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DECARBONIZATION AND POLITICAL TRANSFORMATION IN IRAQ:

THE IMPACT ON POLITICS, SOCIETY AND REGIONAL RELATIONS

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ABSTRACT

What happens when a petrostate loses its oil rents? While the oil market continues to go through boom-and-bust cycles, cases such as Iraq provide evidence of how the rapid loss of oil revenues—traumatic decarbonization—may affect the politics and stability of these petrostates. In Iraq, multiple shocks to oil revenues from 2014 through 2020 fundamentally altered the organization and concentration of political power in Iraq with destabilizing and democratic consequences. Using the Political Marketplace Framework as an analytic framework, this paper argues that the successive traumatic shocks to Iraq's oil revenues bankrupted the government triggering a nominal decentralization process, the fracturing of sectarian power, and contributed to a breakdown of sectarianism among the Iraqi people. This paper traces the evolution of these changes from 2014 through October 2021 and discusses the implications for the future of Iraqi politics.

ABOUT

Carbon Compacts, Decarbonization, and Peace in Fragile States in Africa and the Middle East Project

The Carbon Compacts, Decarbonization, and Peace in Fragile States in Africa and the Middle East project was a 21-month research project led by the World Peace Foundation at Tufts University and funded by the United States Institute for Peace. Our goal within the project was to analyze how traumatic decarbonization—a rapid loss of oil rents—would affect peace processes and political settlements in fragile oil-producing states in Africa and the Middle East. Under this project, a series of cross-cutting analyses and case studies (Iraq, Nigeria, South Sudan, Sudan, and Venezuela/Ecuador) were produced and are available at The World Peace Foundation website (https://sites.tufts.edu/wpf/carbon-compacts-decarbonization-and-peace-in-fragile-states-in-africa-and-the-middle-east/)

World Peace Foundation

The World Peace Foundation, an operating foundation affiliated with The Fletcher School at Tufts University, aims to provide intellectual leadership on issues of peace, justice, and security. We believe that innovative research and teaching are critical to the challenges of making peace around the world and should go hand-in-hand with advocacy and practical engagement with the toughest issues. To respond to organized violence today, we not only need new instruments and tools—we need a new vision of peace. Our challenge is to reinvent peace.

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Cover: Iraq's Khawr Al Amaya Oil Platform (KAAOT) just after sunrise, by Official U.S. Navy photo by Mass Communications Specialist 2nd Class Lenny M. Francioni (Public Domain)

INTRODUCTION TO IRAQ'S POLITICAL MARKETPLACE

Since 2005[1], Iraq has nominally existed as a parliamentary democracy, but in practice, its politics are better described as a political marketplace[2] in which political power is bought and sold using money, contracts, jobs, and at times, violence, often along ethno-religious lines. Iraq's political marketplace is fundamentally based on oil rents. Exceptionally rich in hydrocarbon resources, Iraq stands out among its regional peers as a rentier state *par excellence* for its utter dependence on oil revenue. The oil sector constitutes approximately 90 percent of GDP[3] and approximately 77-93 percent of tax revenue.[4] The private sector is weak and coordinates its business cycles with government contracts and payments for agricultural products, which generate little regional or national-level revenue. Evidence suggests that many of the contracts are corrupt and simply mechanisms to distribute funds to allies. One senior official in Baghdad estimated that in his experience running a ministry, as much as 25 percent of the ministry's budget was spent on corrupt contracts and 25 percent was spent on crony appointments and ghost workers.[5] This isn't simply corrupt officials seeking to enrich themselves, but these oil rents are key to how the Iraqi political marketplace operates. Oil rents, and the government contracts and jobs they fund, are the glue for political alliances as well as the literal fuel that keeps Iraq's political machinery turning.[6]

Prior to 2014, Iraq's political marketplace was highly centralized at the federal level and defined by sectarian loyalties among Shia and Sunni factions and actors. A key aspect of Iraq's political marketplace is the role and influence of Iran and Iranian-backed militias supporting Shia factions. Pro-Iranian factions of the Popular Mobilization Forces (PMFs) known as Hashed Al Sha'abi have been a political factor in Iraq since their emergence in 2003. Since then, they have been able to carve a vague legal status within the Iraqi security apparatus benefitting from huge budgetary allocations to the Iraqi defense system. In addition, members of these groups have sought public office within Iraq's executive, legislative and judicial branches acting as Iranian political and military proxies. Since 2003, Iran "has gained extensive leverage over Iraq's national security and political decision-making at both local and national levels" and, "perhaps more decisive[ly], Iran has permeated grassroots institutions and the informal economy in ways that Western allies have neither the ability nor the inclination to do."[7] The key point here is that since 2003, Iran has been

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1 Iraq's first democratic election was held in December 2005, in which the Shia alliance won 128 seats in parliament, the Sunnis 55, and Kurds won 58. See Inter-Parliamentary Union. N.d. "Iraq: Council of Representatives of Iraq, Elections in December 2005," Accessed 22 April 2022. http://archive.ipu.org/parline-e/reports/arc/2151bis_05.htm.

2 The political marketplace framework comes originally from de Waal (2015) and further work is available from the Conflict Research Programme, a partnership between the London School of Economics and the World Peace Foundation: https://www.lse.ac.uk/ideas/projects/conflict-research-programme/political-marketplace.

3 In 2014, oil exports represented almost 100 percent of total exports and directly represented more than 50 percent of GDP, but much of the non-oil economic activity was indirectly driven by oil revenues. See IMF (2015).

4 Author calculations based on Iraq Ministry of Finance Data of final oil revenue and mineral wealth collections from 2015 – 2020. See Republic of Iraq. 2022. "Open Budget Survey: Revenues and Expenditures," *Ministry of Finance*. Accessed 28 April 2022. http://mof.gov.iq/obs/en/Pages/RVEXChart.aspx.

