

**The absence of institutional values**  
**their effects on entrepreneurship & economic development**  
**Case study of Iraq**

**BY**

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## **Introduction:**

Iraq is one of the developing countries that suffers from the absence of an institutional mechanisms in the work of state institutions, and that the absence of institutionalization did not enable it to follow a sound and effective path in the development process, as a result of the irrational state management policies in dealing with multiple issues, most notably the plurality of loyalties within the ruling political elites, and the issues of Cultural pluralism, political power struggles, the fragility of the economic and technological base for the development process, as well as the massive spending on security programs, not to mention the financial and administrative corruption that exhausted the state's resources and economy.

As a result of the authority's grip on state institutions and the absence of institutional values, the development process has become a vicious circle, and thus there was no possibility to talk about entrepreneurship and invest the available resources inside Iraq in a fruitful and effective manner. The beginning of the second decade of the twenty-first century.

Therefore, the main problem of the research is that **the absence of institutional values in the thought and practice of the political system leads, of course, to the absence of a comprehensive and effective vision for the paths of economic**

**development, which makes it possible for entrepreneurship and the investment of the available resources and capabilities “material and human” in direct confrontation with a series of crises Overlapping and complex, at the level of the political system and society.** This problem has always been inherent in the political system in Iraq.

On this basis, the research hypothesis proceeds from the fact that there is a correlation between the institutional factor and economic development. The more the political system is based on sound institutional values that are applied and complied with by formal and informal institutions, in line with institutional values and societal changes, the broader and more effective the development process will be, and vice versa. Therefore, achieving comprehensive economic development in Iraq depends on creating clear institutional values that define the socio-political development path for entrepreneurship and the investment of resources and material and human capabilities available in Iraq.

Verifying the research hypothesis calls for relying on the institutional approach to reveal the general framework of the Iraqi state institutions, as well as using the descriptive (inductive) approach to identify the reality of economic development in Iraq in the absence of the institutional factor in state institutions.

Therefore, the topic was divided into two basic requirements. The first included the relationship between institutionalization and development and its impact on entrepreneurship. While the second included the reality of institutionalization, economic development and entrepreneurship in Iraq.

## I. The relationship between institutionalization and development and its impact on entrepreneurship:

### 1-1 The concept of institutionalization, development and entrepreneurship:

Institutionalization refers to “the process by which organizations and procedures acquire value and stability.”<sup>1</sup> As for development, it refers to “the achievement of changes in various aspects of social, economic, political, scientific and cultural life, including professional specialization of a distinguished level, defining economic and administrative functions and their scientific and rational integration, and that they are contained in the prevailing social system or structure, and works continuously on Develop them, so that positive trends emerge and through which the belief system changes<sup>2</sup>. While the concept of entrepreneurship refers to business innovations and a mixture that did not exist before, it is often associated with the ownership and management of small businesses, which together have a tremendous impact on the country's economy<sup>3</sup>.

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<sup>1</sup> صمويل هنتجتون، النظام السياسي في مجتمعات متغيرة، ترجمة: حسام نايل، (بيروت: دار التنوير للطباعة والنشر، 2017)، ص38.

<sup>2</sup> صبحي محمد قنوص، أزمة التنمية: دراسة تحليلية للواقع السياسي والاقتصادي والاجتماعي لبلدان العالم الثالث، ط2، (القاهرة: الدار الدولية للنشر والتوزيع، 1999)، ص18.

<sup>3</sup> Carland, J.W. et al, "Differentiating Entrepreneurs from Small Business Owners: A Conceptualization", in: Álvaro Cuervo et al (Eds), **Entrepreneurship Concepts, Theory and Perspective**, (Berlin: Springer, 2007), P. 74.

## 1-2 The interrelationship between institutionalization, development and entrepreneurship:

If we re-read the concepts of institutionalization, development and entrepreneurship, we can say that institutionalizing the work of state institutions represents the right path to achieving development and the growth of entrepreneurship rates more effectively. As there is a close interrelationship between the essence of institutionalization and economic development, the more the work of institutions is based on clear and specific (institutionalized) rules and laws, the entrepreneurial activity will be more effective and broad in impact, and then these institutions may represent a precise tool for exploring how entrepreneurship and development interact, As well as showing how entrepreneurship, as a mediator, transfers the effects of institutions to the development process<sup>4</sup>.

