



## **Discussion Paper 26**

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***Regime Change in Iraq: Mission Report***

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*Mary Kaldor and Yahia Said visited Iraq from October 27 to November 4, 2003. They went together with a delegation from the Dutch Inter-Church Peace Council (IKV) to investigate what might be done to support the development of democracy. This report of their visit does not cover Northern Iraq; the Kurdish parties are only discussed in relation to Iraq as a whole*

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## **1. Introduction**

Watching the television news in Amman on our way back from Iraq, with reports of mortar attacks and injured Americans, it seemed as though the situation had got much worse and we were lucky to have left. Actually, this was a mild story; throughout our stay, friends and relatives were anxiously watching what appeared to be an orgy of violence in Iraq. On the day we arrived, the first day of Ramadan, five bombs exploded in Baghdad, killing 41 Iraqis and one American soldier. The day before, rockets ripped through the Al-Rashid Hotel, where many of the Coalition staff were living, killing one American soldier. Indeed, every day we were there some act of terrorism took place. Yet this is, by no means, the whole story. And we left Iraq feeling that the media focus on terrorist attacks provides a highly misleading picture. Indeed, the disjuncture between the world's view of Iraq and how it feels inside Iraq is probably greater than anywhere in the world.

Iraq to day is bustling with activity. The shops are open late at night. The roads are packed with lorries, cars and buses. The curfew has been lifted and people walk about the streets in the evenings. There are many new initiatives, including literally hundreds of new newspapers and magazines, self-organized neighbourhood groups, and a myriad of new and old political parties and associations. Internet cafes have sprung up everywhere. At the same time, there is no telephone system, except the Coalition's own system, and there are also periodic blackouts and water stoppages. Many people are without jobs and there are shortages of skilled people in key positions, for example, the universities because of de-Ba'athification. Together with noisy tanks on the streets, at least in the American zone, and frequent checkpoints and searches, these factors greatly complicate every day life even though there are improvements all the time.

We talked to many people and our overriding impression was of mixed feelings. Almost everyone expressed hope for the future but nevertheless they were not completely confident that their troubles were over. Everyone was happy that Saddam Hussein had been overthrown and yet the losses and traumas of the last twenty years as well as the doubts about the present made it impossible to celebrate.

The war is referred to as 'liberation/occupation'. Many people, especially men, hate Saddam Hussein and the Americans in equal measure. They are angry at the ever-growing list of Iraqi casualties both civilian and military. They feel humiliated by the rapid American victory, their failure to liberate themselves, and by the patronising and sometimes insensitive behaviour of the occupiers. A similar ambiguity characterises the dominant view of the 'resistance'. They feel it is wrong and they hate the violence but nevertheless few Iraqis stand up publicly and oppose the attacks. Sometimes, they even express satisfaction when Americans are killed.

An analysis of the situation in Iraq has to take into account the complexity and unprecedented nature of the current conjuncture. Iraqi society is composed of overlapping ethnic, religious, tribal cleavages with crosscutting political tendencies - this complexity is both divisive and potentially stabilising. There are plenty of possible causes of conflict but there are also plenty of counter-balancing forces. In addition, the combination of state-building, post-totalitarian transition, post-war reconstruction, and foreign occupation represents uncharted territory. Some elements of the situation are reminiscent of Russia, Bosnia, Nigeria or Afghanistan but the combination is new.

Above all, the paradoxes are personified by many extraordinary individuals with fascinating stories to tell. One of the key personalities is Sheikh Abdul Karim Al-Mahood we described among ourselves as Robin Houdini. He effected a miraculous escape from one of Saddam's gaols and then survived as a rebel leader in the marshes to the South. Now he is a member of the Governing Council and dominates the politics of Maysan, a British occupied governorate in the South. Other examples include the Sandhurst trained military officer who runs a pizza parlour that serves alcohol even during Ramadan and bows smartly to his guests, or the ex-Baathist artist who runs a gallery where artists could meet and discuss even during the dictatorship.

Our central conclusion is that genuine regime change in Iraq is a dual process. On the one hand, it requires a rapid transfer of sovereignty by the occupying forces

undertaken in such a way as to ensure that authority is handed over to democratic forces. Neither the 'tabula rasa' approach of destroying old structures and minimizing the role of the state nor the 'indirect rule' approach of anointing traditional leaders are likely to produce a sustainable democracy in Iraq. Efforts should instead focus on creating the space for the development of democratic institutions both in government and in civil society. On the other hand, Iraqi democrats need to mobilise, especially against the violence, in order to build political legitimacy. We will elaborate this argument by describing the political, security and economic aspects of the situation in Iraq and showing what they imply for future policies.

