

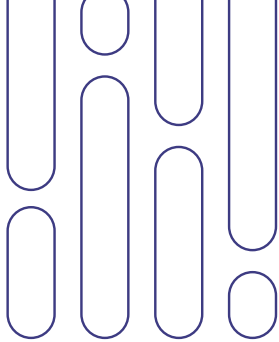
*Report*

# Prime Minister Mustafa al-Kazemi's Financial Reform Program to Combat Corruption: Accumulated Challenges and a Limited Response

08 July 2020



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Iraq's financial reforms are interconnected with the government's fight against corruption. This has been one of the most sensitive issues facing successive governments since 2003. Combating corruption is now a top priority for Mustafa al-Kazemi's government and an important part of its financial reform program. Al- Kazemi came to power as a result of the October 2019 protests. His financial reform program, approved by the House of Representatives, focused on combating corruption. However, there is a lack of clarity concerning the systems that Kazemi will adopt to fight corruption. For example, it is unclear how Kazemi will return smuggled funds from outside the country or address financial corruption. To effectively fight corruption, there needs to be a certain level of political consensus and support. Perhaps this explains Kazemi's resolute stance with regard to the anti-corruption file. He has held several meetings with the three presidencies and Iraqi political blocs to convince them of the urgent need to combat corruption and to control

government spending. Despite the opposition of some political blocs, Kazemi is determined to rationalize government expenditures which have burdened the state budget.

Iraq's urgent need to combat corruption has coincided with Iraq's growing economic challenges, increased government spending, the outbreak of the coronavirus pandemic and a drop in global oil prices. These developments have forced Kazemi to make the anti-corruption file a top priority for his government.

### **I- The Reality of Corruption: Double-Standards and Legitimate Expenditures**

Corruption has spread in Iraq due to a number of reasons such as the country's failure to define a well-thought out public policy and strengthen monitoring capabilities post 2003.

Iraq's public policy did not clearly set out regulations to integrate the public and private sectors. Private companies – owned by influential government officials – were prioritized at the expense of public institutions. Therefore, corruption penetrated decision-making circles to such an extent that it cannot now be easily addressed. Corruption is difficult to fight in Iraq due to a lack of trust between the government and the political blocs in Parliament. This deficit has meant it has been impossible to reach a strong political consensus to actually start fighting corruption. Nevertheless, rampant corruption exists at the institutional level due to the absence of well-defined public policies, as a result of which state institutions have remained weak when compared to other sectors which are linked to powerful political figures.

On the other hand, Iraq's annual budget is an operational budget, not an investment one, because it relies on oil revenues to finance government expenditures. The government's old policies, particularly those within the framework of 'transitional justice,' have placed significant pressure on state spending patterns, and have led to an increase in corruption as the 'transitional justice laws' were easily exploited. This may complicate the process of fighting corruption and its multiple facets, which require real economic reforms. Most studies and reports acknowledge the great difficulties and challenges in combating corruption. This is because

fighting corruption is dependent on laws that limit the ability of decision-makers. The laws are shaped by political agendas that restrict decision-makers further.

The ‘transitional justice laws’ concerning ‘Rafha’ detainees, ‘the Iraqi martyrs,’ and other groups have contributed to creating a kind of social discrimination because these groups have not been provided with complete compensation but only monthly salaries. According to Law No. 35 (2013), Rafha detainees were granted political prisoner privileges in accordance with the provisions of the law. The same law addresses minors and children who were arrested with their family members or relatives.

Iraq’s financial institutions were unable to supervise and monitor the financial allocations to the groups identified within the country’s ‘transitional justice laws’— taking into consideration that the groups covered by the laws include Iraqis who reside outside Iraq. Iraqi residents abroad constitute an unclear number. In addition, they have had no contact with Iraq since the 1990s because they settled outside the country and have become nationals of other countries.

In addition, some of these laws led to employees in Iraq receiving duplicate salaries, and granted them employees’ rights permitting them to receive more than one salary from the state. This duplication led to two issues. First, it limited the availability of government revenues in order to recruit new employees and hindered its ability to address unemployment which has been on the increase since 2003. Second, it created an unjust and flawed system with regard to government salaries. Addressing this issue has been difficult because it requires new legislation and policies to ensure meaningful change.

The legal framework that regulates the allocation of funding for certain groups identified in Iraq’s ‘transitional justice laws,’ the duplication of jobs; and the ensuing corruption due to weaknesses in financial oversight and auditing, have aggravated the difficulty in resolving the problems related to transitional justice — amid the government’s efforts to rationalize expenditures and combat corruption. Moreover, transitional justice is interwoven with the interests of influential political parties in Iraq.

## II- The Re-evaluation of Expenditures and the Limits of Financial Reform

As a result of accumulated and overlapping complications, Mustafa al-Kazemi froze the salaries and allowances provided to Rafha detainees and other groups under the country's 'transitional justice laws.' To maintain political stability, Kazemi clarified that this step was taken to rationalize expenditures, not to cancel them, and to achieve a balance between expenditures in light of the current economic circumstances and challenges facing the state since the beginning of the current year. At the same time, freezing salaries and allowances is the initial step in reviewing government spending policies and dealing with suspicious files that have been part of government policy since 2003. The impacted groups and their political representatives have criticized Kazemi's steps. Muhammad al-Hindawi, a former parliamentarian and head of the Martyrs, Victims and Political Prisoners Committee, stated that the steps undertaken by Kazemi in relation to the Rafha detainees and other political prisoners will have ramifications for him and his ability to manage the cabinet. These remarks clearly indicate the possibility of political opposition arising which will impact Kazemi's ability to continue in government, or will pressure his government to retreat from the policies that impact the aforementioned groups. It appears that the political positions adopted by most political blocs reflect their opposition to the steps undertaken by Kazemi. Those representing the groups impacted by Kazemi's policies went to prominent political leaders such as the former Prime Minister Nouri al-Maliki and the President of the National Wisdom Movement Ammar al-Hakim and other leaders for their support. As a result, these leaders supported the groups opposed to the reform policies pursued by Kazemi. These partisan and political positions seek to undermine the prime minister's policies which aim to root out corruption, or at least to reduce it.

