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CAUSES AND CONSEQUENCES

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Public Payroll Expansion in Iraq: Causes and Consequences

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Abstract

The public payroll in Iraq has grown unchecked since 2003, commensurate with the country's vastly expanding oil wealth. With few alternative sources of government income, the state budget's growth poses worrying questions about whether this ongoing trend can be sustained without risking economic ruin. Based on an analysis of publicly available reports and unpublished government documents, and informed by interviews with officials in Baghdad, this paper quantifies the extent of the expansion in spending on public sector salaries and sheds light on aspects of the state's budgetary allocations that lack a significant degree of transparency. Notably, the paper focuses on spending trends within key ministries and the state-owned enterprises and offers recommendations on how spending could be curtailed through greater accountability and long-term investment in reform measures that could lead to a more robust approach to managing the country's economy.

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Executive Summary and Recommendations

This policy paper analyses trends in the growth of the public sector payroll as a function of post-2003 dynamics and explores the causes and consequences. It takes a holistic look at the public sector in its entirety while focusing on three important ministries – the Ministry of Higher Education and Scientific Research; the Ministry of Oil; and the Ministry of Defence.

The study shows that public sector employment numbers have grown by more than three-fold since 2003, with a nine-fold increase in spending on employee compensation, leading to burgeoning state budgets that are almost entirely dependent on fluctuating oil revenues. After oil prices began to collapse towards the end of 2014, the Iraqi government sought to contain the emerging fiscal crisis by adopting austerity measures that included a partial hiring freeze within the public sector. But government spending as a percentage of GDP continues to be among the highest in the Middle East.

In order to address this problem, the government needs to prioritise areas where excessive and wasteful spending can most easily be curtailed. These are state institutions that have poor oversight and are not incorporated into the federal budget, namely the state-owned enterprises (SOEs).

A prerequisite to limiting opportunities for illicit spending is to enhance transparency and oversight, and this is why reforming state-owned enterprises should be prioritised. In line with the SOE Good Governance Charter that was approved by the cabinet in 2017, some important measures include publishing aggregate reports on financial performance; conducting annual third-party independent audits; and enhancing financial accountability by declaring financial assistance from the state. An up-to-date breakdown of employment numbers within each SOE should also be reported as part of a comprehensive information system that also monitors and records off-budget financing from state-owned banks. Public financial management reform will be critical over the coming years to enhance oversight on spending.

Another approach is to address overstaffing by downsizing unproductive state entities in order to create space for job creation in productive sectors. According to government documents, there are some 181,000 employees over the age of 50 and with at least 15 years of service that could be offered early retirement, thereby cutting the SOE workforce by over one quarter. Vocational training centres also need to be established across the country to reskill those who remain on the payroll.

In extreme cases where there is no potential for reform, SOEs should be liquidated. There are at least 20 SOEs that fit this criteria, including 5 entities owned by the Ministry of Defence.

Legislation that regulates salaries and wages needs to be revised to ensure that compensation is tightly controlled and that private sector wages can adequately compete. Public sector hiring needs to be centralised to root out corruption and ensure that jobs are distributed based on strategic needs and merit. In this regard, Article 107 of the Constitution stipulates the formation of a federal public service council that should have full regulatory authority over public sector employment.¹

¹ Article 107 states: ‘A council named the Federal Public Service Council shall be established and shall regulate the affairs of the federal public service, including appointments and promotions, and its formation and competencies shall be regulated by law.’

Introduction

The emergence of a multiethnic and cross-sectarian political elite after the 2003 invasion of Iraq has had a deep and long-lasting impact on the nature of the country's institutional structures. The consociational arrangement that developed through the formation of the Iraqi Governing Council and the initial years of US occupation sought to enforce ethno-sectarian representation at every level of state power through a largely informal quota system known in Arabic as *al-muhasasa al-ta'ifiya*. This arrangement, fuelled by aggressive competition between leading political actors to capture state resources, combined with political pressure to create jobs for a burgeoning youth population, has led to the vast expansion of the public sector, subsidized almost entirely by the country's oil wealth.