## **2. Politics**

Formally, Iraq is controlled by the CPA (the Coalition Provisional Authority). The CPA is stuck in what is known as the green zone -an area in the middle of Baghdad that includes the Al-Rashid Hotel and the former Palace built by the British and extended by Saddam Hussein- heavily protected by concrete walls, barbed wire, and American soldiers. Morale is low among both military and civilians both because of the way staff are confined to the green zone and because they are the primary targets of terrorist attacks. Because of the rocket attack on the Al-Rashid Hotel, many officials were sleeping in dormitories in the palace or in military barracks. To implement their policies, the CPA is dependent on a bevy of foreign and Iraqi exile 'advisors', widely resented by ordinary Iraqis for their high salaries, CPA mobile phones, and posh cars with drivers and bodyguards

### **2.1 Political institutions**

Iraqi political institutions are beginning to emerge though their status is as yet largely consultative. A Governing Council was established by the CPA composed of the main political forces, with a rotating Presidency. The ministries are divided among council members and are struggling to assert their authority vis-à-vis the CPA and its advisors. Similar structures are being established at the level of governorates and municipalities. The Governing Council is beginning to act autonomously; for example, it rejected the Turkish offer of troops and is opposing rapid privatisation of state enterprises. Nevertheless, these institutions are very weak and the gap between the CPA and the nascent Iraqi institutions has left a political vacuum, which the ever-present shadow of the former regime tries to exploit. While we were in Baghdad, rumours abounded that a letter had been received from Al Qaeda and Saddam Hussein calling for a general strike and threatening to attack schools and universities that used the new de-Ba'athised textbooks. (We were unable to discover anyone who had actually seen the letter). No one from the Governing Council appeared in public to defuse the tension and the result was that most primary school children stayed at home and only 2% of university students turned up on the campus of Baghdad University.

Most Iraqi political parties and associations survived in exile although some had underground activities inside Iraq, most notably the religious parties and the

Communist Party. There are many religious, ethnic, and tribal parties. During the Saddam period, religious, ethnic and tribal affiliations increased in importance. Tribal and religious dress is widespread -something new for those people who remember Iraq before the dictatorship. These particularist identities have to be understood, as in other parts of the world, as a 'post-modern' reconstruction, a new political response to contemporary conditions even though it draws on deeply held values and traditions. They were reconstructed, as elsewhere, both from above and from below. In part, they were identities instrumentalised by Saddam Hussein as a method of rule. One tribal leader told us that he was among those who had been called to Baghdad for a meeting of tribal sheikhs when the American invasion began and was given 3 million dinars to buy his loyalty. (He spent 1 million on a party for all his tribe and gave the rest to the poorest families). And in part these primary affiliations provide a framework of social support in a society where civic institutions have been destroyed. On our very first night, we saw a man in elaborate tribal dress in our hotel. Someone whispered that he was the 'sheikh of sheikhs', the Chairman of the Council of Tribes. He turned out to come from Ealing although he preferred to talk to us in Arabic because he was about to be interviewed by Al Jazeera TV and wanted to appear authentic. Later we discovered that there were many 'sheikhs of sheikhs' -various councils and associations. One of the sheikhs we met had played the drums in a 1970's rock band.

The Shia parties are both religious and ethnic (a bit like Hindu nationalism). They include SCIRI (Supreme Council for Islamic Revolution in Iraq) based in Iran during the Saddam period, Da'wa based in Syria and London, and the Sadr group popular mostly in the poorer suburbs of Baghdad and some Southern cities where these people hail from. The Hawza, the supreme religious institution of Iraq's Shia, is not a political organization but it exerts a strong influence both through the individual Shia parties and independently.

In the Sunni areas, the Iraqi Islamic Party, the successor to the Muslim Brotherhood is represented in the Governing Council. The National Union Party, led by firebrand cleric Ahmad Al-Kubaisi, along with his Shia opposite number Muqtada Al-Sadr, has been most vocal in confronting the coalition and the CPA. Many ex-Ba'thists are allegedly joining both groups. The Kubaisi group also epitomizes the new nexus between the ex-Ba'thists and Salafi Islamists.(See below)

Then there are the two Kurdish parties (PDK and PUK) and various tribal associations, parties and networks. The secular parties include purely exile groups like the INC (Iraqi National Congress) and INA (Iraqi National Accord) based in the US and London, or the newly established Iraqi Independent Democrats lead by Adam Pachachi and funded by money from the United Arab Emirates. (The headquarters of the Independent Democrats are rented from a sanctions busting millionaire whose gold bathroom fittings rivalled those to be found in Saddam's Palace housing the CPA headquarters). The Communist Party, like some of the religious parties, operated underground during the Saddam years with headquarters in Northern Iraq and many exile groups. The Party has branches all over the country and the various offices in Baghdad are teeming with people of all ages. In the provinces, the situation is sadder. In Amara, we found old men reminiscing about their experiences in underground cells with pictures of the innocent young people who were killed by Saddam on the walls. Finally, there are many smaller parties, many established since May, like the National

Democrats, led by the son of a pioneer of modern politics in Iraq - Kamel Al-Chaderji.