Economic theories in institutions are based on the rationalization of individual relations, and this is the essence of institutions that codify the values of interaction, interdependence and social cooperation to achieve the benefits of individuals<sup>5</sup>.

As long as the functional dimension in society will be embodied through the interaction based on "economic-functional partnership", this would create common interests that enhance national cohesion and integration among the components of society, especially when this interaction plays an active role in bringing about

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<sup>4</sup> David Urbano et al, **Institutions, Entrepreneurship, and Economic Performance**, (Cham: Springer, 2017), P. 5- 6.

<sup>5</sup> فرانسيس فوكوياما، بناء الدولة: النظام العالمي ومشكلة الحكم والإدارة في القرن الحادي والعشرين، ترجمة: مجاب الإمام، (الرياض: العبيكان للنشر، 2007)، ص108.

economic and social development that reduces differentiation. The difference between the components of society<sup>6</sup>.

Thus, the institutional character is an integral part of the development process, as well as functional specialization and structural differentiation, which gives the outputs of these institutions the character of satisfaction and acceptance, and then they become effective tools for stability and political legitimacy<sup>7</sup>.

The interrelationship between institutionalization and development reflects at the same time their link to entrepreneurship and its effectiveness; This is because the state's strength and institutional efficiency is paralleled by the strength and efficiency of its economy. Through legal and judicial institutions, property rights are strengthened, which means encouraging investment projects (small and large), attracting capital, and transforming emerging companies into huge economic institutions, so the steady economic growth is not attributable to Not just purely economic factors, but also due to the nature and effectiveness of state institutions and political issues<sup>8</sup>.

Since there is a close correlation between institutionalization, entrepreneurship and development, the absence of any of them will have a direct impact on the rest of

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<sup>6</sup> وليد سالم محمد، وليد سالم محمد، مأسسة السلطة وبناء الدولة-الأمة: دراسة حالة العراق، (عمان: الأكاديميون للنشر والتوزيع، 2014)، ص66.

<sup>7</sup> J. Roland Pennock, "Political Development, Political Systems, and Political Goods", In: Ikuo Kabashims and Lynn T. White (Eds.), **Political System and Change**, (New Jersey, Princeton University Press, 2018), p. 76

<sup>8</sup> فرانسيس فوكوياما، المصدر السابق، ص68-69.

the variables; The absence of institutionalization means the spread of nepotism and the rule of narrow loyalties in the state, which reaches high levels that exceed national loyalty, so it becomes impossible to talk about comprehensive development in society, as a result of the widening gap between the system and society<sup>9</sup>.

The absence of development and societal heterogeneity will lead to the emergence of a series of crises that appear at once, known as the Development Syndrome, which would raise most issues related to sub-identities and inequality, as well as problems related in general to the performance of formal and informal structures of politics. general system<sup>10</sup>.

In other words, the political system will be in direct confrontation with crises (legitimacy, distribution, penetration, participation, integration, and identity)<sup>11</sup>.

## **2.The reality of institutionalization, economic development and entrepreneurship in Iraq:**

Since the establishment of the Iraqi state and until the beginning of the second decade of the twenty-first century, the institutions of the Iraqi state as a whole have not been able to meet the needs of society and implement the law in a fair manner, which is what made Iraqi society lose confidence in state institutions throughout this

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<sup>9</sup> Sidney Verba, "Comparative Political Culture", In: Lucian W. Pye and Sidney Verba (Eds.), **Political Culture and Political Development**, (New Jersey: Princeton University Press, 1969), p. 534.

<sup>10</sup> Lucian W. Pye, "The Concept of Political Development ", **American Academy of Political and Social Science**, Vol. 358, (New York: Sage Publications, March 1965), p. 13.

<sup>11</sup> إكرام بدر الدين، "أزمة التكامل والتنمية"، *مجلة السياسة الدولية*، العدد: 68، (القاهرة: مؤسسة الأهرام، نيسان 1982)،

period, and this means that development crises were inherent in the Iraqi political system from its inception until now<sup>12</sup>. Which created an unstable environment as a result of internal and external conflicts and wars, which resulted in a significant depletion of its economic resources and a decline in sectoral and human development indicators, and then the contraction of its economy as a result of the weakness and absence of major financial investments<sup>13</sup>. According to the annual report issued by the World Bank for the year 2020, Iraq ranks among 190 countries, ranked 172 in doing business, and ranked 174 in starting a business, thus ranking Iraq as one of the worst places in the world for doing business<sup>14</sup>.