By combining a detailed analysis of available payroll data with a series of interviews and interactions with senior government officials over a six-month period, the paper broadly outlines how patronage networks and clientelism linked to personal loyalties or party allegiances are key drivers of growth in the public sector. From the outset, it is worth noting the lack of sufficient empirical evidence to substantiate the dynamics between political parties and the exercise of patronage through public sector employment. Naturally, these practices occur behind closed doors, but additionally, in many cases, a grey zone exists between party or political interests, and individual motives.

But while there is a tendency to focus solely on this angle, it is also important to consider the systemic forms of corruption that are a function of a far broader social dynamic linked to the demand for public employment at the popular level. Here, it is possible to offer realistic solutions to rein in payroll expansion and enable the country to chart a course that engenders an economically viable model that can be sustained over the long term.

One of the key lessons from the fiscal crisis that emerged in 2014 is that Iraq's reliance on oil combined with the volatility in oil prices means that the country can no longer afford to grow the public wage bill without expecting severe consequences. If it continues to spend the vast bulk of its oil income on wages and other operational costs, there is no way that the country can divert sufficient resources to rebuilding its infrastructure and enhancing much-needed services to its citizens.

However, even if policymakers embrace this understanding, the government led by Prime Minister Adil Abdul-Mahdi must address the needs of an estimated 2.5 million unemployed Iraqis who urgently require jobs. With the national unemployment rate at 16 percent, there is consensus within policymaking circles that the private sector should take on a far greater role. But short of securing major foreign investment in the country, tackling high levels of youth unemployment – estimated at 36 percent – without further expanding the public sector will be extremely difficult in the near term.

Payroll Expansion Trends

The wage bill represents the single biggest item of spending from the state treasury. Each year, parliament passes a federal budget bill that allocates spending for all government ministries and other state agencies. Budgets are divided into recurrent spending, which includes salaries for public sector employees and other operational costs; and capital spending, representing the investment portion of the budget. Recurrent spending is largely determined by the number of budgeted employees, which is outlined in detail within the budget law. Employment numbers are broken down for each ministry and government agency, so it is possible to measure year-on-year trends by comparing successive federal budgets.²

In 2003, public sector employment was estimated at 1.2 million, but by 2015 it had peaked to well over 3 million. The growth was largely a function of the country's increasing oil wealth, as oil prices rose and production expanded. Budgetary spending grew uncontrollably – in 2005 recurrent spending was set at around IQD 28 trillion and by 2013 it had reached IQD 83 trillion.³ The public sector continued to absorb more people into the workforce at higher rates, including not only permanent salaried employees but also hundreds of thousands of contractors and daily wage earners.

Table 1: Budgeted Public Employment Figures from 2011–18⁴

	2011	2012	2013	2015	2016	2017	2018
Total	2,662,608	2,750,322	2,907,776	3,027,069	2,905,226	2,885,834	2,885,716
Ministry of Defence	306,475	306,614	322,297	362,331	305,000	292,327	288,242
Ministry of Higher Education	97,439	99,142	102,832	105,864	117,609	116,356	116,160
Ministry of Oil⁵	1,156	1,327	1,793	2,120	2,125	2,125	2,216

² See author's analysis in 'Analysing Growth Trends in Public Sector Employment in Iraq', Middle East Centre Blog, July 2018. Available at: <http://blogs.lse.ac.uk/mec/2018/07/31/analysing-growth-trends-in-public-sector-employment-in-iraq/> (accessed 9 August 2019).

³ World Bank, 'Republic of Iraq Public Expenditure Review: Toward more efficient spending for better service delivery'. August 2014. Available at: <http://documents.worldbank.org/curated/en/611781468253505876/Republic-of-Iraq-Public-expenditure-review-toward-more-efficient-spending-for-better-service-delivery> (accessed 9 August 2019). Note, the Central Bank of Iraq's official exchange rate is 1,182 IQD (Iraqi dinars) to \$1.

⁴ Budgeted public employment numbers, based on author's analysis of allocations within successive annual federal budgets between 2011 and 2018 (figures for 2014 not included as no federal budget was passed that year). Note that these figures do not include employment within state-owned enterprises.

⁵ Ministry of Oil employment numbers excludes those linked to state-owned companies because they are not included within the budget.

