

Iraq's Last Window: Diffusing the Risks of a Petro-State

Johnny West

Abstract

Although Iraq's oil industry is 80 years old, it has an opportunity to introduce an oil dividend based on the expansion of production currently being undertaken. Even assuming a conservative price for crude, the resulting predicted rise in revenues will allow the government to allocate a significant dividend which halves poverty, helps diversify the economy by creating demand at all income levels for goods and services, and stimulates capital formation—all without cutting into the government's capital spending plans. A dividend, starting at \$220 per capita in October 2012 and rising with expanded production, could also cement the affiliation of all citizens to Iraqi territorial integrity, act as a powerful disincentive to secession in oil-producing regions, and create popular pressure among all sections of the population to discourage acts by the ongoing insurgency which disrupt economic reconstruction. Logistically, dividends could be mapped onto the nationwide and universal rationing system, as the electoral roll has been, and combined with Iraq's ubiquitous mobile phone networks and new biometric ID cards. A partial dividend would create a strong domestic political constituency for transparency to reinforce international technical efforts to help the government manage oil revenues and create efficient management structures. It would also help Iraq develop an alternative economic model to a future, which the country's present trajectory now threatens, of a bloated state as the country's only significant employer, with all the attendant problems of patronage networks, politicization of the civil service, and outright corruption. Support for an oil dividend policy is growing among some politicians, notably those seeking votes among the Iraqi poor such as the Sadrists and Fadhila party. International support could help the government structure a dividend which functions well and in the public interest.

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Foreword

The discovery of oil in a developing country is potentially beneficial and, simultaneously, potentially calamitous. While countries could put oil revenues toward building much-needed schools and roads, fixing and staffing health systems, and policing the streets, many resource-rich states fare little better—and often much worse—than their resource-poor counterparts. Too often public money is misallocated and funds meant to be saved are raided, and those living in poor resource-rich countries pay the price. While this so-called resource curse is well established in the literature, solutions to counteract its corrosive effects remain highly elusive.

CGD's Oil-to-Cash initiative is exploring one policy option that may address the root mechanism of the resource curse: using cash transfers to hand the money directly to citizens and thereby protect the social contract between the government and its people. Under this proposal, a government would transfer some or all of the revenue from natural resource extraction to citizens in universal, transparent, and regular payments. The state would treat these payments as normal income and tax it accordingly—thus forcing the state to collect taxes, fostering public accountability and more responsible resource management.

This paper by John West, commissioned by CGD as part of Oil-to-Cash, examines the possibility of adopting such a scheme in Iraq. Previous CGD work by Nancy Birdsall and Arvind Subramanian ("Saving Iraq from its Oil" in Foreign Affairs) made a similar proposal in 2004 and the idea was considered by US authorities but ultimately set aside because of the politics of the time. West now identifies a new opportunity for direct distribution of Iraqi oil rents in the planned production expansion over the next five years. This could yield a meaningful per capita dividend even while leaving current spending levels untouched. The payment could grow large enough by 2015 to push every Iraqi over the poverty line. Through insightful analysis of its potential benefits and drawbacks, West concludes that a cash transfer scheme could have positive and powerful political economy impacts too, including cementing allegiance to an Iraqi nation, fostering transparency and careful resource management, and providing the incentives and means to diversify the economy. While political implementation might prove difficult, West's analysis suggests that this proposal for Iraq merits serious revisiting.

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Introduction: headed for normal – but what kind of normal?

Despite many wobbles, Iraq finally seems headed for some kind of normalcy in the years ahead. Political violence and insecurity remain tremendously high when compared to most other countries in the world, but are lower than the high point of 2007-8, and continuing to fall. The political process is riven with crises yet has survived five electoral processes and the best part of a year without an agreed government. Economic development is also in the wind, as oil revenues have crept up first on the back of the global commodities boom, and then on Iraq's ambitious plans to expand its own production.

But to the question, what kind of normalcy, the answer so far is worryingly clear: a bloated petro-state which controls most of the economy, employs most of the workforce, and represents a mother-lode of patronage likely to provoke continuing rent-seeking and competition which, in a society with Iraq's recent past, is likely to take on sectarian and partisan undertones. The single biggest factor driving that trend is not this or that party or ideology, or the nature of certain domestic or regional actors and their complex interactions. It is the political economy of oil, as established in the growing body of evidence around the Resource Curse¹. Iraq is a country where one bank account in the Federal Reserve Bank of New York, receiving the proceeds of its oil exports around the world, provides the vast majority of state income for this country of 32 million people.² All forms of taxation, meanwhile, hover collectively at 2% of government income. Clearly to expect fully representative government in such a context would be optimistic at best. Influence, like the patronage that underlies it, is imbalanced and mostly one way. It should not therefore also be a surprise that Iraq is a country classed as upper-middle income, where nearly a quarter of the population live below the national poverty line.

But there is an alternative. Several eminent economists and development scholars suggested, in the immediate aftermath of the 2003 war, tabling the concept of a significant oil dividend to be distributed directly to Iraqi citizens, in addition to revenues flowing into the state budget. In 2004, Nancy Birdsall and Arvind Subramanian³ proposed a 10-year guarantee, to be written into the Iraq constitution then in draft, of a

1 Jeffrey Sachs and Andrew Warner's *Natural Resource Abundance and Economic Growth* at the end of the 1990s examined 97 countries over a period of 18 years, 1971 to 1989, and found that states with a high abundance of natural resource exports had abnormally slow economic growth in general, relative to other countries. Others have challenged the idea of Resource Curse more recently, most notably Brunnschweiler and Bulte *The Resource Curse Revisited and Revised* 2008, and Halvor Mehlum & Karl Moene & Ragnar Torvik, *Cursed by Resources or Institutions?* 2006.

2 Oil accounts for over 80% of government revenues.

3 *Saving Iraq from its oil*, Foreign Affairs Volume 83, no 4, pp77-89.

dividend of at least 50% of oil revenues. Steven Clemons proposed a dividend from an investment fund in the same manner as the US state of Alaska⁴, while Thomas Palley argued for a dividend direct from oil revenues, without the intermediation of an investment fund⁵. These suggestions were not adopted and in the intervening period a new state elite has established itself with spending and development patterns, as shall be seen below, that confirm the rationale of introducing the dividend in the first place.

In 2011, however, a new window of opportunity beckons. Under then oil minister Hussein Shahrstani, Iraq has finally managed to get contractual frameworks into place which will enable it to expand production considerably in the next few years. The oil is there and cheap to produce. There is a host of political, regulatory, security and infrastructural challenges but there is an expert consensus that Iraqi production – and revenues – will rise dramatically in the next few years. In this context it becomes possible to formulate a significant oil dividend which could dramatically alter Iraq's social and economic development for the better, transform its political culture and cement all its citizens' relationship with the Iraqi state – all while maintaining government spending plans at their 2011 levels.

What follows below is an exposition of how such a fund could be calculated in the years to 2015 using conservative assumptions about production, exports, and global markets; what the economic impact could be if harnessed to other development initiatives; how such a dividend could be implemented building on existing mechanisms in Iraq; the impact it could have on management of the oil industry itself and various transparency processes currently in play; and finally, how it could be viable politically – and in fact is already being actively considered by certain parts of Iraq's political spectrum.