The absence of the institutional factor and the growing manifestations of political, economic and social instability have created many problems and obstacles that obstruct the path of sustainable development and entrepreneurship in Iraq. The most prominent of these problems and obstacles are represented in the following:

### **1. The fragility of the Iraqi state institutions:**

From 2003 until the beginning of the second decade of the twenty-first century, Iraq witnessed a state of great uncertainty in Iraqi society regarding political stability, growth and economic investment due to the spread of corruption in most parts of the Iraqi state institutions. According to Transparency International's report for the year

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<sup>12</sup> وليد سالم محمد، المصدر السابق، ص252.

<sup>13</sup> وسيم حرب وآخرون، إشكاليات الديمقراطية والتنمية في المنطقة العربية، (بيروت: منشورات الحلبي الحقوقية، 2010)،

ص87-88.

<sup>14</sup> World Bank Group, "Economy Iraq: Doing Business 2020 Comparing Business Regulation in 190 Economies", (Washington DC: United nations, 2020 ),p.4



2020, the level of corruption in the public sector in Iraq reached 79%, ranking it 160 out of 180 countries in the Integrity and Transparency Index<sup>15</sup>.

Thus, the talk about the existence of effective economic development and the expansion of entrepreneurial activity in Iraq at the present time, in addition to the high indicators of corruption, is a form of imagination and subconscious perception, which is confirmed by the Peace Fund Organization in its annual report on the countries that are falling or fragile (Fragile States). for 2021. Iraq ranked 20 out of 179 countries in the list of fragile states, with a score of 96.20 out of 120<sup>16</sup>.

As the Iraqi state institutions are still unable to manage the affairs of society in its various fields, and are often unable to impose its prestige and distribute and manage its diverse resources in a sustainable and equitable manner, and tend to exercise violence against demonstrators demanding improved infrastructure and services, which exacerbates fragility. The list with the possibility of translating it into a violent struggle<sup>17</sup>.

During the period 2016-2021, Iraqi society witnessed an excessive growth of organized crime carried out by extremist military militias, which enabled it to acquire a large amount of the Iraqi economy and extract it from state control, including customs, construction projects, oil fields, sewage, water, and roads. highways,

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<sup>15</sup> منظمة الشفافية الدولية، مؤشرات مدركات الفساد 2020، (برلين: منظمة الشفافية الدولية، 2020)، ص.3.

<sup>16</sup> Fund for Peace, Fragile States Index Annual Report 2021, (Washington D.C: The Fund for Peace, 2021), p.49.

<sup>17</sup> Ibid, p.26.

universities, public and private properties, tourist sites, and presidential palaces, as well as extorting shops, markets, and commercial enterprises (small and medium) and imposing royalties<sup>18</sup>.

On the other hand, the fragility of the Iraqi state institutions has created societal structures with weak trust among them, which depend on their traditional values (tribal and ethnic) in classifying the other that is different from them, which weakens the possibility of investment and entrepreneurship, and thus the establishment of comprehensive national development. As the absence or lack of clarity of cooperative values and concepts of participation and contribution greatly weakens social capital, even if rational institutions are available (such as property rights, contracts, and commercial law), because they will be unable to reduce the cost of business transactions in the absence of trust in others and social capital<sup>19</sup>.

## **2. Absence of institutionalization in the Iraqi private sector:**

The public sector in Iraq has become a large reservoir for the emerging competencies of the workforce in a way that does not serve economic development, given the fear of these forces of security and economic fluctuations, as the number of

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<sup>18</sup> Max Boot, "Iran-Backed Militias in Iraq Poised to Expand Influence", Council Foreign Relations, Available on the World Wide Web (Internet) at the following link: <https://www.cfr.org/in-brief/iran-backed-militias-iraq-poised-expand-influence>.

<sup>19</sup> فرانسيس فوكوياما، الثقة: الفضائل الاجتماعية ودورها في خلق الرخاء الاقتصادي، ترجمة: معين الإمام ومجابه الإمام، (الدوحة: منتدى العلاقات العربية والدولية، 2015)، ص 563-564.

workers in the government sector reaches 40% of the total workforce in Iraq<sup>20</sup>. In addition, we find that the absence of the institutional factor in the Iraqi state institutions has made most companies operating in Iraq work outside the formal sector (random sector), and refrain from formal registration and official employment of workers; In view of the bureaucratic obstacles and the large number of legal and routine procedures, as well as direct intervention by the state in raising costs, disrupting work and imposing severe penalties and other measures<sup>21</sup>.

