from other companies seeking subcontracts. Translators, who are seen as holding particular leverage, are alleged to have demanded 10–50 per cent of the value of a subcontract in return for facilitating access to the main contractor.

Tackling corruption

In the past year, some modest initiatives have been taken to tackle corruption in Iraq. Most importantly, the CPA helped establish an independent office of general inspectors, with an inspector attached to each ministry. The office is backed by two other institutions – the Commission on Public Integrity and the revived Supreme Audit Board. Yet both these institutions have yet to do any significant work and a chair of the Public Integrity Commission had to be imposed by the CPA after the now dissolved Iraqi Interim Governing Council failed to agree on an appointment.

Another important development has been the adoption of a National Integrity Law which forces state officials and politicians to declare their wealth prior to assuming office. In addition, in June 2004 the CPA promulgated a law protecting anti-corruption whistleblowers. Contracting partners for USAID, including Bechtel, have announced that they have introduced business ethics into management courses for their subcontractors and Iraqi government officials, although the topic of corruption was lumped together with other issues such as job safety and sexual harassment in courses taking little more than a few hours.

When participating in tenders to US contracting organisations, Iraqi companies have been instructed in conducting transparent bidding processes and business accounting. A common complaint among Iraqis, however, has been that the CPA, among others, has failed to explain why some bidding companies had lost and others won, thereby undermining trust in the process. Nor did the CPA consistently resort to tendering in awarding contracts.

Despite an awareness among some Iraqis about the importance of stringent anti-corruption measures, many Iraqi officials and businessmen have demonstrated a poor understanding of how to deal with the problem. For example, when asked how the governorate of Basra is preparing itself for its procurement tasks to be fair and transparent, one of its officials summed up this city’s ‘anti-corruption policy’ by saying that contracts will be granted by ‘religious men who are by nature more honest’.

Another misconception is that the elections that are to be held by January 2005 will eradicate corruption for once and for all ‘because the electorate will simply vote any corrupt politician out of office’. Elections may be a necessary condition for effectively countering corruption but they are far from a sufficient one. Relatively free elections in Kurdish Iraq in 1992 failed to root out corruption and there have been widespread complaints that collusion between Kurdish political parties and business has been the rule rather than the exception.
The new inclusive style of politics has progressed unevenly, which has tended to cause institutional gridlocks. Politicians have been able to treat ministries and other state bodies as their private fiefdoms. As happened in post-conflict Lebanon, power concentrated in this way, combined with intensive demands from the Iraqi public for government jobs, may lead Iraq to the situation where sectarian leaders distribute public resources and jobs among their constituencies, a phenomenon known as muhasassa (apportionment).

Moving on

It is likely that we have not yet seen the full scale of corruption in Iraq for the simple reason that much of the anticipated expenditure on building contracts and procurement has yet to begin. But with so many factors fostering, and threatening to foster, corruption, the reconstruction process demands a much more aggressive approach to corruption than is currently being taken by the new Iraqi government, the coalition forces and foreign donors.

If reconstruction is to generate actual processes of accountability and ownership of the process by local stakeholders, it is essential that these institutions place much greater emphasis on the decentralisation of both governance and aid projects. Supporting local media to serve as an independent and reliable watchdog is another essential step to promote accountability. Foreign governments should apply anti-corruption legislation to companies operating in Iraq and any pressures on Iraq to meet the requirements of a free market system should take into account that markets need strong institutions to avoid giving way to a form of capitalism dependent on personal connections rather than the forces of the open market.

Most importantly, the effective management of Iraq’s oil revenue must be put high on the agenda and must learn from the lessons of other oil-producing countries and Iraq’s own past. A good start would be to grant the Iraqi Supreme Audit Board a seat on the International Monitoring and Advisory Board, to familiarise it with international auditing standards and improve Iraq’s local expertise.

Concerns over corruption in Iraq should not be a reason for delaying the transfer of funds already committed to reconstruction in Iraq, as many donors now appear to be considering. In the absence of an economic revival the demands on a fragile Iraqi government will be too great to initiate a process of building sound institutions. Nevertheless, strong and immediate measures must be taken to address corruption before the real spending on reconstruction starts. If urgent steps are not taken, Iraq will not become the shining beacon of democracy envisioned by the Bush administration, it will become the biggest corruption scandal in history.

Notes

1. Reinoud Leenders is a Middle East analyst based in Beirut. Justin Alexander heads the Jubilee Iraq campaign. The views expressed in this article are the authors’ own.
2. A term coined by US soldiers that many Iraqis consider a denigration of a heroic figure in Iraqi literature. In the story it is the 40 foreign interlopers who are the thieves.
3. Authors’ interview in Baghdad, 10 March 2004.
5. Authors’ interviews with Iraqi contractors in Baghdad, April 2004.
7. Authors’ interviews with foreign contractors and private security company officials in Baghdad and Basra, March–April 2004.
10. Ibid., quote from Ahmed al-Talibi, DG of Kimadia, the state company for drugs.
12. The US General Accounting Office estimated that Saddam made US $4.4 billion from kickbacks during the seven years of the OFF programme. The Iraqi newspaper Al-Mada revealed on 25 January 2004 a controversial list of 270 firms and individuals who were alleged to have received bribes.
13. See www.jubileeiraq.org/resources.htm
16. Following the formal handover of sovereignty in June 2004, the PRB has been dissolved and the Development Fund is now managed by the Iraqi Ministry of Finance and audited by the IAMB.
17. See www.iamb.info/dfiaudit.htm
19. www.pogo.org
22. Ibid.
23. Earlier attempts to impose financial discipline were shaken by the arrest of the ministry of finance’s chief anti-corruption watchman, Sabah Nuri, on charges of embezzling US $22 million in the country’s otherwise successful currency exchange for new dinars.
30. Of the US $18.4 billion in US Congress funds allocated for Iraq’s infrastructure, at the time of writing the PMO had spent only US $1.93 billion (or 10.5 per cent) on actual projects under construction. See PMO, *Pentagon Background*, 24 May 2004, www.rebuilding-iraq.net/pdf/pmo_update_brief_24_may_04.pdf

31. Iraqis do not read many newspapers and those who do say they do not trust them. See Iraq Center for Research and Strategic Studies, *The Results of the Third Public Opinion Poll in Iraq*, 23 October 2003. Some initiatives have been taken to bolster Iraqi media in holding politicians more accountable. For example, the Institute for War and Peace Reporting supports a dynamic training programme for Iraqi journalists to report, among other issues, on corruption. See www.iwpr.net/iraq_index1.html

32. Some general principles designed for oil revenue management could directly feed into such a debate. See www.publishwhatyoupay.org