Rise in revenues expected

As of early 2011, Iraq's production had still not topped its level at the time of 2003 war, of 2.4 million barrels a day, of which 1.9 million were exported. But a series of far-reaching agreements were signed with international oil companies in 2009-10 to develop new and existing oilfields which promise to raise production dramatically. The Oil Minister at that time, Hussein Shahrstani, set Iraq's official production target at 11 to 12 million barrels of oil a day by 2016.

Industry predictions for Iraq's future production vary widely. While most experts would acknowledge that the proven reserves exist to justify the official target⁶ – unlike so many

4 *Sharing, Alaska Style*, Steven Clemons, New America Foundation, April 9, 2003

http://www.newamerica.net/publications/articles/2003/sharing_alaska_style.

5 *Combating the Natural resource Curse with Citizen Revenue Distribution Funds: Oil and the Case of Iraq*, hosted on the website of the Open Society Institute.

6 In October 2010 Iraq raised its estimate of proven reserves by 24% to 143 billion barrels, placing the country second behind Saudi Arabia in terms of conventional crude oil reserves. Officials and

parts of the world Iraq has nearly zero “geological risk” - a general view prevails which regards these numbers as destined for public consumption. This view holds the official figures as part of a narrative intended to justify the re-introduction of the international oil companies to Iraq almost four decades after nationalisation, in the face of the intense economic nationalism of the Iraqi public, while in reality such a rate of expansion, which would be unparalleled in the history of the industry, will be hampered by continuing security, political, and infrastructural obstacles. Sceptics point to the fact that Iraq has not managed in seven years to reach pre-war production levels of crude.

Nevertheless the stage is set with the new service agreements, which are explicitly tied to achieving production plateaus field by field⁷, and industry consensus certainly sees a rise in production in the coming years. The question is by how much.

In late 2010 the World Bank based a \$250 million development loan on projections showing production rising to 3.1 million barrels a day in 2012⁸, a compound increase of 12% a year. Assuming growth at the same rate through 2015⁹, Iraq would by then be producing 4.3 million barrels a day, with exports rising to about 3.7 million barrels a day¹⁰, an accumulated increase of 94% in the five years beginning now through to the start of 2016.

This should result in a considerably increased Iraqi take in the coming years, the basis of the suggestion that an oil dividend is compatible with aggressive government plans for capital public expenditure to get Iraq's economy and society back on its feet. Exactly how much of an increase is subject, of course, to the vagaries of market price. The

international experts concur that reserves figures are likely to rise even higher as exploration, a part of the service agreements signed with international companies, continues using technologies which are new to Iraq.

7 The consortium led by ExxonMobil, for example, which won the bid for the service agreement in West Qurna Phase One contract area, is contractually committed to raising production levels from 244,000 barrels a day in late 2009 to 2.1 million barrels a day and holding it there for seven years; that led by BP in Rumaila field guaranteed to take production there from just over a million barrels a day to 2.85 million barrels a day.

8 *Program document, First Programmatic Fiscal Sustainability Development Loan*, World Bank report 51528, February 2010 p 5.

9 12% annual growth might be a reasonable estimate for aggressive expansion, brokering between the zero geological risk and contractual frameworks on the one hand and the multitude of logistical and security issues on the other.

10 This figure assumes domestic demand for oil rising slightly as development and spending power increases, bearing in mind that Iraq has phased out fuel subsidies, and also that some energy demand, such as increasingly electricity, may then be met by the gas production which Iraq is now undertaking for the first time.

International Monetary Fund has published estimates, designed to be conservative, of \$68 per barrel in 2011 and \$70.50 in 2012 for Iraqi crudes¹¹, under which it estimates a rise in the government take by 30% from just under \$51 billion in 2010 to just over \$66 billion in 2012¹². The IMF similarly projects from the same assumptions on price and production that budget deficits, which ballooned to nearly \$15 billion in 2009, will be closed by the end of 2012¹³. Assuming a constant price for Iraqi crude of \$70 per barrel through the end of 2015, together with increased production at the rate projected above, Iraq would be earning just short of \$100 billion a year from its oil exports in five years time, compared to \$50 billion in 2010.

This gives ample scope for considering an oil dividend to citizens in addition to public spending, as long as government spending is kept broadly at current levels. Both the World Bank and the IMF stress the need for fiscal discipline in their continuing consultations with the government of Iraq, probably partly in response to the recent past¹⁴. When crude markets soared to unprecedented heights in 2008, Iraq's oil take leapt to over \$60 billion, 60% higher than the year before. But government spending soared even higher, leaping an astonishing 75% year on year, 2007-8. About a quarter of the increase was classified as in expanded public investment, rebuilding the country's dilapidated infrastructure. The remainder was a rise in current expenditures, mostly salaries and pensions, and goods and services provided by the government.

Leading officials in the government of prime minister Nouri al-Maliki explained the spending decisions as a response to the long-term trends of critical under-investment and under-payment of public salaries that Iraq had experienced as a result of war, isolation and civil strife. The budget shrank in 2009 as markets collapsed, but not by nearly as much as revenues fell from plummeting world markets, and a substantial fiscal deficit opened. In this sense, Iraq fell prey to one of the classic syndromes of oil producing countries, growing dependency on oil rents combined with severe income volatility. Longer term, a new spending plateau of around \$75 billion was established by

11 Iraq exports two crudes, the Basrah and Kirkuk grades. Both have historically traded at slight discounts to the Brent benchmark but another important factor in the size of oil rents is that costs of production in Iraq are estimated to be among the lowest in the world.

12 In 2010 a conservative estimate of market price saved Iraq from a far worse fiscal deficit than it actually has. Exports fell short by almost 10% of expectations but the aggregate price per barrel turned out to be \$72 on world markets against the government estimate of \$63.50.

13 IMF Country Report (10/316), October 2010, p15.

14 "Staff urged the authorities to use conservative assumptions for oil exports and prices in preparing the 2011 budget... while making every effort to contain current spending", IMF Country Report (10/316) section 13.

the 2008 boom which both the government and the international financial institutions (IFIs) envisage continuing at least through the end of 2012¹⁵.

This suggestion for a partial oil dividend is broadly in line with that economic planning by the government of Iraq and the IFIs. It assumes that public spending will rise moderately, at slightly over 2% a year, in line with Iraq's annual population growth over the past few years, allowing both the civil service and public investment to remain at current levels. It also conservatively assumes the government's non-oil revenues would rise at about one trillion dinars (\$850 million) per year, below levels achieved in recent years¹⁶ and discounting the sizeable likely knock-on effects in this regard of the dividend itself.

As the table below shows, these constraints still allow a dividend beginning at \$222 per adult Iraqi citizen in 2012, rising to \$1,954 per adult in 2015, when the current parliament is due for re-election. From 2012 to 2016, dividends of \$73 billion would be distributed directly to the Iraqi population. This would be in addition to government spending as currently set by the 2011 budget.