These problems have made the private sector in Iraq not include any real guarantees in employment, while the number of workers in the private sector is 8 million people, the number of those covered by job security guarantees and mechanisms is only 570 thousand! (until March 2021)<sup>22</sup>.

Also, the absence of a legal structure to support private investment, especially laws to protect intellectual rights, is one of the most important obstacles to the recovery of the private sector, entrepreneurship and development in Iraq, which is an immediate result of the absence of institutional values in the work of Iraqi departments and institutions, as Iraq has only a few Ineffective laws related to the protection of intellectual property rights that have been approved since 1971 under

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<sup>20</sup> Aaron Bartnick, "Obstacles and opportunities for entrepreneurship in Iraq and the Kurdistan region", **The Institute of Regional and International Studies**, (Sulaimani: The American University of Iraq, July 2017), p.6.

<sup>21</sup> البنك الدولي، العراق: تقييم مناخ الاستثمار، (واشنطن: الأمم المتحدة، 2012)، ص81.

<sup>22</sup> حسن لطيف كاظم، مساءلة القطاع الخاص لتحقيق التنمية المستدامة، (بيروت: شبكة المنظمات العربية غير الحكومية

للتنمية، 2021)، ص11.

Law No. (3), and this law has been amended by Order No. (83) of 2004, whose second article referred to intellectual works covered by protection such as written works, computer programs, music and cinema, As for Article 44 of the same law, it defines the penal penalties imposed on acts of piracy and intellectual theft. However, these laws were not implemented on the ground due to the political wrangling between Iraqi elites and parties<sup>23</sup>.

In addition, we find that the decline in the performance of the private sector and its limitations in Iraq is also often attributed to the lack of an appropriate political, economic and social environment. As the inability of the Iraqi state to monopolize violence is still very weak with the spread of uncontrolled weapons, and the swing between the two sides of the state and the non-state, the economic offices of the militias in many cities and governorates of Iraq are taking advantage of the rights of the Iraqi citizen, making them a partner in most of the financial revenues of commercial and economic businesses, And with the support of influential figures within the Iraqi government<sup>24</sup>. As well as the dilapidated infrastructure, the low level of education for the workforce, the lack of administrative expertise and appropriate

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<sup>23</sup> علي البدرابي، "الملكية الفكرية في العراق: قوانين كفلت حمايتها ونصائح لمن يتعرض نتاجه للسطو"، مجلس القضاء الأعلى العراقي، نقلاً عن شبكة المعلومات العالمية (الانترنت) متاح على الرابط الآتي:  
<https://www.hjc.iq/view.68388>

<sup>24</sup> Michael Knights, "Iran's Expanding Militia Army in Iraq: The New Special Groups", Combating Terrorism Center, Available on the World Wide Web (Internet) at the following link: <https://ctc.usma.edu/irans-expanding-militia-army-iraq-new-special-groups/>.

market and work systems, as well as other factors and reasons related to the unstable security fluctuations witnessed by Iraqi society from time to time<sup>25</sup>.

### **Conclusion:**

The right path to achieving entrepreneurship and development in Iraq requires first and foremost the state's ability to overcome development crises, and then the possibility of reforming and innovating institutions that are distinguished by the clarity and effectiveness of their course of action and achievements in a hierarchical manner whose inputs, operations, outputs and feedback can be measured, both at the level of education and health Investment, trade, law and others.

Undoubtedly, placing the state on an institutional path that responds to developments in society will enable it to create a nucleus for a public sphere for all Iraqi cultural groups and identities of different affiliations and affiliations, working to rebuild trust between society and the political system on the one hand, and between cultural identities among them. This means starting the formation of the appropriate ground for entrepreneurship and the effectiveness of development that proceeds from the base of the state pyramid towards its top.

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<sup>25</sup> Salim Araji and Ali Fakh, "Employment Profile and Challenges of the Private Sector in Iraq", (Beirut: Economic and Social Commission for Western Asia (ESCWA)/United Nations, 2019), p. 11-13.

However, this path should not be understood in a loose way, because it is a very difficult path and requires hierarchical and simultaneous efforts, in which the system and society participate in a way in which the limits of responsibility are blurred between them, and it is this participation and solidarity that stimulates and enhances creativity and innovation among individuals, because it will weaken the values narrow traditionalism and reinforces the values of participation and citizenship, which are created by the institutional and its active values in building the state and the nation.

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