Nearly all the particularist parties have armed wings or militias, like the Badr corps established in Iran that is controlled by SCIRI. Even some secular parties have militia. The INC led by Chalabi, has Free Iraqi Forces, a militia trained by the Americans in Hungary.

The secular parties are strongest at the national level within the Governing Council. Since they are largely composed of exiles and have least capacity for mobilisation and because they spend much time negotiating with the CPA, they appear disconnected from Iraqi society. On the other hand, the particularist parties are much stronger at a local level. In Amara, for example, which we visited, Sheikh Al-Mahood is the dominant political figure and his militia are influential (see below). In other local areas, different parties play a similar role. Thus SCIRI, with its Badr organisation, is allegedly in charge in Kut. Kerbala and Najaf are divided between different Shia parties with the Hawza enjoying a slight edge, creating a potentially explosive situation. In Basra, Da'wa and SCIRI are dominant although a reportedly 'independent' judge has been appointed Governor. (The term independent, by the way, have become a euphemism for Islamic in many instances)

## **2.2 Civic initiatives**

In addition to the parties and associations actively involved in the new institutions, there are many new democratic and civic initiatives. Among the students, for example, there are many new and old unions. The most important is probably GUSIR (the General Union of Students) that was founded in 1948 and existed underground in the Saddam years. They are campaigning to restore schools and universities and to get back two hostels designed for 6,000 students occupied by the Coalition troops. (The lack of accommodation meant that many students, especially women, did not return to university this autumn. While we were visiting, some students had organised construction teams to build more hostel space in their headquarters). On the day we visited the University of Baghdad students were cooperating with the police to secure the campus against terrorists. GUSIR activists have influenced two directives by the CPA, one that students who failed their exams last year because of the war could still go into the next year and one that students suspended by Saddam Hussein be reinstated. They are also working on curricula changes, particularly discussing what should replace the compulsory course on Arab nationalism designed by the former regime. (We told one student that in Eastern Europe, the course on Marxist-Leninism had been replaced by human rights course. He said shyly that he thought Marxism includes human rights). As well as GUSIR there are many small unions that give themselves names which include the word Democratic. They are all beginning to co-operate.

In addition, there are the Islamist unions. The so-called Provisional Union of Students of Iraq, established by pro-Sadr students, asked the Minister of Higher Education to ban all political posters in the Universities. The Minister agreed. The other unions protested and the Minister changed his mind. But he then said that there should be

only one union approved by him. The fact that rightly the students take no notice of this decision illustrates the weakness of the Ministries. The students are also resisting pressure from the Minister and the CPA for holding elections on campuses this year. They fear that in the current atmosphere elections will lead to violence and its better to wait for the next academic year. This apparently is supported by all non-Baathist students including the Islamists.

One consequence of Saddam's war adventures and brutality is that women constitute 60% of Iraq's voting age population. Many women in Iraq are aware of this and feel empowered by the prospect of having an opportunity to influence the country's future. Women also benefited from the CPA's policy of paying all public sector employees salaries, which at times exceed their pre-war levels by a factor of ten. Women are heavily represented in this sector as teachers and administrators. At the same time many men lost their source of income in industry and the military. This is creating a new dynamic within Iraqi society. On the other hand, some religious activists who have come to the fore since the collapse of the regime are promoting policies, which would further circumscribe women's freedoms. Some Iraqi activists are striving to counter that by integrating the gender dimension into every aspect of policy making. They are lobbying for the establishment of a higher women's council, which would bring together government and civil society to address this task. Among others, they are demanding that women should be allotted 30% of positions in any public body.

There is a plethora of groups in Iraq today dealing with a broad set of issues associated with transitional justice. Some are cataloguing the regime's crimes and trying to account for its myriad victims. Others are raising funds to support those left behind or trying to restore properties, titles and jobs to the victims and their families. Yet others are trying to track down the regime's henchmen and make sure they do not dissolve into society.

As well as the student unions, women's organisations and transitional justice groups, there are many NGOs concerned with humanitarian and environmental issues, democracy and civil society. Journalists, filmmakers, artists are also involved in new projects and discussions. Many of these initiatives are small and tentative. Iraqis have a huge distrust of politics, a legacy of fear and disappointment, and a lack of experience of self-organisation to overcome. The exception is groups, which used to operate underground with tightly knit organizational structures. These groups used to be overly political in the past. Today they are supplementing their repertoire with corporatist activism and voluntary sector type work in reaction to the new environment. They all represent the beginnings of a civic and inclusive society.