Year	Oil			Budget		Dividend		
	Crude (\$ barrel)	Prod (mbpd)	Export (mbpd)	Income (\$ billion)	Spending (\$ billion)	Pop (million)	Deficit (\$ billion)	Dividend (per cap)
2011	68	2.80	2.2	69.41	76.95	32.18	-7.54	
2012	70.5	3.20	2.6	81.44	77.8	32.88	3.64	\$222
2013	70	3.58	2.98	92.34	79.51	33.61	12.83	\$764
2014	70	4.01	3.41	104.18	81.26	34.35	22.92	\$1,335
2015	70	4.50	3.9	117.33	83.04	35.10	34.29	\$1,954

Sources: IMF, World Bank estimates to 2012, WPF to 2015 plus projections

This projection assumes no savings or contributions to a sovereign fund. The question of what proportion of funds might best be allocated to a savings or sovereignty fund for countries in different stages of development is broadly debated. While many have cited the Norwegian model¹⁷, others have concluded that that model cannot be appropriately exported from either a governance or a developmental perspective¹⁸. The projections in this paper are intended to demonstrate an order of dimension of an oil dividend based on conservative assumptions around government spending, global markets and Iraq's

15 Iraqi government figures for 2010-11 and IMF predictions for 2012, IMF Country Report (10/316).

16 The IMF projects non-oil revenues rising from 13.2 trillion dinars (\$11 billion) in 2007 to 17.8 trillion dinars (\$15 billion) in 2012. These figures include revenues earned by state enterprises in the oil and energy sectors as well as other funds from the industry such as signature bonuses, but excludes oil export revenues.

17 Norway's Government Pension Fund was estimated in 2010 to own assets worth \$350-400 billion, representing about \$80,000 for every Norwegian citizen.

18 Notably Paul Collier argues in *Plundered Planet* (2010) that developing countries both need and can absorb higher proportions of natural resource rents as capital investment compared to Norway, which developed its oil industry when it was already economically developed.

expansion plans. Clearly, however, by 2015 there is considerable scope for both an oil dividend and contributions to a sovereign wealth or other fund¹⁹, and it should be noted that, as long as it does not relapse into outright civil war, 2015 is likelier to be closer to the profile of a typical financial year for Iraq going forward than 2011. It is left for a more advanced and nuanced debate to tease out the detail of if and how such building of savings and financial portfolios should be begun, and how they would be dovetailed with the annual dividend to citizens.

Economic Effects of a Dividend

In economic and development terms, such a dividend would have multiple effects. It could drive huge progress towards Iraqi fulfilment of the Millennium Development Goals (MDGs), eliminating income poverty in Iraq and helping to create conditions for pro-poor health services. It would represent continual stimulus for broad economic growth and diversification away from dependence on fossil fuels. Structured in the right way, it also has potential to drive SME growth, establish inclusive financial services, and power a capitalisation of the Iraqi economy from a broad domestic base that would take it in a new and unprecedented direction. On the downside, some economists raise concern that such a release of cash could create inflation. Each of these considerations is dealt with in detail below.

Iraq's Household Socio-Economic Survey (IHSES), completed in 2009, laid the foundations for poverty reduction in the country for the next decade²⁰. Using a national poverty level of 76,896 Iraqi dinars per person per month²¹, IHSES established a clearly defined profile of poverty in Iraq as widespread but shallow. Some 22%, or nearly a quarter of the population, were below that level. But at the same time the poverty gap was only 4.5%, meaning that it would require just over a billion dollars a year, distributed in the right way, to bring the entire population up above the poverty line. The poverty gap is of course a notional measure²², and such a perfect distribution could not occur in

19 Although the broad political and governance conditions under which such funds can flourish should also be taken into account, a discussion which is touched on in the section on management of the oil industry below.

20 Conducted in consultation with the World Bank, field surveys collected information from some 18,000 households and 127,000 individuals across the country in 2006-7.

21 At about \$780 a year in real currency terms (using an exchange rate of 1,183 Iraqi dinars to the dollar), this national poverty level is considerably higher than the UN-set definition of poverty at \$730 per year using the Parity Purchasing Power method of calculating GDP (the ratio in figures for real versus PPP GDP figures on the World Bank website being 1.37).

22 The poverty gap represents an imaginary figure needed for a perfectly targeted distribution which would bring an entire population up to the poverty line. Those with income above the level are discounted and the sum of all the money needed to bring those beneath it up to it is aggregated, then expressed as a

the real world. Nevertheless, the dividend as suggested in this paper represents multiples which dwarf the poverty gap and essentially eliminate poverty in Iraq²³. Within two to three years, pockets of deep poverty, whether urban such as in parts of Sadr City, or rural such as in the villages of Muthanna, would indeed become history and Iraq could move onto the next stage of economic development more typical to a middle income country.

If the dividend alone ensures compliance with MDG 1, the reduction of poverty, spending patterns among its beneficiaries might result in considerable inroads in MDGs 4 and 5, relating to maternal and infant mortality²⁴. In addition, MDG3 targets universal primary education.

How Iraqis would choose to spend their dividends is, of course, unknowable. Nevertheless, a body of indirect evidence is accumulating that the kind of cash infusion the dividend brings could have strong positive impacts on all these indicators. For example, not only are large scale conditional cash transfer programs demonstrating positive impact more, and more consistently²⁵, in countries as diverse as Mexico, Malawi and Brazil, there is some evidence that the benefits may not even be tied to the conditionality of the schemes²⁶.

Represented as stimulus, the dividend is likely to represent a large incentive for the development of goods and services in the Iraqi economy compared to even the same amount of money allocated either to more government spending programs, or financial sterilisation programs. The natural ramping up provided by the gradual increase in oil rents over the next few years would give the embryonic private sector time to develop their businesses against a fixed schedule to address a market of known size, an important incentive in a business environment as uncertain as Iraq's. It is thus not just the dividend's scale but its relative predictability that could catalyse poor-centric businesses in Iraq of the kind postulated by the late CK Prahalad in his book *Fortune at the Bottom of the Pyramid*.

Iraq's private sector has notched up a mixed record since the 2003 war. Sectors such as construction and the supply of commodities like wheat have often failed to serve the

percentage of the amount of money generated by the total population earning that level of income.

23 The multiple starts at 3 in 2012, rising to 10 in 2013, 18 in 2014 and 27 in 2015. From 2013, the dividend itself equals the income needed for an individual to escape poverty.

24 MDG4 targets a reduction in child mortality by two thirds in percentage terms between 1990 and 2015, while MDG5 aims for reduction in maternal mortality by three quarters over the same period.

25 The Oportunidades initiative in Mexico and Bolsa Familia in Brazil are gaining increasing attention from development economists.

26 *Just Give Money to the Poor, the Development Revolution from the Global South* – David Hulme, Joseph Hanlon, Armando Barrientos, p56.

public well²⁷ while others, such as telecoms, have succeeded strongly. But by creating massive new purchasing power which lies largely beyond the long arm of government patronage, as either monosponsor or licensor and regulator, the dividend would be indisputably the biggest opportunity for private sector development the country has seen. Unsurprisingly given Iraq's circumstances, the public sector has represented over 80% of Gross Domestic Product (GDP) and the IMF sees that proportion declining only slowly over time, projecting, for example, that the state will still account for over 75% of GDP in 2012²⁸. If those projections held, mere distribution of the dividend would by 2015 double the size of Iraq's private sector economy even under the most unlikely conservative assumption, namely that every single dinar of it was consumed directly on foreign imports supplied by foreign companies with no Iraqi value added.