Kazemi's meeting with a team of financial advisers was a serious step demonstrating that he has no intention to back off. The government will pursue rational policies, financial and economic reforms and introduce new steps to control border crossings to be handled by Iraq's counter-terrorism apparatus. In addition, the government will introduce other new steps to end the control of some political parties over private banks and financial

institutions. This expected step led to much popular support for Kazemi despite political opposition to it. It is expected that the government's revenues from monitoring border crossing movements and the transactions of private banks will contribute to covering a large percentage of the fiscal deficit that the government faces, due to the country's economic crisis and low oil prices.

Banks significantly impact market liquidity, the exchange rate of the US dollar to the Iraqi dinar and the flow of funds to the labor market. However, the spread of corruption has changed the functions of some Iraqi banks, limiting their operations to currency speculation. These banks, sometimes, develop financial influence due to the support of powerful politicians who are board members, or because some banks are implicitly affiliated to political parties, or officially registered under intermediaries or businessmen. Accordingly, the operations of banks have become dependent on the profits they accumulate via currency auctions offered by the Central Bank of Iraq. The money the Central Bank gains from buying and selling the dollar is the most important part of its work. Kazemi's strategy to extend control over the work of these banks and fight corruption in the currency market will positively impact the investment market.

Although some believe that such steps will not resolve the economic challenges facing Iraq, they are necessary to initiate economic and financial reform, especially since they have contributed to lowering government expenditures by identifying and halting the payment of nearly 40,000 double salaries in six ministries. This number is expected to increase, especially since Iraq is making progress in financial governance. The implementation of these governance programs is supervised by the Ministry of Finance and the World Bank.

### **III- Kazemi's Options in Saudi Arabia Compared to Iran**

Kazemi's government is looking for new options that support the country's economic and financial sectors, and to diversify the country's revenue streams. The possible options include supporting Iraq's agricultural and industrial sectors and increasing external borrowing, which would enable Iraq to overcome its immediate economic challenges. It seems that Iraq is truly targeting, for example, the Kingdom of Saudi Arabia to secure new

areas of cooperation in energy and finance. Kazemi considers Saudi Arabia to be an important political actor, and believes signing agreements with it in the economic sphere can lead to fruitful cooperation between the two countries, especially in the fields of oil, gas and desalination. Iraq needs to urgently cooperate with Saudi Arabia with regard to its electricity need.

Some cooperation agreements signed between Iraq and Saudi Arabia focus on the importance of strengthening partnerships in the field of agriculture, and investing in the Jamwa Samawah and Anbar road projects to improve geographical links. Also, cooperation between the two countries involves establishing a dry port in one of Iraq's cities similar to the one in Riyadh. This dry port links Riyadh via Saudi territory to one of the Kingdom's ports on the Red Sea. Many Iraqi economists are proposing such options to support openness and cooperation between Saudi Arabia and Iraq.

Kazemi is working to establish a balanced openness with Iraq's regional neighborhood because he is aware of the regional competitiveness surrounding the country. Some believe that this Iraqi balanced openness is to allay Iran's concerns with the Iraqi prime minister opening the door to the country to possibly learn from Iran's experience in banking. This was clearly reflected in Iraqi government data after Iran's Central Bank governor visited Iraq and met with Kazemi. However, the Iranian banking system is not of great importance to Iraq because it does not significantly differ from the Iraqi banking system. In addition, the Iranian banking system is subject to international sanctions which can be extended to Iraq if it works with the Iranian banking system.

According to government priorities, the Kingdom of Saudi Arabia looks more closely to Iraq for several reasons, notably the sanctions imposed on Iran, which may affect Iraq if Tehran disturbs the regional security interests of the United States of America. Baghdad's support for bilateral trade with Iran will give it greater ability to maneuver with the United States. Iraqi-American dialogue is conditioned on Baghdad reassessing its relationship with Tehran in order to support the interests of the United States in the region, or maintaining a balance. The economic partnership with the



Kingdom of Saudi Arabia and the investment incentives are of importance to Iraq, especially since all financial indicators push Kazemi to engage in far-reaching economic cooperation with Saudi Arabia across a range of different sectors.

## **Conclusion**

Iraq's financial reform policies will contribute greatly to rationalizing government expenditures, and overcoming major challenges with regard to administrative and financial corruption. These reform policies require political consensus and support, as Kazemi's reform program is apparently still facing some political challenges.

Nevertheless, it can be said that Kazemi has won the first round in the ongoing political battle to initiate reforms. This could lead to the development of a new financial system which can help in addressing the crises facing the state. In addition, it can help in establishing a platform to create a consensus between the government and political parties to fight corruption and rationalize state expenditures.

A new report reviews the anti-corruption program of the new Iraq PM al-Kazemi, highlighting the Iraqi government's options with Saudi Arabia to support its economy.



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