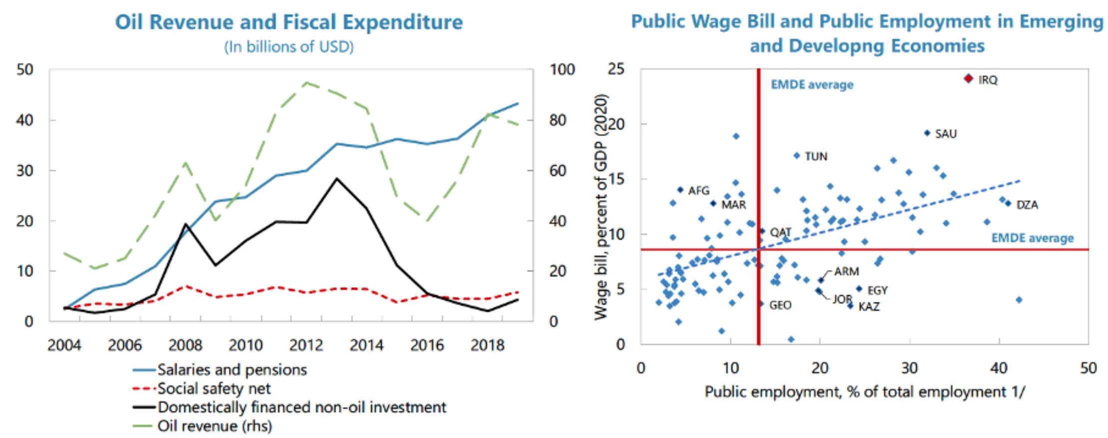
5 Dodge, Toby, and Renad Mansour. 2021. *Politically sanctioned corruption and barriers to reform in Iraq*. Middle East and North Africa Programme, Chatham House. June, 12.

6 Dodge and Mansour 2021, 15.

7 Watkins, Jessica. 2020. *Iran in Iraq: The Limits of 'Smart Power' Amidst Public Protest*, LSE Middle East Centre

an important actor competing for military and political power with Iraq's political marketplace, but as will be discussed later, this influence has been shaken by the successive oil shocks.

One of the cornerstones of Iraq's political marketplace prior to 2014 was massive public employment bankrolled by its lucrative oil industry.[8] Public service employment was a mixture of merit-based appointments, rewards for party members, bribery, nepotistic appointments, and ghost employees/solders[9] whose salaries were simply divided among the political elite.[10] For example, the highest achieving graduates were guaranteed employment in the public sector, and at the same time, public sector jobs were used as patronage for political supporters who may never even show up for work.[11] From the U.S. invasion in 2003 to the first of several oil crashes beginning in 2014, the Iraqi public sector grew massively.



Source: IMF 2021, 5.

In 2003, approximately 1.2 million people were employed in the Iraqi public sector. By 2015, the number of permanent civilian employees had grown to more than 3 million[12], almost a third of all jobs in Iraq.[13] This becomes an even more striking picture when you also include the military and those on fixed contracts (e.g. contractors), which in 2013, totaled approximately 6 million people out of a workforce of 8.5 million. This means that in 2013, more than 70 percent of jobs were directly funded by the government[14], a trend that evidence suggests continued through 2015.[15] This had direct implications for public spending. From 2005 to 2019, employee compensation grew

Paper Series, 37, July, 7.

8 As previously discussed, another key component that in part stemmed from allies placed in key positions throughout the civil service, was the awarding of government contracts. For more on this, see Dodge and Mansour 2021.

9 Ghost workers are fake employees included in payrolls whose salaries are collected by someone else, often an involved or well-connected official. Ghost soldiers are fake soldiers included in the military's payroll.

10 Al-Mawlawi, Ali. 2019. *Public Payroll Expansion in Iraq: Causes and Consequences*. LSE Middle East Centre Report and the Conflict Research Programme. October, 15; Dodge and Mansour 2021, 14.

11 Dodge and Mansour 2021, 12-13.

12 Al-Mawlawi 2019, 8.

13 In 2015, total employment in Iraq (ages 15+) was 9.4 million people. See World Bank Data. Iraq Country Data. Total Employment, Accessed 28 April 2022. https://databank.worldbank.org/reports.aspx?source=jobs#

14 Jiyad, Sajad. 2015. "The Employment Crisis in Iraq." *Al-Bayan Center for Planning and Studies*. https://www.bayancenter.org/en/2015/04/105/.

15 See IMF 2021.

by more than ninefold from approximately $3.8 billion to almost $36 billion, reflecting both the increase in the number of employees[16] as well as the increasing levels of compensation.[17] Across the economy, public sector jobs often offered better salaries than companies in the private sector. In 2007, households with a public sector worker had an average income that was 14 percent higher than a household without any public sector workers.[18] From 2005 to 2010, the wages of public sector employees averaged 31 percent of total government expenditures and 18 percent of GDP.[19] To put this perspective, Iraq's government expenditures as a percentage of GDP is among the highest in the Middle East[20] and is heavily driven by employee compensation.

The 2008 to 2014 oil boom provides an illustrative example of how patronage jobs fit into the broader political marketplace. In March 2010, Iraq held parliamentary elections for only the second time in history. Prime Minister Maliki's party, the State of Law coalition, a Shia nationalist group, was favored in the election but his coalition was unlikely to secure enough votes by itself to reelect Maliki as prime minister.[21] However, Maliki had a key tool at his disposal to try and buy support—oil money. While the 2008 price of oil peaked above $120 before dropping to below $40 per barrel, by the time of the election it had recovered to almost $80 per barrel.[22] Maliki used these oil revenues to offer patronage jobs,[23] payoffs to the Sunni opposition and empowered militias (e.g. As'aeb Ahl al-Haq) in an attempt to weaken his opponents. It is also worth noting that Maliki's campaign for reelection centered on his record of signing oil deals with foreign companies and leading security forces to a decline in violence, and not the provision of goods or services.[24] Civilian casualties had declined since 2007 from more than 2,500 civilians killed per month to less than 500 killed the before to the election.[25]

In the 2010 elections, the Shia coalition splintered into two groups and won a total of 159 seats. While the Kurdish Alliance increased its seats to 57, it also splintered, limiting its political power in Baghdad.[26] The Iraqiyya list – a coalition of primarily Sunni parties led by a secular Shia politician, Ayad Alawai – won the election with 91 seats. Noori Maliki, the incumbent PM, rejected the electoral outcome and obtained a different legal interpretation of constitutional article 76[27] from

16 As will be discussed later in the paper, the number of employees was frozen in 2016 before decreasing slightly in 2017 to approximately 2012 levels. See Al-Mawlawi 2019, 8.

17 Al-Mawlawi 2019, 9.

18 Inter-Agency Information and Analysis Unit. 2011. "Oil and Gas Factsheet," United Nations Development Programme. http://www.undp.org/content/dam/rbas/img/Publications/Fact_sheet/Oil%20Factsheet%20-%20English.pdf.

19 Al-Mawlawi 2019, 9.

20 Al-Mawlawi 2019, 6.

21 Chulov, Martin. 2010. "Nouri al-Maliki most popular candidate as Iraq general election looms," *The Guardian*, 2 March. https://www.theguardian.com/world/2010/mar/02/nouri-maliki-iraq-general-election.