According to the World Bank, government expenditure as a percentage of GDP averaged 52 percent between 2005 and 2012, making it among the highest in the region. Meanwhile, the public wage bill between 2005 and 2010 averaged 31 percent of total expenditure or 18 percent of GDP.⁶ Furthermore, salaries radically improved during that period, adding an even greater strain on the public treasury, as illustrated in Table 2. In 2004, a new pay scale was adopted that resulted in public sector wages becoming four to five times higher than private sector wages.⁷

The contrast between spending on employee compensation between 2005 and today is stark. There has been a nine-fold increase, from around \$3.8 billion to nearly \$36 billion over the course of 14 years. For the ministries of defence and higher education, the growth rate is even higher than average.

Table 2: Compensation for Employees from 2005–19 (IQD Billion)

	2005	2008	2012	2019
Total	4,505	12,695	29,224	43,405
Ministry of Defence	589	1,924	3,427	6,647
Ministry of Higher Education	243	804	1,818	2,607
Ministry of Oil⁸	4	10	38	32

The first attempt to curtail the public wage bill came in 2016 when the government adopted a partial hiring freeze. Oil prices had crashed in 2014 after the fall of Mosul, and a fiscal crisis ensued after the government struggled to fund the war against ISIS while also keeping up with salary payments and other operational costs. With the exception of a few essential sectors, including health, security services and electricity, new employment within the government was suspended. As a result, the total number of public sector employees within the federal budget fell from 3.03 million in 2015 to 2.89 million in 2018. Accordingly, and in line with the government's commitments to the International Monetary Fund, salaries as a share of overall spending fell slightly from 35.5 percent in 2017 to 33.4 percent in 2018.⁹

There were major cuts in personnel within the Iraqi Security Forces, mainly due to retirements and casualties sustained from the war. Also, despite the establishment of the Popular Mobilisation Forces (known in Arabic as *al-Hashd al-Shaabi*), many volun-

⁶ World Bank, 'Republic of Iraq Public Expenditure Review'.

⁷ Ibid.

⁸ Ministry of Oil figures do not include compensation for state-owned companies, which make up the bulk of the ministry's spending.

⁹ Ali Al-Mawlawi, 'Iraq's 2018 Federal Budget: Key features and trends', Al-Bayan Center, March 2018. Available at: <http://www.bayancenter.org/en/2018/03/1461/> (accessed 9 August 2019).

teer fighters received only partial salaries from the state during the first two years due to budget shortfalls. Compared to 2015, the total number of budgeted personnel within the Ministry of Defence fell by 20 percent in 2018. As a result, the impact on recurrent spending has been noteworthy. Between 2017 and 2018, budgeted spending within the Ministry of Defence fell by 15 percent.

Within the higher education ministry, the hiring freeze has not made a significant dent in recurrent spending, but the payroll has been reined in, despite great political and public pressure to hire new graduates each year. By the end of 2018, the ministry employed 1,500 less people on a permanent basis than it did in 2016.

As for the Ministry of Oil, the biggest challenge is to understand how many people it actually employs in total. The federal budget law only counts those who work directly for the ministry, and not the state-owned oil companies, which make up the vast bulk of employment within the oil sector. This is because they, along with other state-owned enterprises (SOEs), are considered self-financing entities and have separate budgets that are not subject to the same levels of transparency as other state institutions.

State-Owned Enterprises

With the exception of companies owned by the oil ministry, SOEs represent a major burden on the state treasury. The size of that burden is difficult to quantify because information on budgetary allocations and employment trends within SOEs are difficult to obtain. The vast majority of these entities are largely unprofitable and depend on soft loans from state-owned banks (Al-Rasheed and Al-Rafidain) and special grants from the government budget in order to cover essential spending including salaries. According to the prime minister's finance advisor, Dr Mudher Salih, SOEs within the manufacturing industry alone have accumulated more than \$10 billion in debt but contribute less than 1 percent of GDP.¹⁰

As of 2015 there were a total of 176 SOEs nationwide – but several have merged in recent years. They belong to one of 14 ministries, primarily the Ministry of Oil, Ministry of Industry and Minerals, Ministry of Finance and the Ministry of Electricity. Data from 2013 shows that only 44 SOEs were profitable at the time, and this number has likely fallen in recent years. Estimated employment figures vary greatly but reporting suggests that there were 633,000 people working for SOEs in 2010, including contractors and daily wage earners.¹¹

Total spending for 136 out of 176 SOEs was estimated at a staggering \$31.3 billion in 2013. The sharp decline in oil revenues after 2014 led to an 8.4 percent drop in salaried SOE

¹⁰ Mudher Salih, 'Made in Iraq', *Al-Hewar*, 22 November 2018. Available at: <http://www.ahewar.org/debat/show.art.asp?aid=618918> (accessed 9 August 2019).