### **2.3 The Ba'ath Party**

Finally, the Ba'ath Party and the former regime although officially disbanded is omnipresent. Thousands of followers, recipients of favours and fellow travellers let alone the regime's henchmen would have a hard time admitting that they have been doing the wrong thing for all these years. The ex-Ba'athist artist who has been hosting a gallery and café where his colleagues could meet and chat freely even under Saddam spoke fondly of how he used to earn enough money to last him a year from



painting one portrait of Saddam Hussein and how this gave him the liberty to pursue real work. He only left the Party after the invasion of Kuwait and he insists that he felt safer under Saddam Hussein than now. Military officers also remember Saddam's annual gifts of houses and cars. It seems that the regime at times tried to bribe the entire middle class and many of those who benefited cannot help but feel some nostalgia. Anecdotal evidence suggests continued strong Baathist presence on campuses. Elections to the bar association which took place during our stay were allegedly almost won by a Baathist.

As well as bribes, of course, Saddam's regimes used fear as a tool of power and this also continues today. The remnants of the regime are credited with most attacks taking place today although the actual suicide attackers are likely to be foreigners. While most Iraqis condemn the violence in private many of them stop short of acting against it in public. This probably reveals, in equal parts, a dislike of the occupiers, the main target of the attacks, distrust of their ability to protect them and fear that the terrorists may yet prevail. Saddam's reign of terror, it seems, is lingering where it counts most - the hearts and minds of ordinary Iraqis. The former regime is presumably trying to feed into this fear and perpetuate it, hence the attacks on new state institutions especially the police, the judiciary and schools. These are also rightly perceived by the former regime as a more serious challenge to its power than the peripheral CPA.

## **2.4 Transfer of Sovereignty and the Constitution**

The key political priority is to accelerate the handover of sovereignty. But to whom? A combination of weak exiles and particularists? Or is it possible to establish a constitutional framework that allows for the development of democracy?

Recently, a compromise has been reached whereby the constitutional process, which is bound to be drawn out, was, separated from the handover of sovereignty in order to accelerate the latter. A temporary Basic Law is going to be adapted next spring in order to facilitate the handover of sovereignty to a provisional Iraqi government by the middle of next year. The provisional government will be elected/selected on the basis of existing regional councils as well as the Governing Council. At the same time an agreement has been reached that the constitution will be adopted by a fully elected constitutional assembly in two years time.

The Shia parties were the political grouping that insisted on an elected constitutional Convention, because Shia represent the numerical majority. The Ayatollah Sistani, the head of Hawza, called for elections to a constitutional convention, even though he is said to be a Quietist (i.e. non-political). But elections will not guarantee constitutional legitimacy especially if regional councils have undue weight in the election process. First, it is important that minorities and secular political forces have a genuine voice so that their role can be safeguarded in a future constitution and this needs to be reflected in the method of election. Secondly, and even more important, there does need to be democratic debate about the constitution - a widespread deliberation in universities, mosques, among women's forums - so that the Iraqi people feel for the first time in their history that they have ownership of their constitution.

The most contentious issues to be discussed are the form of a future federal system, in particular the degree of autonomy and size of territory granted to the Kurds, and the degree of decentralisation. The Americans favour a weak central government but there is a risk that this will entrench local particularist groups. These issues can only be resolved through a process in which individual Iraqis feel they can have a voice if they choose. The role of Islam in the Constitution is also considered contentious although, in our view the religious parties are more concerned with representation than with religious issues per se.

It is not only constitutional legitimacy that is required, even more important is political legitimacy. However well prepared the constitutional process, the current political vacuum will not be filled until there are democratic political forces who can win the trust of Iraqis. Key to this is political mobilisation against the violence. The capacity to lead their fellow citizens from passive rejection to active and public opposition to the violence and its perpetrators could be viewed as a potential rite of passage for the new democratic forces in Iraq. Only those who are able to take effective action to end the violence are likely to be trusted and therefore be able to assume leadership. Only then can one really speak about regime change.

### **3. Security**

Many people argue that Iraq is becoming the stage for the 'war on terrorism'. All sides, America, Saudi Arabia, Syria, Iran, the Jihadists, are choosing Iraq as the proxy battleground for the 'war' as a whole.

Before the war, the Americans had great difficulty in proving that there was a link between Saddam Hussein and Al Qaeda. (It is interesting that American intelligence seems to have been unaware of the fact that the Saudis had built two Wahabi mosques in Iraq during the Saddam period and were allowed to proselytise freely which included to payment of up to \$500 a month to followers.). The effect of the war has been to bring these two unsavoury political elements together. The Jihadis are enlisting in an insurgency organized and supported by the remnants of the regime. At the same time former Baathists are joining Jihadi organizations. Many of the foreign Jihadis have entered the country since the war from Syria and Iran because the Coalition forces did not have enough troops to guard the borders. On the one hand, it is argued that Islamic fighters are attracted to Iraq because it is there they can directly confront the Americans; moreover, regimes like Saudi Arabia, Syria and Iran want to make as many difficulties as possible for the Coalition so as to deter any possibility that the United States might attack them in the future. On the other hand, conspiracy theorists, which abound in Iraq, like to suggest that the Americans deliberately chose not to close the borders so as attract Jihadists into the country where they can be defeated.