22 IMF 2011. I*raq: 2020 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Iraq*. IMF Country Report. No. 11/75. March.

23 For a detailed description of how Maliki strategically placed allies across the civil service in "special grade" positions, see Dodge and Mansour 2021, 18-25.

24 Chulov 2010.

25 IMF 2011, 3.

26 The breakaway Kurdish group called Goran (meaning "change") won 8 out of the 57 seats won by the Kurdish Alliance as a whole, these 8 seats came from the Patriotic Union of Kurdistan's (PUK) 2005 electoral share.

27 Article 76 of Iraq's 2005 constitution states: "First: The President of the Republic shall charge the nominee of the largest Council of Representatives bloc with the formation of the Council of Ministers within fifteen days from the date of the election of the President of the Republic. Second: The Prime Minister-designate shall undertake the naming of the members of his Council of Ministers within a period not to exceed thirty days from the date of his

the Federal Supreme Court (FSC), which then granted Maliki a second term.[28] The FSC held that that the largest parliamentary bloc following an electoral result would decide who should form the government, not the winning list. This ruling could create the potential for endless future political marketplace negotiations and political impasse.[29]

The 2010 election was the first in the post-2003 period to witness international and regional interventions. PM Maliki used Iranian influence to regroup the fragmented Shia lists. Simultaneously, Iran determined to keep the Shia Islamist parties in power, while the Iraqiyya list was headed by a Shia secular, the parties joining the list were mostly Sunni Arabs. Maliki and the U.S. also had a convergence of interests. At that time, the Obama administration's goals were to leave Iraq and to appease the Iranians in Iraq to encourage them to engage in the Iranian nuclear deal negotiations. The US supported Maliki, and hence, the elections of 2010 resulted in Maliki's second term due to the exploitation of oil revenues, the use of conflicting legal interpretations, and regional and international interventions - dynamics also present in the 2014 and 2018 elections.

In the 2014 elections, PM Maliki increased his party's seats in parliament once again. However, the Islamic State in Iraq and Syria (ISIS) occupation, combined with plummeting oil prices, and international pressure to reform Iraq's governance structure and abandon sectarian policies pushed the Shia political establishment to abandon Maliki and install the moderate Shia PM Haider al-Abadi.[30]

While public sector jobs were useful in Maliki's efforts to maintain power during the 2010 elections, they were funded by Iraq's immense oil rents and therefore suspectable to boom and bust cycles. Public sector employment consistently rose as oil prices rose, but government spending trends were unsustainable. In 2013, when oil prices averaged $102.6 per barrel[31], the IMF warned that Iraq was extremely vulnerable to oil revenue shocks.[32] At the time, it had a breakeven price, meaning the minimum price of oil it needed to meet in order to balance its budget, of $102.[33] By late 2014, the seemingly inevitable shocks hit.

designation. Third: If the Prime Minister-designate fails to form the Council of Ministers during the period specified in clause 'Second,' the President of the Republic shall charge a new nominee for the post of Prime Minister within fifteen days." Full constitution available at: Constitution Project. 2022. *Iraq's Constitution of 2005*. Accessed 27 April 2022: https://www.constituteproject.org/constitution/Iraq_2005.pdf?lang=en.

28 Ghanim, David. 2011. *Iraq's Dysfunctional Democracy*. Santa Barbara, California: ABC-CLIO.

29 Pollack, Kenneth. 2010. "A Government for Baghdad," *Brookings Institute*, www.brookings.edu/research/opinions/2010/07/27-iraq-government-pollack.

30 Shmitli, Maher, 2014. "*Sistani hints at his opposition to Maliki's return to power and Abadi Welcomes*", 18 May. https://www.reuters.com/article/iraq-shiite-na7-idARAKBN1I5113

31 IMF. 2013. *Iraq: 2013 Article IV Consultation*. IMF Country Report No. 13/217. July, 14.

32 It is worth noting that at the time, Iraq had one of the highest breakeven prices in the Middle East. For comparison, the UAE's breakeven price in 2012 was approximately $80 per barrel and Saudi Arabia's was approximately $70 per barrel. See IMF 2013, 14.

33 IMF 2013, 14.

Oil Boom & Busts:

The Ebb and Flow of Political Finance

From 2008 to early 2014 when the price of oil averaged above $90 per barrel[34], the Iraqi government made hundreds of billions in oil revenue.[35] However, these massive rents would not last. Beginning in 2014 and continuing through 2020, the global price of oil went through multiple substantial drops and slight rebounds. This led to massive budget deficits and diminished one of the key goods traded in the political marketplace—public sector jobs and contracts.

The first major shock to oil revenues happened in 2014. Globally, the price of oil was declining due to increased U.S. production as well as a global decrease in demand. Domestically, ISIS had taken over several of the northern oil fields effectively shutting down oil exports from the region. To compensate, Iraq increased production in the southern oil fields, but against a price drop of $115 per barrel in 2014 to $31 in 2015, the Iraqi government faced a massive budget shortfall. In 2015, oil exports constituted over 93 percent of government revenues.[36] At the same time, the government was facing increasing budgetary pressures as it was trying to fund the war against ISIS while also paying for its massive public sector employment and operational costs.[37] Overall government expenditures dropped by approximately $22 billion from 2014 to 2015, approximately 12%, while also accommodating a $2.7 billion increase in military expenditures (a 38 percent increase from the previous year).[38] This led the government to seek out international loans to cover the deficit. The major financier of these loans was the IMF. In 2014 alone, due to a drop in oil prices and increased security and humanitarian spending, the government deficit expanded from 5.3 percent of GDP in 2013 to 18.4 percent of GDP in 2015.[39] From 2014 to 2015 alone, the Iraqi government debt to GDP ratio increased 23.9 percent (from 32.9 percent in 2014 to 56.9 in 2015). By 2016, this ratio would rise to 67 percent before steadily declining until 2020 when it again skyrocketed to 84.2 percent.[40]

After filling the budget deficit with loans, the Iraqi government turned to reducing government spending. One major area of budget cuts was to public employment. This began with a hiring freeze in 2016[41], followed by a downsizing of the public sector.[42] For the first time since 2003, there was a drop in public sector employment. Federal employees fell from 3.03 million in 2015 to 2.89 million in 2018.[43] Correspondingly, salaries as a percentage of overall government spending fell from 35.5 percent in 2017 to 33.4 percent in 2018.[44] However, given the economy's depen-

34 Statista. 2022. *Average Annual OPEC crude oil price from 1960 to 2022*. May. Accessed 29 April 2022. https://www.statista.com/statistics/262858/change-in-opec-crude-oil-prices-since-1960/.