¹¹ Government of Iraq, 'Performance and Fiscal Risks from Non-Financial State-Owned Enterprises in the Republic of Iraq', December 2016. Available at: <http://www.iraqatabank.org/storage/app/uploads/public/5bb/2c8/od9/5bb2c8od92548465092950.docx> (accessed 9 August 2019).

employees by 2015, while the number of daily wage earners was slashed by 43.4 percent over the same period. However, this failed to make a major dent in the wage bill. Although overall spending fell by \$6 billion, employee compensation declined from \$4.5 billion in 2013 to \$4.4 billion in 2015.

Table 3: Employment Trends for 136 State-Owned Enterprises¹²

	2012	2013	2014	2015
Total Salaries and Wages (billion USD)	4.1	4.5	4.6	4.4
Total Number of Permanent Employees	354,713	366,944	348,122	336,041
Total Number of Contractual Employees	33,066	41,463	41,269	43,836
Total Number of Daily Wage Earners	31,733	34,187	26,814	19,333
Total Revenues (billion USD)	24.9	27.5	26.9	22.0
Total Expenditure (billion USD)	27.7	31.3	29.2	25.0

While no SOEs belong to the Ministry of Higher Education, some 24 entities are affiliated to either the ministries of defence or oil.

The Ministry of Oil owns 18 companies that account for approximately 140,000 employees. Of those, some 90,000 are aged over 50 and have more than 15 years of service, equating to nearly two-thirds of the total work force. The two leading employers are South Oil Company and the Oil Products Distribution Company, both with over 20,000 employees. There are nearly 10,000 daily wage earners in total, in addition to over 12,000 contractors. Almost all of these SOEs are profitable, and salaries and wages make up an average of 39 percent of total spending.¹³

Out of the 6 companies belonging to the defence ministry, only one, known as Hamurabi, has any degree of productive capacity – manufacturing small arms such as hand pistols. Over \$800 million has been spent on salaries and wages for over 20,000 employees since 2003. All 6 companies are unprofitable, lack basic infrastructure and are incapable of competing in the market.

¹² Figures adapted from Government of Iraq, 'Performance and Fiscal Risks from Non-Financial State-Owned Enterprises in the Republic of Iraq'.

¹³ Prime Minister's Advisory Council, 'Restructuring State-Owned Enterprises: Reality and a Vision Towards Reform', February 2015.

Among the most relevant policy issues that emerged after the 2018 elections relates to employment concerns over how to deal with the tens of thousands of contracted wage earners that predominantly work for SOEs. Contractors have long complained about unfair working conditions, namely the lack of job security and pension schemes. Prior to the economic crisis, many contractors were able to secure permanent employment by obtaining ministerial approvals to become fully fledged state employees. After the hiring freeze was implemented, it became almost impossible for contractors to pursue this route. There is now growing public pressure to guarantee salaried employment for tens of thousands of contractors.

In early November 2018, the new electricity minister announced that the proposed 2019 federal budget would guarantee permanent employment for all 33,403 contractors working for the Ministry of Electricity.¹⁴ The announcement was in reference to Article 11(4b) of the proposed 2019 federal budget bill that gave cabinet discretionary powers to offer contractors working for the Ministry of Electricity salaried employment that includes benefits such as social security, annual leave and a pension scheme. In February 2019, cabinet approved the first tranche of upgraded contracts and by the following month, all 33,000 contractors had been guaranteed the new benefits.¹⁵

From the ministry's perspective, the move represents an important investment in its workforce that will ultimately lead to enhanced power generation and services. But there are also legitimate concerns, not only about the financial strain that it will create, but also on the precedent that this move sets and its implications for other state institutions. Of the 24 SOEs affiliated to the Ministry of Electricity, none are profitable. They employ over 83,000 people including more than 8,000 daily wage earners. As of 2014, these companies had borrowed some \$600 million to cover wages and salaries. However, an analysis of the ministry's approved 2019 budget reveals a 60 percent increase in expenditure compared to 2018. Although much of the \$8.4 billion budget will go towards operating costs that are not related to salaries, it is clear that the ministry will need to spend more on payroll expenses.