In fact, any private sector response to the opportunities of these new markets would likely address another of the chronic distortions caused by Iraq's oil wealth – an underdeveloped labour market. The World Bank states that Iraq has the lowest employment to population ratio in the Middle East region. Only 38% of working age adults are employed, with another 7% unemployed and the remaining 57% not in the labor market. Entrepreneurial initiatives to serve new consumption markets created by the dividend would likely create tens of thousands of private jobs, significantly expanding the sector.

However the dividend would likely have another benefit, the re-investment of significant sums into the economy from its newly capitalised population, either directly as small businesses, or used as collateral for bank loans. Both the Iraqi government and international actors such as the World Bank and USAID²⁹ have adopted micro-finance as a key economic growth and diversification strategy, with the government creating a specialised ministry. According to a USAID report in late 2010, nearly a quarter of a million loans have been made in the years since 2003, with \$558 million disbursed. The aggregated portfolios of the 12 microfinance institutions (MFIs) who operate across the country stood at \$103 million with 72,000 clients³⁰. Clearly, the mere new access of funds to poor Iraqis who fall into the target demographics for micro-finance is far from sufficient, as successful microfinance and inclusive financial services such as savings and insurance schemes as well, are complex ecosystems built on sound technical practice by the MFIs and networks which capture the human and social capital of the informal sector³¹.

27 *Considering the Future of the Iraqi Public Distribution System*, World Bank, June 28, 2005

28 IMF Country Report (10/316) p 13.

29 USAID-Tijara and the World Bank's Fiscal Sustainability program, and also the SME components in USAID's Tatweer program and UNDP's Private Sector Development initiative.

30 <http://www.iraq-businessnews.com/2010/11/09/usaids-tijara-plans-microfinance-conference/>

31 Specifically, microfinance programs as evolved classically by Mohammed Younus at Grameen Bank

But equally clearly, the sheer size of funds available and the fact many of the addressable markets the dividend could create would be among Iraqis of limited income, close to the experience of many microfinance entrepreneurs so that they may enjoy a competitive advantage, could be transformative. If just five percent of the dividends were invested in SME and microfinance activities, and the same efficiency for job creation was posited as is declared by USAID for the microfinance sector to date³², the effect would be to create or sustain over 1.3 million jobs in the SME sector, comfortably more than Iraq's current official unemployment rate. Benefit would be maximised to the extent that MFIs and their sponsors, both governmental and international, were able to integrate the dividends into their strategies in forms such as creating matching-loan products.

Further up the income scale, the dividend represents an opportunity to capitalise the economy from within. Iraq's economy is badly under-capitalised, even assessed in traditional terms and conventional business, before any consideration of questions of social inclusivity. The World Bank reports that nearly two thirds of the country's entire assets are held by two state-owned banks which date from the time of the former regime and are the only financial institutions to have nationwide branch networks³³. The vast majority of these assets in turn belong to the state³⁴.

Lending to the private sector amounted to only just \$3 billion in 2008, the year of Iraq's maximum windfall oil rents, and is mostly characterised by loan periods of less than 12 months. If the conventional banking system could capture 25% of Iraqi's dividends as savings in the years up to 2015, it would yield \$18 billion, multiplying the private assets in the system many times over and most likely supplying the conditions for revival of the financial sector as a whole. As with micro-finance, the extent of benefit extracted depends heavily on the degree to which existing players integrate the dividend into their strategies. But the dividend has the potential to be an extraordinary catalyst.

Another area with strong synergies are the mooted plans to reform Iraq's rationing and subsidies system. The World Bank has been in dialogue with the government of Iraq since 2005 on the possibility of reforming the Public Distribution System (PDS), instituted

require guarantees from a peer group, a similar principle to informal co-operative lending societies in many developing countries.

32 The USAID-Tijara statement that \$558 million has created or sustained 203,000 jobs to date gives a ratio of \$2,478 per job. That ratio applied to 5% of the dividend by 2015, or \$3.68 billion, would represent 1,340,399 private jobs.

33 World Bank report 51528, February 2010, states that banks account for over 90% of assets are held in the banking sector, and that the Rafidain and Rasheed banks hold over 70% of these.

34 World Bank report 51528, February 2010 estimates overall assets at \$26 billion while the IMF's review of its standby facilities estimates government assets held in commercial banks, including Rafidain and Rashid, to total 29 trillion dinars, or about \$24.5 billion.

in the 1990s in response to sanctions. The system is still widely used by Iraqis, including many middle class families, but represents a burden on government spending which reached \$5.5 billion in 2008, more than was spent on either health or education services³⁵. The Bank is suggesting gradual reform, recognising the iconic nature of the system and the service and the political infeasibility of abolishing it. The issue is not with the policy choice of whether to support Iraqis who are in deprivation as the inefficiency of the mechanism, since the Bank has estimated that over \$6 are spent for every dollar's worth of goods that are delivered to the public, and the PDS spawned the highest level corruption case in recent years when former minister A-F Sudani was indicted on charges of embezzlement in mid-2009. An oil dividend which provides higher effective support to every household in the country, even in its first year, than the PDS does now, would free the government and the Iraqi public to decide how they wished to proceed in reforming rationing and government-supplied commodity systems in the knowledge that a more efficient social safety net was already in place. Up to a tenth of the government's current budget could be reallocated to other social spending, boosting public health and education services, if the PDS inefficiencies were removed.

Objections to the concept of oil dividends have been based on the perceived dangers of inflation and exchange-rate destabilisation. But it should be noted that these are generic risks of the distribution of oil rents, known as Dutch Disease³⁶, and observed in dozens of natural resource dependent economies around the world. The curbing of inflation is one of Iraq's rare successes in the past few years and the impact a return of high inflation would bring, particularly on the disadvantaged, should not be dismissed lightly. At the same time, such risks attach to any policy which releases foreign currency flows inside the producing economy, including the government's current spending plans.

To the extent that a dividend would more effectively distribute the revenues, it is true that it would represent some increased risk of inflation. Construction and real estate are a particularly vulnerable sector, already subject to Iraq's population boom, and care would need to be taken to avoid the distorting effects of one natural resource rent – oil – being replaced by another – land. Against that, an IMF working paper recently argued that a major cause of inflation in Iraq in recent years was the conflict itself³⁷. Broadly speaking, levels of violence have been decreasing for three years now, and the impact of the dividend itself on political stability (explained below) could further heavily reduce

35 World Bank report 51528, February 2010.

36 Named after the effects first perceived in the Netherlands as a result of the influx of high revenues from natural gas fields discovered in the North Sea in the 1950s. But it is noteworthy that there was no Dutch gas dividend and the effects were created by expanded government spending and other macroeconomic effects.

37 *Inflation and Conflict in Iraq: The Economics of Shortages Revisited*, David Grigorian and Udo Kock, IMF Working Paper 10/159 passim.

that contributing factor to inflation. Plus, coordinated integration of the dividend into economic development at all levels, as outlined above, would sharply reduce inflationary pressure. Finally, the graduated nature of the dividend, rising with Iraq's increase in production, allows absorptive systems to grow and strengthen in response to real market conditions.