35 IMF 2013.

36 IMF. 2015. *Iraq: 2015 Article IV Consultation and Request for Purchase under the Rapid Financing Instrument—Press Release; Staff Report; and Statement by the Executive Director for Iraq*. IMF Country Report No. 15/235. August.

37 Al-Mawlawi 2019, 9.

38 World Bank Development Data, n.d.

39 IMF 2015, 1.

40 IMF DataMapper. 2022. *Iraq Government gross debt (percent of GDP)*. April. Accessed 28 April 2022. https://www.imf.org/en/Countries/IRQ#countrydata.

41 The only exceptions to the 2016 hiring freeze were the health, security, and electricity sectors. See Al-Mawlawi 2019, 6-9.

42 Al-Mawlawi 2019, 6.

43 Al-Mawlawi 2019, 9.

44 Al-Mawlawi 2019, 9.

dence on government employment and contracts to the private sector, cuts to government spending also had implications for the broader economy. By 2019, the Iraqi unemployment rate was 16 percent but estimated to be 36 percent among youth.[45]

Oil prices would continue to decrease through 2016 before rebounding to $30-40 per barrel from 2018 to 2019. However, in early 2020, a new shock hit Iraqi oil revenues. In 2020, the spread of COVID-19 and competition between Russia and Saudi Arabia created new shocks to the demand and supply of oil sending the price to a low of $16.82 per barrel in April 2020.[46] That month, oil revenues per month dropped by half to $1.42 billion.[47] By July, the price had recovered to above $40 per barrel, but by then, the damage had already been done. Again, the Iraqi government was running a massive deficit. By 2021, plummeting oil prices had put the Iraqi government on the verge of bankruptcy.

The shocks to oil revenues from 2014 through 2020 undermined the foundation of Iraq's political marketplace—oil rents. Oil rents were the key source of political finance that elite used to build and maintain political coalitions, trade jobs for political support, and control who had access to political office—but as the following sections will show, these dynamics changed as the political marketplace went bankrupt.

Decentralization:

Truncated, Reversed, and New Openings for Non-State Actors

The first key consequence of the 2014 shock to oil revenues was an attempted reorganization of political power from the federal government to provincial and local governments. This decentralization agenda was driven in part by loan conditions imposed by the IMF and an attempt to regain legitimacy among the Iraqi people by giving them more local control over the government. This process was disjointed, at times reversed, and power was never truly decentralized.

After the oil price crash in 2014, the Iraqi government was bankrupt and could no longer provide the high levels of government spending that bought some degree of support from the Iraqi people. In addition, ISIS had seized almost a third of the country. In short, the Iraqi people felt the government could not deliver and were becoming increasingly frustrated. At this point, and to fill the deficit, the Iraqi government turned to the IMF. The IMF provided a $5.34 billion loan in 2016 contingent on certain changes.[48] One of the key overarching conditions was that the Iraqi government decentralize decision-making and the provision of services to the provincial governments. While this was a key condition of the loan, it was also a strategy the government saw as an opportunity to regain some legitimacy among the Iraqi people.[49]

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45 Al-Mawlawi 2019, 9.

46 This price is based on the Basrah Light pricing in April 2020. See OPEC, 2020. OPEC Bulletin-Deepening Dialogues: *The Importance of Multilateral Cooperation*. November. https://www.opec.org/opec_web/static_files_project/media/downloads/publications/OB112020.pdf.

47 Reuters Staff. 2020. "Iraq oil exports at 3.44 million bpd, revenues more than halve in April: Statement, *Reuters*, 1 May: https://www.reuters.com/article/us-iraq-oil/iraq-oil-exports-at-3-44-million-bpd-revenues-more-than-halve-in-april-statement-idUSKBN22D5SD.

48 IMF. 2016. "Iraq Get's $5.34 Billion IMF Loan to Support Economic Stability," 14 July. https://www.imf.org/en/News/Articles/2016/07/12/14/31/NA071416-Iraq-Gets-IMF-Loan-to-Support-Economic-Stability.

49 Al Kli, Shahla. 2019. *Decentralization and State Building in Iraq*. Dissertation. The Fletcher School at Tufts University, 190; Al-Mawlawi 2019, 201.

The decentralization process formally began in 2015 with al-Abadi's Executive Order 34. This executive order mandated the transfer of administrative powers to provinces in line with Law 21[50] and tasked the High Commission for Coordinating among Provinces Secretariat (HCCPSec) to oversee the transfer and resolve issues.[51] As part of this decentralization agenda, in 2016 the Federal Government delegated fiscal authority to nine south and south-central provincial governments. The HCCPSec was activated[52] and the Administrative and Financial Affairs Directorates (AFADs) was established to handle the fiscal and provincial power transfers. However, as time went on, these institutions either proved to be inadequate to the task, lack the political support needed to accomplish their mandates, or simply became inactive. For example, the vital HCCPSec agency failed to deliver on integral activities after it lost the support of the provincial governments post-PM Abadi's term. Additionally, subnational administrative units were unable to act on the newly delegated powers and authority because they "lacked organizational coherence" leading to worsened local level corruption and mismanagement.[53] Instead of improving governance and satisfying the expectations of the Iraqi people, decentralization was simply exacerbating already poor governance.

In 2018, Iraq's parliament reversed the decentralization process. Arguably, parliament was motivated both in response to the failure of local governments to effectively use their newfound authority, but also because of a reluctance to decentralize power in the first place.[54] Part of this reversal included reinstating federal control over the ministries of education and health.[55] In 2019, political power was further shifted back towards the center. In response to growing protests, in October 2019, Parliament suspended provincial and district councils. These councils were seen as "riddled with corruption and paralyzed by political infighting."[56] Much of the protests themselves focused on frustrations against the local councils. This partial shift of centralized power to local councils and then back created a dangerous opening for militias.

As previously discussed, militias operating within Iraq's political marketplace also benefitted from its lucrative oil rents. However, when those rents dried up in 2014, militias seized gaps in the decentralization process to extract rents through other means, especially through violent and transborder agendas.[57] For example, as the decentralization process deepened divides between groups at the local levels, militias took over decision-making processes in the Basrah, Ninewa, Baghdad, and Babil provincial governments.[58] In Basrah, militias used public land to develop political constituencies and threatened to destabilize the province when the governor

50 Law 21 is the law governing decentralization from the federal government to provincial councils. For discussion and analysis of Law 21, see Al Kli 2019.