Since early 2019, contractors from other state agencies including the Ministry of Education and the electoral commission have taken to the streets to demand salaried employment. This has put pressure on Prime Minister Abdul-Mahdi to respond, suggesting publicly that he may opt for a middle ground to address the concerns of all the country's contractors. Rather than providing them all with salaried employment, which would not be feasible, he has proposed introducing enhanced benefits for contractors such as social security and pension schemes.¹⁶

¹⁴ Luay Al-Khateeb, Twitter post, 2 November 2018. Available at: https://twitter.com/AL_Khatteeb/status/1058612505692528640 (accessed 9 August 2019).

¹⁵ 'وزير الكهرباء يعلن تثبيت موظفي العقود على الملاك الدائم', *Ishtar News*, 26 February 2019. Available at: <http://ishtarnews.net/news-5530.html> (accessed 10 August 2019).

¹⁶ Prime Minister's Weekly Press Briefing, 27 November 2018. Available at: https://www.youtube.com/watch?v=hXSV3jH_CkA (accessed 9 August 2019).

Employment and the 2019 Budget Debate

Arguments over the 2019 federal budget offer a window into some of the vested interests related to expanding public spending. In November 2018, the newly-formed government sent the draft budget bill to parliament for approval. The budget proposed a 27 percent increase in overall spending, based on rising oil prices and a healthier post-war fiscal climate. For the first time in three years, the government was prepared to grow public employment by more than 44,000 people, reaching over 2.9 million in total. Ironically, among the biggest increases in spending were in the security services, namely the ministries of defence and interior, and the Hashd al-Shaabi. Although the number of personnel would not increase significantly, both recurrent and capital spending would grow by 14 percent in the Ministry of Interior and 11 percent in the Ministry of Defence. As for the Hashd al-Shaabi, a decree by former Prime Minister Haider Al-Abadi in the summer of 2018 ensured that Hashd members would achieve wage parity with other members of the security services. For that reason, the Hashd's overall budget would increase by 20 percent.

During the initial parliamentary session to debate the 2019 budget, Speaker Mohammed al-Halbusi outlined his key concerns. In his view, even though total spending was extremely high, the budget did not adequately address the need for more jobs or increases in salaries. Halbusi also questioned the allocation of spending for service provision and reconstruction, specifically in liberated provinces. He also noted that there was insufficient information about the nature of investment spending that would be given to each province.¹⁷

Halbusi's point about employment allocations reflected widespread concerns by the political class over the insufficient distribution of public sector jobs. Unlike the past four years, it was no longer easy for the government to justify maintaining a hiring freeze given that oil prices had recovered, and the burden of the cost of war no longer existed. Politicians also seized on popular discontent in an attempt to restore hiring practices that have long benefited the political class.

None of the main political blocs, including Prime Minister Abdul-Mahdi's key backers, defended the draft budget and there was consensus that a first reading should not proceed until the government made significant amendments to the draft law. A joint committee was established between the parliamentary finance committee and the Ministry of Finance to address the concerns of the political blocs and agree on a draft that could be put to a vote in parliament. It was not until late January 2019 that parliament eventually approved the amended bill, but not before creating an additional 12,000 new public sector jobs, which largely went to the Ministry of Health.¹⁸

¹⁷ Remarks by Speaker Halbusi, 6 November 2018. Available at: <https://www.youtube.com/watch?v=-deM-jxM9cFQ> (accessed 9 August 2019).

¹⁸ AFP, 'Iraq parliament approves 2019 budget, one of largest ever', 24 January 2019. Available at: <https://www.france24.com/en/20190124-iraq-parliament-approves-2019-budget-one-largest-ever> (accessed 9 August 2019).