The violence is directed against both the American forces and the nascent Iraqi security institutions, particularly police stations, judges, banks and schools. The terrorists are taking advantage not only of the political vacuum but of the security vacuum as well.

### **3.1 Coalition forces: Two approaches**

There are three main types of security actors in Iraq to day. First, there are the Coalition forces whose tasks are to defeat the terrorists and provide support to Iraqi security institutions in maintaining public order. In the American sector, morale is low. Soldiers are afraid and tense. Some reservists told us that they felt they had been conned. They were told they were coming to Iraq to dismantle weapons of mass destruction. Now no WMD had been found but they were not allowed to go home. The Americans rely heavily on private contractors composed largely of retired American officers to provide logistics and to undertake security tasks like guarding the airport. A company of ex-Gurkhas guards the airport, while MPRI (Military Professional Resources Inc), the company that was active in Croatia, Bosnia and Angola, takes care of logistical supplies.

There is a big difference between the British and American tactics and indeed, many British personnel are scornful of the Americans arguing that they have no experience of counter-terrorism and are much too visible, clumsy and insensitive. The Americans refuse to report on Iraqi non-combat casualties, but evidence suggests that many innocent civilians are being caught up in the crossfire. Tanks are much too obvious and house-to-house searches and detentions are often carried out roughly and brutally. But whereas the Americans try to act forcefully against the terrorists and against non-authorized military groups, the British tend to negotiate with local forces and to delegate security tasks to local tribal and religious leaders - a practise reminiscent of the 'indirect rule' of the colonial period.

There does seem to be an intelligence problem. This is mainly because of the disconnectedness of the CPA and the occupying forces from Iraqi society. According to many reports, information passed on by Iraqis does not appear to be taken into account or acted upon. Iraqis believe that the Americans must know where Saddam Hussein is and that they are waiting for an opportune moment, say just before the Presidential elections, to arrest him. There are many stories about why Uday and Qusay were killed. It is suggested that the Americans had been keeping them under house arrest for some time and deliberately decide to kill them so that this would not be revealed and so that they could, again, choose a propitious political moment to claim a victory in the ongoing struggle.

### **3.2 New Iraqi forces**

Secondly there are the nascent Iraqi security institutions. One of the biggest mistakes of the CPA was to dismantle the army, which was the least Ba'athised of the former security institutions. Even though Western security officials argue that it was easier to 'start from scratch' because the army was so ill-equipped and badly organised, the decision has added to the sense of humiliation felt by Iraqis, and left many frustrated and angry ex-military personnel. The decision to continue the payment of stipends to demobilised members of the Iraqi armed forces is not being carried out according to ex-officers we met in Baghdad. The formation of the new army is slow because of an

elaborate vetting process - 5,000 troops have now been trained. It is hoped to speed up the process so that the Army can begin to replace American troops.

The establishment of police forces has been much faster and is one of the most hopeful developments in Iraq to day. Many of the most senior officers have been removed because of the Bremer decree on de-Ba'athification. The change in police behaviour was epitomised for us by the policeman who apologised for inconveniencing us when searching our car at a checkpoint outside the Al Hamra hotel. A police officer in Amara told us that police officers are 'rediscovering their humanity'. He said that police are behaving better because they have less authority and are less well protected. They also feel that were abused during the former regime because they were used as an instrument of Saddam's rule; now they have to learn to respect people. Iraqi policemen we met complained about lack of weapons and equipment and low salaries. The weakness of the judiciary as well as interference by Iraqi politicians close to the CPA in the appointment of high-ranking officers is further undermining their work. Some policemen were killed by coalition forces, which tend to treat all armed Iraqi with suspicion. In addition to the police, an Iraqi Civil Defence Corps (ICDC) has been established. This will undertake duties like border control. The ICDC has the least training (three days) and is so far the largest of the new institutions.

The Iraqi judiciary is still very weak and the CPA has been slow to establish the institutions for transitional justice.

### **3.3 The militias**

The third group of security actors are the para-military groups -the Peshmerga, the Party militias, the tribal militias. The different parties are trying to create facts on the ground, using their armed wings, so as to create a basis for future power. Some argue that some of the violence in the so called Sunni Triangle could also be understood as a demand for a place at the table by tribal and Islamic leaders in that area on a par with their Shia and Kurdish peers.