51 Al-Mawlawi, Ali and Sajad Jiyad. 2021, *Confusion and Contention: Understanding the Failings of Decentralization in Iraq*, LSE Middle East Centre Paper Series and Conflict Research Programme, 44, January, 10.

52 HCCPSec is responsible for coordinating the transition of decentralized directorates, developing public policies with Iraq's decentralized ministries, and working with non-decentralized ministries regarding service provision to Iraqi citizens

53 Al-Mawlawi and Jiyad 2021, 8.

54 Al-Mawlawi and Jiyad 2021, 8-12.

55 Al-Mawlawi and Jiyad 2021, 11.

56 Al-Mawlawi and Jiyad 2021, 12.

57 For a discussion of the role of militias in Iraq's fractured security landscape, see Skelton, Mac and Zmkan Ali Saleem. 2019. *Iraq's Disputed Internal Boundaries after ISIS: Heterogeneous Actors Vying for Influence.* LSE Middle East Centre Report. February. http://eprints.lse.ac.uk/100100/; and Gaston, Erica and András Derzsi-Horváth. 2018. *Iraq after ISIL: Sub-State Actors, Local Forces, and the Micro-Politics of Control.* Global Public Policy Institute. https://www.gppi.net/media/Gaston_Derzsi-Horvath_Iraq_After_ISIL.pdf

58 Al Kli 2019, 196.

tried to implement reform policies.[59] In areas newly liberated from ISIS where Sunnis were largely concentrated in internally-displaced person camps, militias manipulated the voter lists to distort Sunni representation in later elections.[60] At the same time, the Iranian government used this as an opportunity to offer funding, training, and arms to militias that swore their allegiance to Khamenei instead of Sistani.[61]

Overall, the decentralization process began to reorganize political power in Iraq's political marketplace, but the poor implementation and later reversal provided openings for militias and further deepened public frustrations with the government. To date, the decentralization process remains incomplete and while some services have been decentralized, decision-making authority (including the provision of resources to run provincial programs) remains centralized.[62]

The Fracturing of Sectarian Political Power & Finance

The second key consequence of the multiple oil shocks is how it began to reshape sources of political finance and alliances within the political marketplace. Positions in the post-2003 Iraqi government have been allocated by a quota system known as *muhassasa ta'ifiya,* with certain positions going to different ethno-sectarian groups to ensure representation. The oil shocks changed the value of positions historically held by specific ethno-sectarian groups thereby rearranging which groups had the most political power (and political finance) and gave bureaucrats additional leverage and influence in the marketplace.

From 2003 to 2014, the apportionment of government positions was done along sectarian lines in a practice called *muhassasa ta'ifiya*. This was a quota system to ensure ethno-sectarian representation across the Iraqi government, but one that was fiercely competitive.[63] Capturing the top post in a ministry was key to being able to provide jobs and contracts for one's ethno-religious group. For example, Shia political parties dominated the Ministry of Oil contracts whereas the Sunni parties exploited contracts from the Ministry of Electricity. Similarly, contracts for the Basra port docks were distributed among the al-Hakim faction, Badr organization, and al-Sadr movement. However, after the first oil crash in 2014 and increasingly so from 2014 to the present, the government was no longer able to maintain the level of public spending to support these positions and contracts. Additionally, some positions, such as the Ministry of Oil, became less useful for accumulating/allocating political finance. As sectarian patronage struggled to deliver to its supporters, alliances began to break down with actors looking for the best deal available, despite religious or ethnic identity. This new type of bargaining has become known as *muhassasa hezibiya*, meaning political party apportionment.

While *muhassasa hezibiya* is still a practice of handing out government contracts and jobs, it differs from *muhassasa ta'ifiya* in three key ways. First, sectarian ethno-religious considerations were replaced with bargaining based on business calculations between political parties and new prominent businessmen, with ethno-religious identity being less important in political mobilization and securing votes. Second, since oil rents were dwindling, these deals often focused on the

59 Al Kli 2019, 196.

60 Al Kli 2019, 196.

61 Akbarzadeh, Shahram. 2017. "Iran's Uncertain Standing in the Middle East." *The Washington Quarterly* 40, no. 3, 109-11; Al Kli 2019, 192.

62 Al Kli 2019, 200.

63 Al-Mawlawi 2019, 7.

communications sector or broader trade deals rather than oil. This shifted which positions in the political marketplace were the most lucrative. For example, during the oil boom of 2008 to 2014, the Ministry of Oil was the most prized post. After 2014, however, the Ministry of Communication became a prized target because of the rising importance of mobile and internet licenses, as well as how communication networks could be used for intelligence to crack down on opponents and activists. Lastly, under *muhassasa hezibiya*, top bureaucratic positions, such as directors-general and chiefs of staff directly under the political posts (e.g., minister) became more important and bargaining for these positions was done 'underground' out of view of the public eye.[64] These bureaucrats were targeted by militias for political pressure in order to systemize the extraction of rents by exploiting loopholes in contracting regulations and revenue collection mechanisms from border-crossings. For example, border crossings between Basrah and Iran were largely administered by militias who levied taxes on licit and illicit items. Having the power to appoint bureaucrats provided legal cover for the political parties, militias, and regional proxies. At times, these senior bureaucrats were even more powerful than the ministers that were technically in charge yet in practice served more as "rubber stamps" on decisions made by high-level bureaucrats.[65]

In sum, the oil shocks from 2014 to 2020 changed the value of government offices operating within Iraq's political marketplace. Attempts to control offices with newfound political influence or access to political finance became targets. Bargaining to control these offices no longer aligned with the *muhassasa ta'ifiya* system but was based on business negotiations across ethno-sectarian lines. In short, the oil shock shifted the nature of elite negotiations in the political marketplace. This breakdown of sectarian alliances is also one that rippled through the broader public.

Challenging Sectarianism and Corruption:

"We Want a Nation"

Until the collapse of the oil prices in 2014, post-invasion Iraqi governments had governed only in times of relative excess—when oil prices were generally above $80 a barrel or more.[66] This meant that the government was often flush with cash and could afford lavish government spending to support public employment and some public services.[67] They had never faced the challenge of austerity. However, as the price of oil dropped, it revealed the extent of dysfunction within the government. Public sector employment and government spending could no longer be used to pacify the public, reward voters, or even provide bare minimum services. Against the backdrop of ISIS taking over almost a third of the country and poor public services, the government was unable to meet basic expectations of its people. In short, Baghdad faced a legitimacy crisis that it could not afford to buy its way out of.[68] Iraqis grew increasingly frustrated and from 2011 onwards, took to the streets to demand their rights. Protest chants such as *nurid watan* ['we want a nation'][69] began to articulate a new vision of Iraqi politics; one no longer defined by a sectarian division of spoils.