Impact on oversight of the oil industry

As described, the dividend proposal would go hand with current government spending levels, and alongside existing mechanisms to manage oil rents. As such it could strongly bolster efforts to oversee Iraq's oil industry as it grows, and the revenues it generates. This is becoming a more complex sector by the month, as the international oil companies and their secondary contractors set up operations in country.

Since the 2003 war, all the revenues from Iraq's export sales have flowed into one account at the Federal Reserve Bank of New York, where it is monitored by a UN-appointed committee called the International Advisory and Monitoring Board for Iraq³⁸ (IAMB). Since Iraqi state-owned enterprises have been solely responsible for exporting and selling the country's oil during that time, Iraq has been in the position of having one bank account for export revenue whose accounts are published on the Internet, a situation described by the World Bank as “a level of transparency unparalleled for oil dependent countries in the region”³⁹. As a UN-mandated mechanism, the account has been immune to any claims on Iraq for debt or reparations apart from a 5% set aside decreed by the UN to go towards compensation to Kuwait for the 1990 invasion.

But that arrangement is due to change in 2011. It has been extended each year since 2006 by a succession of 12-month mandates, and there has been increasing pressure for the government of Iraq to implement replacement arrangements that will likewise guarantee due diligence in monitoring Iraq's oil revenues. As of early 2011, discussions were ongoing.

It would also be misleading to say that even under the present arrangements all the money flowing around Iraq's oil has been accurately captured. The DFI account in New York represents simply one point along the largest channel of revenue flows. It pays most of its money to the Ministry of Finance which then allocates funds to other government ministries as part of the budget process.

Most but not all. Downstream of the DFI, the account shows transfers running into the billions of dollars direct to other ministries and state-owned entities. Due to the lack of clarity of how these parallel accounts are disbursed, they must effectively be considered off-budget, and indeed the World Bank has set a goal of helping the government to

38 IAMB was established as part of the Development Fund for Iraq by UN Security Council resolution 1483 in May 2003.

39 World Bank report 51528, February 2010, p15.

establish a single treasury account to conform with best practice when possible. Meanwhile, the IMF worked with the Central Bank of Iraq over the last two years to trace ownership and provenance of some 9.8 trillion dinars (\$8.3 billion) in the banking system. As of June 2010, 2.1 trillion dinars in ministry accounts remained unaccounted for, while another 4.6 trillion dinars remained unaccounted for in accounts held by other state entities, such as pension funds and state-owned enterprises including the oil companies. That makes a total of 6.7 trillion dinars (\$5.7 billion) of assets in the banking system of uncertain provenance, something over 20% of total assets. Opacity within Iraq's financial system is such that the IMF reported in October 2010, for example, that the Central Bank of Iraq "has started" to report international reserves it holds. The Open Budget Index gave Iraq a score of absolute zero for the transparency of its 2010 budget and budget process, bottom of 94 countries surveyed⁴⁰.

In any case, Iraq's major transparency issues in the oil industry have been upstream of the DFI account. Theft of crude oil and refined products have run to billions of dollars a year since 2003, with bunkering, false-bottomed tankers and ships and pipeline siphoning⁴¹. At times major pieces of infrastructure such as the Baiji Refinery and even parts of Basra port and terminal appear to have come under the control of armed groups linked to the insurgency. Forcible seizure and attacks are decreasing as security improves, and smuggling of crude, as opposed to refined products, seems to have been successfully checked by Oil Minister Hussein Shahrastani's gradual lifting of state subsidies. Nevertheless, systemic checks remain lacking. Seven years after the Coalition Provisional Authority commissioned US firm KBR to introduce metering to measure the amount of oil flowing from the well-heads through the system for refining and export, the latest attempt is still a long way behind schedule⁴².

And the new involvement of the international oil companies (IOCs) has created whole new upstream areas of contracting, licensing and expense reporting which require new monitoring systems which are not in place. Although some features of the 15 agreements signed with IOCs such as BP, Shell, ExxonMobil, Eni, Total, Gazprom and the Chinese CNPC are public, many more are not, including "cost recovery", the terms under which the companies will be able to claim tens of billions of dollars of capital investment

40 http://www.internationalbudget.org/files/2010_Full_Report-English.pdf .

41 *Criminals, Militias and Insurgents: Organized Crime in Iraq*, Phil Williams, US Strategic Studies Institute, 2009, <http://www.strategicstudiesinstitute.army.mil/pdffiles/pub930.pdf> .

42 Price Waterhouse reported in their September 2010 audit report to IAMB that while 3,300 meters were supposed to be in place, as part of an overall plan to install 4,900 meters, only 1,690 had been installed. A large proportion of these had also not been calibrated to the specifics of the grades of crude that flow through them, leaving a margin of error wider than industry norms, while at least six different types of meter had been procured, something which is likely to make effective system maintenance difficult for the foreseeable future.

in new infrastructure to deliver the increases in production⁴³. In addition, the primary contractors, IOC-led consortia, have already begun sub-contracting to service companies in deals which have no scrutiny, but which can run into hundreds of millions of dollars⁴⁴. As operations ramp up on the ground, the IOCs' relationships with branches of the Iraqi state are extending from just the Oil Ministry to other ministries in Baghdad, various security forces, two levels of local government, border and immigration authorities, and state-owned enterprises, some of which are run at arm's length from accountable state control. Any of these interactions represent potential points of leakage in accountability of the system.

As well as the DFI account, the Iraqi government has moved to increase accountability through its candidacy the Extractive Industries Transparency Initiative (EITI), announced in early 2010. EITI is an international policy instrument established in 2002, under which governments and oil companies both declare their payments to a neutral third party auditor, appointed by a board which comprises both sides – plus, critically, civil society groups to ensure its independence. As of early 2011, some 35 countries are at various stages of implementation. Iraq's entry is significant as the first major Middle Eastern producer, and officials are confident they can meet requirements for full validation by early 2012. Iraq has already been publishing information required for its first report, aggregated export quantities and sales.

But EITI is purposely an instrument of limited scope. The global level board and management describe its role as to build trust and create space for wider debates about natural resource transparency⁴⁵. Like the DFI mechanism, it is a snapshot of one point in the value chain. Moreover for its second report, Iraq will have to expand information included to cover at least the primary contracts with the IOCs. There is an ongoing debate over the degree of granularity in the numbers to be published⁴⁶.

43 Televised auctions were held for the agreements in which consortia bid on two published variables, the fee they would accept as a service remuneration per barrel of oil they produced, and a production plateau they would guarantee to maintain for a given number of years. But their agreements contain many other clauses dealing with financial, social and environmental aspects, which were negotiated privately. Model agreements published reveal the general outline of the contract structures but little to none of the negotiated detail.

44 For example, a \$224 million deal announced by state-owned Missan Oil Company to work with Weatherford in Missan province, 2010.

45 Oxford economist Paul Collier, asked to consult on EITI's future in 2008, described the initiative as “the right place to start and absolutely the wrong place to stop” in natural resource governance.