In Amara, Sheikh Al-Mahood had organised local militia to prevent looting after the Americans took Baghdad and before the British arrived, effectively liberating Amara. These groups had been incorporated into the police force and given high-ranking positions, thus creating tensions within the police as well as mixed loyalties. Shortly before our visit, one of these newly created officers had been assassinated; it was still not clear whether this was the work of a rival tribe or the Sadr forces. Sheikh Al-Mahood himself told us that it was important to eliminate unauthorised armed groups and to establish a 'monopoly of violence' if Iraq is to become democratic. His main concern is the Islamist militias. However when we asked about the problem of his own forces in the police, he said the CPA should train them up so that they would be considered of the same standard as normal police officers.

### **3.4 Transferring the security portfolio**

Most Iraqi politicians are now pressing for the handover of the security portfolio to Iraqis. But which Iraqis? Some Iraqi political parties argue that existing para-military groups can maintain order. But this could turn out to be a recipe for particularist and criminalized violence and a huge obstacle to democratic development. The security portfolio should be handed to Iraqis but to Iraqi security institutions accountable to Iraqi political control.

The difference between the two coalitions approaches is illustrated by the difference between violence in the American zone and violence in the British zone. In the American zone, the main violence is political -the terrorist attacks on American forces and Iraqi security institutions. In the British zone, there is very little terrorist violence giving the impression that the British zone is more secure. But there is more particularist/criminal violence (looting kidnapping, ransom demands, etc.). What is needed is a third approach more consistent with a handover of sovereignty to democratic forces -one that involves speeding up the establishment of Iraqi security institutions, the control of unauthorised armed groups, and more sensitive co-operative behaviour by Coalition forces.

## **4. Economy**

After three devastating wars, 12 years of sanctions and 35 years of abuse at the hands of the Ba'ath regime it is a miracle that anything is left in Iraq, which could be called an economy. Indeed, the past 30 years have been marked by a destruction of value on an unprecedented scale. Saddam Hussein followed every economic fad from grand centrally planned industrialization and agricultural collectivisation to shock therapy, austerity and privatisation. Economic nihilism on behalf of Iraq's rulers was precipitated among others by the sense of impunity, which comes from having access to an almost unlimited supply of cheap oil. Even this sector, however, has suffered due to lack of investment and over exploitation. Oil output today estimated at 1.5-2 mbpd is at about one half of peak capacity. Estimates about the time and investment needed to restore that output level vary widely with some suggesting that it may never be possible again.

Like the map of Yugoslavia under Milosevic, each of Saddam's military adventures left a smaller Iraqi economy in its wake. Most devastating for Iraq's economy was the 1991 war and subsequent sanctions. Iraq was crushed into the Middle Ages through a combination of physical destruction and denial of cash. Even that period though had a silver lining. The choking off of oil revenues and rampant inflation caused by the liberal use of the printing press meant that non-oil sectors of the Iraqi economy especially agriculture have experienced a relative boom. Evidence of that are still visible today in Iraq and its neighbours to which agricultural products are smuggled.

Another beneficiary from the suppression of the oil sector is the construction industry, which can offer competitive bids compared to Western construction firms especially on low complexity projects. The Iraqi contractors are also benefiting from Western

firms' reluctance to work in the current security environment. A US military commander is said to have asked a US construction firm to rehabilitate a hospital. The firm demanded \$15 million and still did not commence work due to security concerns. The job was done at the end by an Iraqi company for \$80,000 instead.

#### **4.1 Reconstruction**

Six months after the latest war, Iraq is exhibiting some unmistakable signs of economic life. The main drivers of current activity are frozen assets, fresh oil revenues and foreign aid. These funds are used primarily to pay public sector employees. Policemen, schoolteachers and civil servants are receiving salaries. This is creating a new social and economic dynamic by empowering the very sectors of Iraqi society, which suffered the most in the past ten years.

Construction and utilities are benefiting from investments into urgently needed repairs and cleanup work if not from major new projects. The US Corps of Engineers and the British military have issued millions of dollars worth of contracts to repair schools, hospitals and vital infrastructure. Unfortunately none of the larger rehabilitation projects, which require significant presence of major international corporations and their employees, have got off the ground. Those are being hampered both by cautious awarding procedures aimed at limiting politically costly accusations of corruption and by security concerns. Another obstacle to the commencement of major reconstruction projects is the ambiguity of the legal framework. According to some the occupying authority does not have the right to enter into any contractual arrangements beyond whatever is necessary for continued operation at any given enterprise.

These delays while benefiting some Iraqi contractors are widening the gap between Iraqi expectations of cleanup, repairs, reconstruction, and most importantly jobs and what the coalition can deliver. Throughout our trip, complaints about the slow pace of economic reconstruction and rehabilitation were the most prevalent matching or even exceeding those about security.

Although water and electricity supplies seem to have reached and at times exceeded their pre-war level the six months it took to do so have shaken Iraqi's confidence in the CPA's ability to keep its promises.