64 For more on the rising importance of senior civil service members, see Dodge and Mansour 2021.

65 Dodge and Mansour 2021.

66 Patel, David Siddhartha. 2018. *How Oil and Demography Shape Post-Saddam Iraq*. Middle East Brief No. 122, Crown Center for Middle Eastern Studies, Brandeis University, 4.

67 Patel 2018, 4.

68 Crisis Group. 2021. *Iraq's Tishreen Uprising: From Barricades to Ballot Box*. Middle East Report No. 223, International Crisis Group, 26 July.

69 Crisis Group 2021, 6.

While many of the major protest movements happened following the 2014 oil shock, they drew on an earlier foundation established in 2011 on the Day of Rage. Thousands took to the streets on the Day of Rage, February 25, 2011, to protest corruption, sectarianism, and nepotism within Maliki's government.[70] This was in the lead-up to the contentious March 2011 parliamentary election. Maliki responded swiftly and brutally, momentarily ending the protests.

Protests again broke out in July 2015. On every Friday for months, protestors would gather in the major public squares across Iraq to protest the government. In contrast to the 2011 protests which focused on corruption alone, these were against the entire religious-political establishment.[71] This is captured in the common protest slogan, *bism al-din bagona al-haramiya* ['in the name of religion, the thieves have robbed us'].[72] Protestors were angry at what they saw as the looting of government coffers behind ethno-religious political parties. The protest was driven largely by educated young men in the lower middle class and middle class, though protest leadership came from older men who had experience as activists or being part of civil society or political organizations.[73] While the protests were focused on the government, they also had internal tensions demonstrating how ethno-sectarian dynamics were in flux. The protests began as a grassroots movement, but as they grew, they were seen by some as being co-opted and exploited by political parties and figures, especially the controversial religious figure al-Mahdi Army militia leader, Muqtada al-Sadr.[74] Some believed the Sadrist Movement was trying to co-opt the protests for their own political support whereas others thought their integration was an important shift towards a civil movement that incorporated diverse ethno-sectarian groups. Sadr's loyalty would remain in question to date, with Sadr oscillating between supporting the protests and supporting the government depending on what aligned with his interests at the time.[75]

In 2018, protests broke out in Basra in response to a water shortage combined with power cuts and intense heatwaves. Basra is one of the centers of oil production in Iraq, though along with the rest of the country, has an incredibly unreliable electrical supply. Protestors took to the streets to denounce the government's inability to provide access to water and consistent electricity in the grip of a heatwave, but also to denounce what they saw as politicians' mixed loyalty. Shia protestors in Basra highlighted the 'Iraqiness' of their identity as opposed to political leaders who they saw as loyal to Iran.[76] Protestors also called for determined pressure on the government despite violent repression chanting, *nmut 'ashra miya, any qaful al'qadhiya* ['10 of us would die, or 100 of us would die, I won't give up the cause'].[77] Frustrations were reaching a new level and violent repression was not working, so the government turned to a tool from its oil boom days—a payoff with government spending. On July 15, 2018, Prime Minister Haider al-Abadi promised to mobilize $2.93 billion for immediate development projects in Basra as well as 10,000 new oil industry

70 Ali, Zahra. 2021. "From Recognition to Redistribution? Protest movements in Iraq in the Age of 'New Civil Society', *Journal of Intervention and Statebuilding*, 15:4, 528-542.

71 Ali 2021.

72 Ali 2021.

73 Ali 2021, 536.

74 Mustafa, Balsam. 2022. "All About Iraq: Re-Modifying Older Slogans and Chants in Tishreen [October] Protests," *Journal of Asian and African Studies*, 1-22. doi:10.1177/00219096211069644; Ali 2021.

75 For example, following Abdul-Mahdi's resignation in 2020, Sadr thought he might be able to influence who was selected as the next prime minister, but his support to the protesters might limit his ability to do that. Sadr has now not only turned on the protesters, but he also used violence against them. See Crisis Group 2021, 19-20.

76 Mustafa 2022, 5.

77 Mustafa 2022, 6.

jobs.[78] At the time, it was rumored that more than 500,000 Iraqis would apply for the jobs.[79] However, as scholars have argued, al-Abadi was only able to make these promises because the price of oil had rebounded briefly above $70 per barrel and Iraq's production had increased surpassing the original 2018 budget benchmarks.[80] This would have been the first significant expansion of the government payroll since the 2016 hiring freeze.[81] If anything, this was a short-term solution and it did not address nationwide grievances, grievances which culminated in what became known as the *Tishreen* uprising of 2019.

In October 2019, people across Iraq took to the streets in what would become the largest protests in Iraq's history known as the *Tishreen* ['October'] movement. These protests were seen as a continuation of the Basra protest movement.[82] These were triggered by the removal of Lieutenant General Abdul-Wahab al-Saaedi from his post as Commander of the Counter-Terror Service, a key official in the fight against ISIS. Many Iraqis saw this as another example of political leaders removing officials so they could fill it with a family member or political supporter.[83] Grievances focused on unemployment, poor public services, endemic corruption, and a political class seen as more loyal to Iran or the US than to Iraqi citizens.[84] Overall, protesters called for a new kind of national identity free of sectarian divisions and foreign influence. Slogans and protest chants included *nurid watan* ['we want a nation'] and *Iran barra, barra* ['Iran, out out'].[85] Across the country, people gathered in public squares setting up tents and staging sit-ins with support from across society. In addition to everyday citizens, politicians, political parties, and organizations sponsored tents and kept supplies flowing to them.[86] These sit-ins also became platforms between activists and established political parties to discuss reforms and make demands of the government. Public squares became centers of grassroots democracy. Symbolic of the disconnect between the elite and the people in the broader political system, however, many activists were suspicious of political parties' involvement.[87] Wary of the government's history of co-opting or intimidating protest leaders, the *Tishreen* Movement was intentionally leaderless, though there was often an unofficial hierarchy among protesters in different tents. Iraqis, on a large scale, were denouncing strong religious and political leaders along with the politicization of Islam – key pillars of Iraq's post-2003 governments. This was amplified by the media which began to focus on the importance of citizenship, not ethno-sectarian identity, as the foundation of rights and responsibilities.