46 EITI allows both disaggregated and aggregated reporting. At one end of the spectrum, complete aggregation such as in Azerbaijan would be just one figure of \$x billion for the total of exchanges between the government and all natural resource companies. At the other, disaggregation such as in Liberia involves publication of payments broken down company by company and into types – tax by tax,

The picture of accountability of the oil industry in Iraq is therefore, promising in parts. And yet a complex ecosystem which is only transparent in parts is not fundamentally transparent at all, since “the bubble effect” simply allows leakage and mismanagement to migrate from a well-monitored part of the system to a lesser one. But even partial misuse of oil funds has broad overall impact on Iraq political life, society and standards of living, as it creates an incentive rent-seeking, nepotism and communalism in public office. The total cost of a ten million dollar embezzlement is many times that, if, in order for that to happen, the wrong people have sought office for the wrong reasons and, quite apart from issues of personal integrity, are unable to formulate policy and manage.

There has been much emphasis in recent years on technical mechanisms such as fiscal stabilisation funds, sovereign wealth funds, ring-fenced mechanisms to direct oil rents towards designated social spending. None of these has yet been introduced in Iraq though the World Bank and IMF have referred to government consideration of a formal stabilisation fund. But as far as accountability goes, the evidence accumulating globally suggests that any such mechanism is only as good as its surrounding governance environment. The crowning proof of this is perhaps the ill-fated Chad-Cameroon pipeline, where the World Bank spent years devoting major effort to a project which was going to demonstrate how natural resource projects could enhance social development, only to have the Chadian government undermine carefully negotiated agreements and spend oil money on weapons once the \$4.5 billion export pipeline had been built with World Bank credit guarantees.

The dividend in and of itself of course does not address issues of oversight directly. But it transforms the stakeholder landscape. The reason the dividend has potential to improve governance is not *what* it does to monitor revenues. It is *who* it brings to the table.

There is a broad and ongoing debate about the effectiveness of initiatives such as EITI and various technocratic-led initiatives⁴⁷ to create better governance around oil and natural resources. But two things are clear about the status quo. First, overall, these initiatives have met with limited success globally. There is a sizeable body of evidence about the link between natural resource dependent economies and slower economic growth⁴⁸, civil war and other forms of strife⁴⁹. Second, they are limited to small numbers of actors, whether “insiders” such as host country or international experts and civil

duties, excise, signature fees etc.

47 Among international institutions engaged in supplying technical advice on management of the industry are the IMF, via ROSC evaluations, the World Bank's Oil, Gas & Mining Group, the Bureau for Development Policy in UNDP, Norway's Oil for Development program, and various regional development banks.

48 Jeffrey Sachs and Andrew Warner, op cit, even if some studies have appeared in recent years challenging this linkage.

49 Paul Collier *The Plundered Planet, How to Reconcile Prosperity with Nature*, 2010.

servants, or “outsiders” such as national and transnational civil society groups. The EITI process in Iraq has not reached the public or media, beyond event-driven official announcements. A UNDP survey in late 2010 showed no awareness of its objectives and mechanisms, either among educated segments of the population or the media⁵⁰.

It is difficult to avoid the conclusion that the second element of the picture is related to the first. But a dividend delivered annually to 15 million Iraqi adults, with a “scorecard” for the remainder of the oil rents that stay in government hands, can make management of the oil industry a matter of intense public interest. It would be an event in the political calendar, as it is in the US state of Alaska⁵¹, the only large jurisdiction to operate an oil dividend currently.

Moreover, public scrutiny would be influenced by the very real shared interest to keep the industry going. There would be an incentive, in other words, to build consensus around policies and management that was optimal rather than perfectionist. This is noteworthy in the Iraqi context since the current government's approach to management of the industry does not go unchallenged. Parts of the political spectrum maintain that all contracts with IOCs should be approved by the Iraqi parliament, as was the case under the previous regime and other political dispensations in the region influenced by Arab nationalism, such as Egypt and Syria. The government counters by saying the nature of the contracts allows management by executive decree – by the Iraqi cabinet, in other words⁵². But the industry is now being developed in the absence of a comprehensive legal framework. Although clear regulation of the industry was one of the four milestones set by the administration of former US President George Bush, four draft laws governing various aspects of the industry have been hung in parliament since 2007 and show no sign of being resolved.

The dividend cannot eliminate all the various policy debates in Iraq about how the industry should be run. But it can re-frame it against the strong self-interest of every adult Iraqi citizen to see those issues resolved. There would be as much pressure on oppositionists to be responsible as on government officials to be accountable. The politics of oil can begin to be reshaped as aggregations of pragmatic self-interest, with the public engaged by competing platforms, rather than large scale public ignorance, cynicism and apathy, and, at best, some kind of confessionally-based rotation of oil rents through patronage networks running through all levels of the government. It can, in other words, begin to be led by policy rather than partisanship.

50 UNDP Assessment of Iraq's EITI, internal document.

51 In Alaska the dividend was originally announced every September by the state revenue commissioner, a civil servant. In recent years, however, it has become a fixture of the office of the governor.

52 After a debate of several years Iraq's Supreme Court in 2010 upheld the government's interpretation by rejecting litigation brought by former parliamentary deputy Shata Musawi against the government and the oil company BP on these grounds.

Political considerations of the dividend in Iraq

A universal oil dividend, based merely on Iraqi citizenship, could re-order – and strengthen – the relationship between the Iraqi citizen and the state, and the state's territorial integrity. Although one of the objections sometimes raised with regard to the dividend concept is that it weakens the state, this is to equate the strength or weakness of the state simply with the amount of money it accumulates. Yet perhaps more crucial than revenue flows is the actual legitimacy of the state, especially in post-conflict environments such as Iraq. A dividend cannot by itself override all other considerations in a citizen's relationship with the state. Yet, given the top down and unaccountable tradition of government which still pervades the political culture of Iraq, it could invert that relationship and betoken a new one in which claims by the state – and its legitimately elected governments – that its purpose is to serve the people could begin to become credible.

Specifically, a dividend could have a critical and positive impact on Iraq's Kurdish issue. Since 1991 the north of Iraq has been under the control of Kurdish *peshmerga* from the two historic parties⁵³ which then formed the Kurdistan Regional Government (KRG). The regional government in Erbil and the central government in Baghdad have a complex relationship characterised by bitter disputes in a number of areas and working accommodations in others⁵⁴. This precarious balance has only been maintained by KRG leaders sticking to the orthodoxy of regional autonomy, largely stopping short of any move towards outright independence⁵⁵. But the autonomy built in the three provinces of Iraq that are officially designated as the KRG over the last two decades is now wide and deep, and most of the five million people in KRG territory have little direct contact with the Iraqi state.

In this context the universal dividend acts as strong soft power to retain Iraq's territorial integrity. If every Kurd in Iraq were the recipient of a substantial dividend each year because of their Iraqi citizenship, the other long list of disputes – management of the oil industry, the right to export directly, the extent of the territories that should fall under

53 The Kurdish Democratic Party founded by Mustafa Barzani and the Patriotic Union of Kurdistan led by Jalal Talabani, now federal president of Iraq.