#### **4.2 Economic policy**

Economic policy today is fragmented between the CPA, the Governing Council and the Ministries. The ministers appointed by the council are also duplicated at the CPA with Iraqi and foreign advisors. The CPA has the most authority through its control of the Development Fund for Iraq (DFI), established by UNSC resolution 1483. The fund, which is audited by a UN board, will accumulate not only oil revenues but also some of the foreign assistance and investment coming into the country including the \$35bn pledged at the recent Madrid conference (October 2003). The GC and the ministries have at least nominal control over the government's budget. They also have

some say on major policy issues and contracts funded from the DFI. Another source of economic power to emerge over the past few months are the regional councils, which have at times, separate access to funds through local coalition authorities.

The CPA does not have a clearly formulated economic policy. Instead the dominant focus is on enshrining free markets and small government as the underpinnings of lasting democratic transformation. Nevertheless, the key role played the new Director of Operations in the CPA, who was formerly in charge of reconstruction in Bosnia and Kosovo, may indicate that actual practise may be different.

On the ground this approach is translated in the establishment of an independent central bank and a new currency. The new currency does not only remove Saddam Hussein's image but also heralds the end of his monetary 'policy' where money supply was limited only by the capacity of the printing press. External trade has been liberalised to the point of eliminating tariffs and duties altogether. (Only an Investment Tax of 5% on imports will be levied for three years.) Income and corporate taxes are set at a flat rate of 15%. The abolition of all import duties has already translated in the wide availability of cheap imports from cars to bananas. A relative of one of us, who is poor even by Iraqi standards, asked whether bananas might be bad for her son since he has been eating so many of them lately. The introduction of a low flat tax rate should as the recent experience of Russia shows induce better tax discipline and discourage capital flight, a characteristic affliction of oil dependent economies.

The CPA is locked in a political battle with the GC and the ministers over privatisation. Since it was already agreed that the oil sector as well as other mineral sectors should be excluded from the privatisation, the battle is largely rhetorical. The number of enterprises suitable for privatisation outside the excluded sectors is estimated at 200 and would not warrant the political costs entailed in such confrontation.

### **4.3 The oil fund**

In the medium to long term the pivotal issue is the framework for the management of the Development Fund for Iraq and oil revenues in general. There is an understanding that the only way of preventing the reproduction of Saddam's regime is to take oil out of the political process. Beyond this, however, there is little understanding of the specifics of oil dependent economies. In particular no policies are being put in place to prevent oil from stifling the development of the rest of the economy.

Trying to pass on oil revenues or even assets to the people of Iraq could exacerbate rent seeking mentality and Dutch disease. Decisions on the regional distribution of oil may contribute to ethnic and sectarian tensions. Instead it is necessary to pursue a policy, which would give the Iraqi people ownership of the oil assets while allowing a central authority such as an oil fund to determine the best way to manage them. The main goal of the fund is to use various asset management tools including investment in Iraq and abroad to maximise Iraq's wealth and smooth revenues over the long term. A critical task of such an authority is to take oil revenues out of the executive's

control and prevent them from becoming instruments in the political process. The Iraqi executive should be dependent on tax rather than oil revenues for its ongoing expenditures. This would provide an economic basis for government accountability.

In order to be able to discharge these tasks the oil fund should have the same level of independence as the central bank. This could for example be achieved by appointing the fund's board for periods longer than those of the parliament and or the president. The electoral cycle for the board should not overlap with that of other government institutions. Neutralizing the negative impact of oil on the rest of the economy is a task, which will have to be addressed by the central bank, the ministry of finance and the fund. It is therefore important that these three organizations have an institutionalised coordination mechanism. The fund will likely engage in international capital market transactions of a large scale. As such it could benefit from coordination with international financial institutions such as the World Bank and the IMF. This could even include the appointment of a board member from one of these institutions.

The fund should be audited by a reputable accounting firm and should be subject to peer review by financial institutions of similar size and scope such as large investment houses and fund managers.

In order to ensure Iraqi ownership, the fund should have a rigorous and open reporting mechanism. Any Iraqi citizen should have the right to know the exact state of the funds finances to the last detail. A mechanism should be in place to consult the general public on the funds strategies and investment decisions. Citizens should also have a mechanism to contest investment and spending decisions they disagree with.

## **5. Conclusion**

We see very little possibility of renewed dictatorship in Iraq; the model of closed authoritarian society is increasingly difficult to sustain in an era of global communications. The real risk is the weak state scenario, characterised by weak rule of law, low-level but pervasive violence, and entrenched local particularist political fiefdoms. In such a scenario, the former regime and the Islamic fighters would become just another element in a particularist mosaic. The only way to prevent such a scenario is for Iraqis to establish their own democratic institutions and to take ownership of those institutions.