The *Tishreen* Movement differed from the protests in 2011, 2015, and 2018 in several key ways. First, they were the first that did not happen during the summer months when electricity cuts would happen amidst stifling temperatures.[88] The *Tishreen* Movement began when conditions were not at their worst, but people were still frustrated enough to take to the streets in numbers greater than any seen by a post-2003 Iraqi government. Second, the *Tishreen* Movement faced

78 Patel 2018, 1.
79 Ibid.
80 Ibid.
81 Patel 2018, 7.
82 Mustafa 2022, 6.
83 Mustafa 2022, 6.
84 France 24. 2020. "A year after unprecedented Iraq protests, what has changed?" *France 24*. 29 September. https://www.france24.com/en/20200929-a-year-after-unprecedented-iraq-protests-what-has-changed.
85 Crisis Group 2021, 6.
86 Ibid.
87 Crisis Group 2021, 6.
88 Bencks, Jarret. 2019. "2019 Protests in Iraq: A Primer (Interview with David Siddhartha Patel)," Brandeis Now, 11 December, https://www.brandeis.edu/now/2019/december/iraq-protests-2019.html.

much higher levels of government and paramilitary-led violence. More than 400 protesters were killed and more than 20,000 injured in the first six months of protests alone. Much of the violence has been attributed to paramilitary groups and Iranian-backed militias, which were seen as fighting on behalf of the government to maintain the sectarian system from which they and Iran benefitted.[89] And lastly, and most importantly, the protests called for a new Iraqi identity beyond ethno-sectarian lines, a call that sent shockwaves through Iraq's entire political settlement. As previously discussed, younger generations were particularly disillusioned with the political elite and paramilitary groups that had integrated themselves into the government while also exploiting the people.[90] Young people were calling for change and showed they were willing to keep marching until it came – and signs of contentious change began emerging after the first month of protests.

As the protests continued and their support deepened, the government realized it did not have the resources to buy them off with the promise of jobs.[91] It offered some concessions to the protestors, such as cabinet reshuffles and welfare programs, but these fell far short of the demands for early elections, constitutional amendments, an end to the *muhasasa* system, and a balanced foreign policy (which limited Iranian influence).[92] The government attempted to negotiate with protestors, but they could not agree on acceptable reforms. Activists reported that the main difference between their positions was that the government wanted to fold the protest movement into the existing power-sharing system, while the protesters wanted to change the system itself.[93]

After the first month of protests, Ayatollah Sistani gave a sermon in which he encouraged parliament to act to stop the bloodshed and even suggested a no-confidence vote. Within a few days, out of options and under intense pressure, Prime Minister Abdel Mahdmi resigned[94] setting off what would become a three-year struggle to form a new elected government. On May 5, 2020, an interim government led by Mustafa al-Kadhimi was installed and elections were scheduled for June 2021 before being delayed to October 2021. [95] The lead up to the election provides additional evidence of the declining salience of ethno-sectarian identities.

Throughout this period, and increasingly so after the *Tishreen* Movement*,* political parties and elite figures began dropping their ethno-sectarian platforms in favor of ones that appealed to broader coalitions. As political parties sought the support of the public, sectarian and religious titles were not as successful in mobilizing support as they were in previous elections. Political parties using Islam as core to their party platform, renamed or split into a new party. For example, former Prime Minister Abadi dropped the Dawa party name from his list during the 2018 election campaign.[96] Similarly, Ammar al-Hakim split from the Islamic Supreme Council of Iraq (ISCI), and established the al-Hikma movement, dropping politicized Islam.[97] The coalition between Al-Sadr

89 Crisis Group 2021, 12-22.

90 Crisis Group 2021, 7.

91 Crisis Group 2021, 17.

92 Crisis Group 2021, 17.

93 Crisis Group 2021, 17.

94 BBC. 2019. "Iraq unrest: PM Abdul Mahdi to resign after bloodiest day in protests. *BBC News.* 29 November. https://www.bbc.com/news/world-middle-east-50600495.

95 Crisis Group 2021, 21.

96 Hasan, Harith. 2018. "Iraq's Dawa Party and electioneering: Division and survival." *Atlantic Council*. 9 January, https://www.atlanticcouncil.org/blogs/menasource/iraq-s-dawa-party-and-electioneering-division-and-survival.

97 Mouzahem, Haytham. 2017. "Iraq's Hakim moves out of Iran's shadow." *Al-Monitor,* 24 August. https://www.al-monitor.com/pulse/originals/2017/08/ammar-hakim-supreme-islamic-council-iraq-iran.html.

and the communist party and civil society activists during the 2019 protests is another example.[98] While these examples are evidence of the fraying importance of ethno-sectarianism among the public, the ethno-sectarian dynamics among the elite actors in the political marketplace have proven resilient.

In October 2021, Iraq held parliamentary elections to choose a government to replace the interim government established in the wake of the *Tishreen* protests. There was hope that the elections might prove to be a critical moment, but few Iraqis believed the process would be free or fair. Turnout was a record low with only 36 percent of eligible voters participating.[99] While turnout was disappointing, it did however shake up the balance between the elite groups that controlled parliament. All Iranian-backed militias and political factions lost while Sadr's political party increased its share of seats in parliament.[100] Notably, Imtidad, a party that came out of the *Tishreen* movement, won nine seats in parliament, which while not substantial is surprising given that many supporters of the *Tishreen* movement boycotted the election.[101] The most significant outcome of the elections was the new parliamentary coalition that emerged, *Tahalef Inqath Waten* [Coalition to Save the Country]. This coalition was made up of Al Sadr, the Kurdistan Democratic Party (KDP), and Al Siyadah Sunni Coalition headed by Speaker Mohammed Al Halbousi. This is a significant change from previous majority coalitions because it was the first time since 2003 that there was a coalition of elected parliamentarians encompassing Shia, Kurds, and Sunnis uniting to form a coalition government. However, a second coalition, the Coordination Framework(CF)[102], also formed. The Coordination Framework was made up of former Prime Minister Nouri al-Maliki's State of Law alliance, the Fatah Coalition headed by Hadi Al Amri and consisted of major militias' such as Asaeb Ahl El-Haq headed by Qais Al Ghazali, among others, and was considered to be backed by Iran. For over a year, parliament was gridlocked and the *Tahalef Inqath Waten* was never able to form a government as the CF utilized its weight at the Federal Supreme Court to issue a verdict that required a two-third quorum for the President elections session at the ICOR (Iraqi Council of Representative) session.[103] Eventually, the *Tahalef Inqath Waten* coalition fell apart when al-Sadr gave up his bloc's parliamentary seats (73 seats) which were quickly replaced by Coordination Framework-aligned parliamentarians. On October 13, 2022, the Coordination Framework brokered a political deal with Al Sadr's previous strong allies, i.e. Kurdistan Democratic Party (KDP) and Speaker Halbousi's Al Siyadah Sunni Coalition and the (Tahalef Edaret Al Dawlah – State Administration Coalition in Arabic) has emerged as a new coalition to form the government. The State Administration Coalition headed went on elect Abdul Latif Rashid as the new president who in turn designated Mohammed Shia al-Sudani as prime minister.[104] At the time of taking office,

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98 Cambanis, Thanassis. 2018. *"Can Militant Cleric Moqtada al-Sadr Reform Iraq?"* The Century Foundation. 1 May. https://tcf.org/content/report/can-militant-cleric-moqtada-al-sadr-reform-iraq/?agreed=1&agreed=1.