Hiring Practices and Patronage

There is no easy way to map out the linkages between political parties and hiring practices within the public sector. The dynamics vary from ministry to ministry and are dependent on a number of variables. Empirical evidence on how political patronage operates in Iraq is particularly sparse given the pervasive culture of impunity. Nevertheless, many of these practices are common knowledge because of their widespread nature. For that reason, it is possible to outline some of the ways in which the public payroll is utilised by patrons and clients.

First, it is important to address some theoretical concepts that are particularly relevant to the case of patronage in Iraq. Patronage can be conceived of as a transactional relationship between patrons and clients. But the literature often distinguishes between party patronage and political patronage. In the case of the latter, it is individual political leaders rather than the parties they represent that act as the 'collective' patron.¹⁹ The exercise of patronage can occur without knowledge or consent of the individual's party organisation. Furthermore, there are variants of patronage that include clientelism and brokerage. Often in the case of Iraq, it is difficult to disentangle these different forms. For example, obtaining public employment may or may not involve paying a bribe. For individuals seeking employment that have weak political connections, the likelihood of paying a bribe is higher. But even the degree to which individuals who receive bribes are political varies greatly. In some cases, illegal payments are made to senior-ranking officials within a ministry, such as a director-general. In other cases, the transactional relationship may be established with a political party that has the power and influence to hire people within a ministry. In both scenarios, it is possible that the transaction is purely financial in nature, or it extends far deeper into the realm of political cooption.

The three ministries that form the focus of this study are illustrative of this point. Firstly, it is not possible to identify a unitary party that has a firm grip over hiring practices within the ministries of oil, defence and higher education. This suggests that power is dispersed across multiple political and apolitical actors. Furthermore, the ministerial posts have changed hands several times, so no single political party has been able to entrench itself to the point where these ministries can be considered fiefdoms. This is particularly obvious within the Ministry of Higher Education, which has been led by both Sunni and Shia parties since 2006. To a similar extent, the Ministry of Oil has been largely run by individuals with weak political bases, with the exception of Adil Abdul-Mahdi, who briefly held the position on behalf of the Islamic Supreme Council of Iraq (ISCI) between 2014 and 2016. As for the minister of defence, although the position has been traditionally reserved for Sunni parties, no single party has been able to exert dominance over the ministry.

¹⁹ Petr Kopecky, 'Political Parties and Patronage in Contemporary Democracies: An Introduction', April 2006. Available at: <https://ecpr.eu/Filestore/PaperProposal/47af1ecf-546f-47f1-beb8-6e9b1b490e61.pdf> (accessed 9 August 2019).

Of course, the extent of party patronage is largely dependent on the nature of the party in question. Parties with a strong, centralised hierarchy tend to project that strength on the ministerial level. A good example is the Sadrist Trend, which was able to dominate hiring within the Ministry of Health during the 2006 period when it effectively controlled the ministry and recruited party loyalists for junior and senior posts. On the other hand, parties with a weakly centralised hierarchy tend to project individual rather than collective patron-client relationships. In other words, senior ranking individuals within the party will engage in clientelist practices out of self-interest rather than at the behest of the party itself.

A second distinction is between junior and senior hiring practices. Political parties tend to be far more involved in appointments at the senior levels, from directors, advisors and deputy ministers. One reason, beyond the obvious importance of the political power these positions hold, is that illicit party financing has been historically extracted through profiteering from awarding major ministerial contracts, which only senior officials have the ability to influence or control. Individuals occupying senior positions can be moved elsewhere by a new incoming minister or prime minister, but it is extremely difficult to remove them entirely unless they have reached retirement age. In these cases, their fate is largely determined by the strength of their political backers. This does not mean that hiring practices for junior positions are free from politicisation, but more often than not, they are a function of individual practices that involve nepotism and bribery, but could also be utilised for electioneering purposes.

Hiring practices exist on a political spectrum – from the employment of card-carrying party members on one polar end, to apolitical employees on the other end. Added to the dynamic is a mix of nepotism, which may or may not be motivated by political calculations; bribery, as a form of quid pro quo; and merit-based appointments, whereby the highest achieving graduates are guaranteed employment in the public sector. Though bribery is a key feature of the hiring process, it mainly affects job seekers who have weak political connections.