54 In terms of the oil industry, Kurdish leaders dispute Baghdad's definition of which oil fields are “producing”, as defined in the 2005 constitution. They claim the right to set up and manage their own contracts with oil companies and have signed deals with some 30 companies which Baghdad does not recognise. At the same time, each year a percentage of the budget is agreed to be transferred to KRG, and in early 2011 there were reports that the two sides had privately reached agreement to fix the KRG region's contribution to Iraq's export levels for 2011 to 100,000 barrels per day.

55 The controversy caused by Masoud Barzani's closing speech at the congress of the KDP, December 16, 2010, in which he said self-determination would be the party's guiding principle, which could include independence, was precisely because he challenged the convention established in recent years.

KRG control, Kirkuk – would all take place within an overarching framework of the Iraqi state. Although there has been no substantial Kurdish-Arab fighting since 2003, political analysts agree that the Kurdish dispute has the potential to trigger conflict even more destabilising than the Sunni-Shia struggles of 2005-8⁵⁶.

It is worth bearing in mind in the Kurdish context that although the KRG has developed its own contractual framework for the oil industry, signing deals with up to 40 IOCs, Iraq's current profile of over two thirds of production coming from the southern provinces around Basra is likely to be maintained through the coming expansion of the industry. This means a countrywide dividend could yield as much to each Kurdish citizen as a region-wide measure would, especially if the definition of the KRG territories remains at the three provinces of Erbil, Suleimaniya and Dohuk.

The idea of some form of regional entity has also come and gone among some political currents of the South in recent years, significant because it is the seat of two thirds of current Iraqi production. The Islamic Supreme Council of Iraq touted this idea until it was trounced across the south in provincial elections of 2009⁵⁷, but it has not gone away and is likely to re-emerge.

Perhaps in response to this, the government introduced what it called the “petrodollar” in the 2010 budget, designed to be a recurring feature. This allocates one dollar for every barrel of oil produced direct to the provincial administration which it came from, with a compensating formula for non-oil producing provinces. By late 2010, Iraqi media were full of reports of plans and contracts provincial governments such as Kirkuk and Basra were concluding for projects to use their “petrodollars”.

While the need to recognise local communities is important in management of natural resources, the petrodollar approach risks creating perpetual debate over its fairness. Is the level of one dollar enough? Are the formulae designed for the non-producing provinces fair? It is an unfortunate fact of the history of oil that while the development of production in many areas has caused severe disruption to local communities, attempts to address local interests which are based in any idea that they “own” the oil more than citizens in other parts of the country can be destabilising. This is one of the factors that creates the linkage between oil production and secessionist movements, such as Kabinda in Angola, the Niger Delta in Nigeria, or West Papua, the latest play

56 The International Crisis Group in its report on Arab-Kurdish clashes in the province of Ninewa in 2009 stated: “The bloodshed and institutional paralysis are symptoms of the country’s shifting battle lines: from an essentially Sunni versus Shiite sectarian struggle, mainly centred in the capital, to a predominantly Arab against Kurdish ethnic fight playing out along an extended axis of friction” - Iraq's New Battlefield, the struggle over Ninewa, ICG Middle East Report 90, September 2009.

57 International Crisis Group report: *Iraq's Uncertain Future: Elections and Beyond*, Middle East paper 94, February 2010, p14.

where compensation formulae which link the location of oil production to a concept of extra entitlement is intensifying local disputes.

The oil dividend makes it easier to differentiate between who owns oil – in this case all Iraqis – and the right not to be disrupted or adversely affected by its development, an issue local to the producing areas. Particular work plans for developing a field, and accompanying projects to create local employment and protect the environment, in addition to the distribution of the dividend, then fall squarely into the need to provide full and fair compensation to people who live close to the producing areas. Not because they own the oil more than other Iraqi citizens, but because they are affected by its development.

Similarly, the sense of shared ownership changes the dynamic of insurgent activities designed to hamper production. In recent years it has sometimes been hard to distinguish in all cases between politically-motivated sabotage and organised crime⁵⁸, so it is hard to quantify. The years 2003 to 2008 witnessed an average of two attacks a week on the industry and its employees, and even though security has improved, attacks continue. In 2010 Iraq exported only 1.9 million barrels of oil per day, 200,000 bpd short of its target, in part due to continued attacks. The head of Iraq's specialised oil police, Major General Hamid Abdullah Ibrahim, recently stated he currently had 30,000 men under his command and that prime minister Nouri al-Maliki had agreed to add another 12,000 men⁵⁹. A dividend would create a different dynamic for any armed groups with political ambition, because their constituencies in Iraq, like all others, would be direct beneficiaries. Attacks which left your potential supporters much worse off would be harder to justify.

More generally, beyond the extremes of secessionist movements and violent insurgencies, the dividend would decrease the proportion of Iraq's rent that could be accessed through the offices of the Iraqi state – and therefore decrease the incentive for rent-seeking within the government. Especially if the other parallel development measures discussed above were implemented, it could contribute to de-politicising Iraq's government and civil service.

Another option the Iraqi government has which could transform political culture is to use the dividend to extend the country's tax base. The IMF shows taxes averaging a fraction over 2% of revenues for the government of Iraq in the years 2007-10, and rising

58 *Criminals, Militias and Insurgents: Organized Crime in Iraq*, Phil Williams, US Strategic Studies Institute, 2009, which demonstrates that an attack on the Kirkuk-Ceyhan pipeline then represents an opportunity for oil theft through the tanker fleet that has to be used as a substitute. There also seem to have been complex interactions where gangs may have paid local armed insurgents a cut to acquiesce or facilitate the theft.

59 Iraq Oil Report, January 28, 2011 <http://www.iraqoilreport.com/security/energy-sector/no-country-for-oil-smugglers-5301/>.

only gently to 2.4% by 2012⁶⁰. Exact figures are not easily available but it is clear that entire sectors of the population – and the economy – work outside the tax system. The dividend would be a rare opportunity to encourage citizens to register for potential taxation⁶¹, even if the option of actual taxation was deferred or introduced gradually. In this way, the country could begin to move towards the basis of real representative politics, and away from one of the key factors in the so-called “Resource Curse”, the dissociation of the political elite from their electorates.

Mechanics of a dividend

Technology has vastly decreased transactional friction, enabling the creation of large distributive systems of small payments. The rise of cash transfer initiatives across the developing world in recent years attests to this⁶², with large-scale systems in Mexico and Brazil now registering administrative costs of under five percent. A system could be developed in Iraq which combined mobile phone access to accounts bolted onto as much pre-existing infrastructure, such as banks and micro-finance institutions, as is feasible and efficient. Given the pace of India's evolution of a nationwide geometric ID system⁶³, a similar project could likely be completed in Iraq within two years for limited budget if security considerations could be overcome.

Iraq has promising pre-conditions for the implementation of the scheme. A competitive cell market is one of the country's great post-2003 successes with nearly 20 million subscriptions across five competing national networks⁶⁴. Networks such as Zain and AsiaCell already provide extensive value added information services and have departments devoted to expanding these products. The experience of M-Pesa in Kenya also demonstrates that a cellphone-based cash transfer system can be quickly

60 IMF Country Report 10/316.

61 *Resource Rents, Redistribution, and Halving Global Poverty: The Resource Dividend*, Paul Segal, Oxford Institute for Energy Studies, 2009 .