99 Higel, Lahib. 2021. "Iraq's Surprise Election Results." *International Crisis Group,* 16 November. https://www.crisisgroup.org/middle-east-north-africa/gulf-and-arabian-peninsula/iraq/iraqs-surprise-election-results.

100 Higel 2021.

101 Higel 2021.

102 The Coordination Framework was also called the Shia Coordination Framework.

103 This gridlock was worsened by the Supreme Court's controversial ruling that a two-third's majority was necessary to select a president. Previously, only a simple majority was required. And, this is the same route Iranian-backed Hezbollah used to block the election of the Lebanese President between 2014-2016 and later in 2022.

104 Hamasaeed, Sarhang. 2022. "A Year After Elections, Iraq May Finally be Set to Form a Government," United States Institute for Peace. https://www.usip.org/publications/2022/10/year-after-elections-iraq-may-finally-be-set-form-government; Al-Kli, Shahla, 2022. "Monday Briefing: Government formation in Iraq: One year, one step" The Middle East Institute, https://www.mei.edu/blog/monday-briefing-government-formation-iraq-one-year-one-step.

al-Sudani's government appeared to be a continuation of the ethno-sectarian status quo and division of spoils rather than the change that protestors were demanding in the streets.[105]

Overall, the December 2019 through October 2021 period was a period in which ethno-sectarian dynamics seemed to fracture with the public increasingly challenging them in the streets, at the ballot box, and even in elected office. The anti-sectarianism shift and Tishreen Movement, in part consequences of the fluctuating oil prices, have not completely transformed Iraqi politics, but they have influenced how the government conducts itself. Only time will tell if the 2019 to 2021 period was simply turbulence or the beginning of a major shift in the marketplace.

CONCLUSION

Prior to 2014, Iraq was a rentier petrostate *par excellence*. Oil rents accounted for as much as 93 percent of government revenues and as many as 75 percent of all jobs in the formal economy were dependent on government spending. When the curtain finally fell on oil's historic boom in 2014, the loss of oil rents left the Iraqi government not only bankrupt but fundamentally altered how politics were funded and exacerbated transactional dimensions of Iraqi politics.

The first shift was an attempted decentralization of political power in part dictated by IMF's bailout of the government. Beginning in 2016, the Iraqi government attempted to decentralize power from the federal government to provincial and local governments. Poor implementation and a later reversal provided openings for militias to exploit the extraction of local rents (e.g. border crossing taxation) and only exacerbated public frustrations with the government. To date, the decentralization process remains incomplete with little decision-making power ever having been taken out of the federal government's hands.

The second shift was a change in sectarian patronage and political finance. From 2003 to 2014, oil rents and government contracts were key sources of political finance and allocated based on an informal sectarian quota system known as *muhassasa ta'ifiya.* For example, Shia political parties dominated the lucrative Ministry of Oil whereas Sunni parties dominated the Ministry of Electricity. The 2014 oil crash quickly changed not only how much each ministry was worth and the amount of political finance available to those who controlled it, but also which positions within the ministry were truly the most powerful (e.g. high-level bureaucrats). The Ministry of Oil, once paramount in the political marketplace, was now overshadowed by the growing importance of the Ministry of Communications and its lucrative licenses and access to intelligence. From 2014 onwards, the sectarian quota system gradually gave way to political competition and negotiation based on tactical political interest rather than ethno-sectarian identity blocs. In essence, ethno-sectarian alliances were replaced by free competition with positions going to the highest bidders.

The third shift was a far-reaching challenge to corrupt sectarianism by the public. Beginning in 2011 and culminating in the *Tishreen* Movement of 2019, historic numbers of Iraqis took to the streets to protest government corruption, poor public services, foreign influence, and most significantly—ethno-sectarian divisions. Protestors called for a new national identity free of sectarian divisions and foreign influence; the streets echoed with chants of *nurid watan* ['we want a nation'].

105 Ibid.

While the protests faced brutal suppression, they led to new political parties and a shift away from sectarian-based identity politics towards unity coalition platforms. The KDP, Al Sadr, and Syada leveraged this shift to form a historic majority coalition, the *Tahalef Inqath Waten* [Coalition to Save the Country], which incorporated Shia, Sunni, and Kurdish parties for the first time since 2003. While the *Tahalef Inqath Waten* were not able to form a government, the coalition held together for almost a year while attempting to enact its agenda, despite repression and internal fissures creating pressure for it to collapse. While politics in Iraq still carry sectarian undertones, the Iraqi people have made it clear that sectarian-based government of spoils is no longer acceptable and are fighting—both in the streets and in parliament—for a different way forward. It is not yet clear what the lasting impact of these protests has been or if it has altered sectarian dynamics in the long-run.

This paper began with the question of what happens when a petrostate loses its oil rents? As Patel argued, from 2003 to 2014 the Iraqi political elite had governed during a period of high oil prices which they had come to regard as normal.[106] Oil rents, especially during the boom of 2008 to 2014, inundated Iraq's political marketplace with cash allowing elite to leverage it for their own interests, but the 2014 shock provided the first evidence of how traumatic decarbonization would affect the political system. In the case of Iraq, the loss of oil rents fundamentally reorganized the sources of political finance and hence the concentration of power in the Iraqi political marketplace. This reorganization at times was violent and created openings for foreign powers like Iran to gain influence, but it also had major socio-economic consequences for the public. The bloated public sector employment that dominated the Iraqi labor market could not be maintained and combined with worsening economic and security conditions, contributed to the Iraqi people challenging the sectarian rules of the political marketplace. Only time will tell whether these shifts are permanent or temporary, especially if the price of oil remains high from 2022 forward. However, in the long run, and against the possibility of future decarbonization of the energy sector, evidence from oil shocks in Iraq from 2014 to the present offers key lessons on how traumatic decarbonization can reshape how oil-dependent political marketplaces operate.

106 Patel 2018.

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