At present there are two different approaches that are dominant among the CPA. One is the ideological approach to be found mainly among Americans, especially among the former American Republican staffers and right-wing think tank people. Their goal is to impose an American model of 'free market democracy' (to quote a senior official in the governance department). The model anticipates a minimal state and a neo-liberal economy. They have produced a strategic plan for rapid implementation of this model to be completed, with luck, before the next Presidential elections. They have specified the steps and milestones to be achieved in the process as well as various indicators of performance. One official told us that 'we have to finish quickly because although we know best how to do nation-building, political pressure will force us to hand over sovereignty to the Iraqis who don't know how to do it as well as us.' Like



transition recipes in post-communist countries, destruction of existing institutions is a precondition for building the model -hence, the dismantling of the army, the Bremer decree on de-Ba'athification and the insistence on rapid privatisation of state enterprises, even though this is illegal for occupying forces. As well as the bevy of 'advisers', the Americans are spending millions of dollars on American contractors like Creative Associates, Inc or the Research Triangle International, who are supposed to teach the Iraqis how to have civil society.

The other approach, which is more common among the British and US State department officials, is what might be described as 'realist' or pragmatic. This involves the handover of power to existing political parties or tribal and religious leaders.

Both approaches could combine to produce a weak state scenario. The ideological approach further compounds the humiliation felt by many Iraqis and contributes to the sense of a broken society. It is effective at destruction but much less effective at construction. The 'realist' approach strengthens particularist forces. This could easily be reinforced by Iraqi political dynamics. The secular parties are largely limited to Baghdad. If regional elections were to be held in Iraq today the individual governorates will be dominated by this or the other of the particularist parties or local strongmen. National elections, on the other hand, are likely to result in a fragmented parliament where secular parties could have sufficient presence to counterbalance the particularists. A decentralized state framework with a small government will further enhance the influence of the latter. For example the new proposal to elect regional caucuses who would in turn elect a parliament to replace the Governing Council is likely to result in the removal of many secular groups or the significant reduction of their weight in government institutions.

Unlike other post totalitarian and post conflict societies, perceptions about the security situation in Iraq today means that all but the most committed international activists are staying away. The absence of such institutions as the United Nations, the European Union or NGOs like the ICRC or Oxfam is striking for anyone who has visited recent zones of conflict. One positive consequence was that we did not see any of the crowding out which is typical in these situations by the better organized and endowed international NGO's. Iraqi initiatives are allowed the space to develop their own identity and initiatives. On the other hand some form of international presence is necessary to provide the Iraqis with support when and where they needed and to promote a third approach, different from either ideological or the 'realist', aimed at providing a framework for bottom-up democracy. There is a need within the CPA, the Governing Council and at local levels for much greater for expertise in the areas of transition, development and post-war reconstruction. Even more importantly, the international agencies confer legitimacy on democratic initiatives, which are otherwise largely bereft of outside support. This is why a greater role for international institutions is crucial to the handover of sovereignty.

This third democratic approach may take time but is more likely to produce a stable outcome. Such an approach would aim to close the political and security vacuum and reduce the space that can be exploited by the terrorists. Some initiatives that might contribute to such an approach include:

## **5.1 Political proposals**

- There needs to be public political mobilisation against the violence.
- The process of constitution making needs to be opened up to public discussion through debates in the media, in universities, women's groups and mosques.
- A level playing field should be created for all non-violent Iraqi political and civil society groups.
- Institutions for transitional justice need to be established quickly. De-Ba'athification should be conducted from the vantage point of prosecuting criminals rather than dismissing party members.
- The proposal by some women's groups for a supreme gender council, which would ensure 30% women's participation in all major state organs could also contribute to broader democratic representation.
- Religious groups should be given the task of rebuilding the mosques and the Hawza so as to direct their energies to religious tasks and re-establish the importance of the religious centres of Iraq.

## **5.2 Security proposals**

- Every effort should be made to minimise the impact of counter-terrorist operations on Iraqi civilians. The coalition should track and report the number of civilian casualties, investigate, prosecute, compensate and report on all cases of wrongful killing/harm to civilian lives and property.
- Stipends to members of the demobilised Iraqi army should be paid as promised.
- Every effort should be made to eliminate para-military groups and/or to incorporate them into security institutions through a rigorous and transparent process
- Security institutions need to be strengthened, especially the police and the judiciary. Politicians should not be allowed undue interference in the makeup of these institutions.

## **5.3 Economic proposals**

- Delay privatisation of state enterprises but encourage new private investment
- Establish an independent board for managing aid and oil revenues composed of representatives of donors and independent governors from parties and from civil society.
- Give priority to reconstruction of war-damaged infrastructure

## **5.4 International proposals**

- International organizations and individual experts should be brought in to provide legitimacy and knowledge to the tasks at hand.
- Iraq's neighbours should be offered the possibility to contribute to Iraq's reconstruction