One of the clearest and most widely documented illustrations of this complex dynamic involving payroll corruption can be found within the Iraqi Army. During a parliamentary session in November 2014, then-Prime Minister Haider Al-Abadi claimed that some 50,000 ‘ghost soldiers’ were on the Ministry of Defence’s payroll.²⁰ These are military personnel whose salaries are being drawn but are not in military service. Abadi claimed that the figure was based on an investigation that he had personally ordered into payroll corruption within the armed forces. Although that figure has been disputed by several officials who assert that the real number of ghost soldiers was far less, nonetheless, the practice of dispensing salaries for individuals who either do not exist (including deceased individuals) or do not report to work, is an indisputable phenomenon that extends far beyond the armed forces.

²⁰ ‘Investigation finds 50,000 “ghost” soldiers in Iraqi army, prime minister says’, *Washington Post*, 30 November 2014. Available at: <https://goo.gl/gBf1Ap> (accessed 9 August 2019).

Many have attributed the June 2014 collapse of the defence of Mosul in part to endemic corruption that existed within the Iraqi Security Forces. The buying and selling of senior military ranks was common practice, with bribes being paid in exchange for lucrative appointments. In turn, the appointed officers would profiteer by taking a cut from the salaries of their subordinates, who were considered 'ghost soldiers'. While this practice has been extensively documented, it is difficult to ascertain the extent to which it was pervasive across the security sector. However, the effect of such practices was crippling to the professionalism and competence of the military command. Many have credited Abadi with stamping out this practice at the highest levels, but absenteeism is still an issue that exists within the civil service. One of Abadi's first moves as prime minister was to dissolve the office of the Commander-in-Chief and to retire a number of senior military officers, since rampant corruption among the officer class was identified as a key issue that required tackling.

What is clear from the phenomenon of ghost soldiers is that it involves a complex mix of political actors (both party-based and individuals) and apolitical opportunists motivated by self-enrichment. Clientelist practices often occur at the individual level, where personal monetary gain is sufficient incentive for government officials to engage in corruption. On the other hand, brokerage networks do exist, enabling political parties to engage in self-enrichment through apolitical intermediaries. These interests came to a head in 2016 when parliament moved to impeach defence minister Khalid Al-Obeidi. According to Obeidi, impeachment proceedings arose in part from his refusal to acquiesce to pressures from politicians to hire individuals connected to them. Though charges of corruption were levelled at the minister, it was clear that his removal was primarily motivated by political actors whose vested interests had been undermined under Obeidi's tenure.

Conclusion

Reining in payroll spending requires a combination of political will and technical knowhow. If there is enough political will but no alternative avenues for the government to absorb rising unemployment, it will be difficult to resist the temptation of growing public sector employment even further. Conversely, there are several practical approaches outlined in this paper that could be adopted by the government to reduce waste and excessive spending on the public payroll, but in the current climate of public disquiet over poor services and lack of job opportunities, it would take political courage to resist popular demands for more public sector jobs.

Any anti-corruption effort adopted by Baghdad needs to focus on limiting opportunities for corrupt practices as a priority for the short to medium term. Though accountability and prosecution of corrupt individuals is also a vital component, it remains a long-term endeavour since overhauling Iraq's judiciary will take time to achieve.

Prioritising the overhaul of SOEs will also have an added benefit beyond rooting out excessive spending. SOEs are notorious for creating monopolies and crowding out private

enterprise. By addressing overstaffing issues, many of these entities can be transformed into private investment opportunities, thereby stimulating private sector job growth and offsetting demands on public employment.

Payroll reform is among the hardest nuts to crack because it undermines the vested interests of so many political actors and ordinary citizens. The major political blocs that existed prior to the 2018 elections have largely fragmented, but it is debatable whether this has weakened or indeed strengthened the patronage system given the emergence of smaller, more cohesive political parties. The challenge for the government will be to prioritise and focus on what is realistically achievable and ensuring that it can effectively communicate its plan to the general public in order to illustrate how it will ultimately lead to better job prospects and greater economic stability over the long term.

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