62 *Oil to Cash: Fighting the Resource Curse through Cash Transfers*, Todd Moss, Center for Global Development working paper 237, January 2011, *passim*.

63 Infosys CEO Nandan Nilekani first proposed the idea to give 700 million Indians over the age of 18 unique geometric identification cards early in 2009. It is on schedule to be completed by the end of 2011 at a cost of about \$5 per head according to Nilekani <http://www.hindustantimes.com/Each-Unique-ID-number-costs-Rs-100-Nilekani/Article1-633800.aspx>

64 The International Telecommunications Union 2010 statistical abstract states there were 64 subscriptions for every 100 people in Iraq in 2009, and that mobile phone ownership had doubled every year since 2004 http://www.itu.int/ITU-D/icteye/Reporting/ShowReportFrame.aspx?ReportName=/WTI/CellularSubscribersPublic&ReportForm at=HTML4.0&RP_intYear=2009&RP_intLanguageID=1&RP_bitLiveData=False

established⁶⁵. Nearly 20,000 distributors of mobile phone credit in Kenya, a country of broadly comparable size to Iraq, have signed up as M-Pesa agents putting cash into and out of the system, and the potential base is 100,000 distributors in small shops all over the country.

The Public Distribution System offers a nationwide identification infrastructure which has already been used for the electoral roll in Iraq's 2004 and 2009 elections. The World Bank estimates that 99% of Iraqi families own a PDS ration card⁶⁶.

Iraq remains an under-banked country with only 550 branches for its 29 banks across the entire country. This is clearly an insufficient infrastructure to immediately take to a level of every dividend holder physically holding an account in one of the branches. Nevertheless, if the infrastructure of the PDS, the banking system, MFIs and the phone networks can be leveraged, the logistical challenge of establishing an annual payment system in Iraq seems perfectly manageable, and also compatible with security concerns, since most of the money in the system at any one time would be in accounts or electronic form of some kind rather than cash.

Legally, the Iraqi parliament would pass a bill approving a direct dividend, either as an absolute amount or as a percentage of revenues to be earned in a particular period, together with the modalities of defining those revenues.

The Political Moment?

The Arab Spring and the entry of the populist Sadrist movement into Nouri al-Maliki's second government have combined to make 2011 the most promising moment to consider a dividend policy since Iraqis took over the political process from the Coalition Provisional Authority in 2004.

In the March 2010 elections both the Sadrists and some members of the Fadhila Party advocated some permutations of it⁶⁷. In October 2010 the Sadrists joined Maliki's coalition, bringing their 40 deputies in parliament into support of his block and being allocated seven ministers in the government. Cabinet sources said the Sadrists suggested a 15% allocation of oil revenues to dividends during budget negotiations but that this

65 M-Pesa started in March 2007. By the middle of 2010, according to the Economist newspaper it had gathered some 9.5 million subscribers, was responsible for transfers equal to 11% of Kenya's GDP, and had inspired some 60 other schemes around the world including in environments as tricky as Afghanistan.

66 World Bank report 51528, February 2010.

67 Sheikh Sabah al-Sadi, head of the Iraqi parliament's anti-corruption committee, told the author in conversation that he had advocated 25% of oil revenues to be placed in a savings account for each Iraqi citizen.

proposal did not make it to the final cut of the budget, which was submitted to parliament at the end of February.

Nevertheless, that budget showed a realisation by Maliki and his senior ministers that the Iraqi public was beginning to lose patience over the failure of successive governments to deliver basic public services despite the tens of billions of dollars flowing into the coffers. A second petrodollar fund was established, of one dollar for every barrel produced, to be allocated direct to local authorities around the country according to need and population weight. Plans to spend nearly a billion dollars on F-15 fighters were shelved and the savings were allocated to increasing food rations, and government officials mentioned the possibility of some kind of dividend. The stage seems to be set, therefore, where political currents such as the Sadrists with strong support among poor Shia advocate a dividend, perhaps influencing other political formations, such as Maliki's, which are at least in partial competition for the same constituency. The attitude of other actors, such as parties with a support base among Sunni Arabs, is less certain.

Oil revenues were a major issue in popular protests all across the country in February and March, one banner in Baghdad's Tahrir Square reading "The oil of the people is for the people, not for the thieves"⁶⁸. The governor of oil-rich Basra was forced to resign during the protests, in which dozens of people were killed.

An editorial in the respected pan-Arab newspaper *al-Sharq al-Awsat* on January 16, captured the new mood. Muqtada al-Sadr, leader of the Sadrist movement, himself called for direct distribution of revenues and this, along with the current state of unrest across the Middle East largely because of economic hardship, made the new call a qualitative step-up from previous ones, wrote editorialist Jaber Habib Jaber, specifically referencing the protests that removed Tunisian President Zine el-Abidine Ben Ali.

We cannot ignore the difficulties of the idea of distributing part of the oil revenues to every individual in a country where a proper census is lacking. But this is the last call to confront this problem before it becomes too entrenched, and to seek a way for oil to avoid becoming the reason for repeating the tragedies of the past.

Against this new impetus to consider a dividend of course mainstream thinking within Iraq's government ministries and established parties is likely to continue to be sceptical of the value and feasibility of even a partial dividend. There are no particular stand-outs from an ideological point of view among the parties, simply an awareness among the political class as a whole that a dividend could disrupt politics as normal.

It should be noted here that the dividend advocated in this paper is universal and unconditional on the grounds that it is these features which create a rights paradigm

68 <http://www.iraqoilreport.com/politics/national-politics/analysis-protests-alter-political-landscape-5419/>.

based on natural resources being defined as a publicly owned good as enshrined in the Iraqi constitution, can engage strong support across a social spectrum⁶⁹, and does not necessitate a complicated state mechanism, with its attendant bureaucracy, to identify and administer to a particular target group.

Given that the idea is surfacing in Iraq's political discourse in any case, we urge wide and open debate soon of the options in the hope that this can build consensus across different parts of the country's fractured political spectrum around if an oil dividend is suitable for Iraq, and if so using what modalities. This would surely be better than to leave the issue to be the domain of one faction or party and subject to the norm of partisanship both in support and in application.

As we saw, several leading scholars advocated using the chance created by the fall of the old regime to introduce an oil dividend in the immediate aftermath of the 2003 war, before a new state elite had a chance to entrench itself. That did not happen and while in the intervening period the reconstruction process has made some headway in Iraq – it could hardly do otherwise – it has fallen short of the expectations of most of the people. Something over \$300 billion has already been earned in oil revenues since 2003 and gone into the public purse but without what most Iraqis would see as commensurate returns.

The expansion of the industry, with the increased revenues it will bring, represents another golden opportunity. We claim it would be feasible politically, economically and socially for the government to issue its first universal oil dividend of around \$220 per adult on October 3rd 2012. Indeed, the chance may not come around again for many years after that.

⁶⁹ *Resource Rents, Redistribution, and Halving Global Poverty: The Resource Dividend*, Paul Segal, Oxford Institute for Energy Studies, 2009 cites evidence to show that social programs which are targeted tend to become less well resourced over time because they suffer from a lack of political consensus.