

Iraq has recently seen the most severe infighting in years between political factions of the country's Shi'a majority, as [dozens of people were killed and hundreds were wounded](#) overnight on 29-30 August in armed confrontations between followers of the Shi'i cleric Muqtada al-Sadr ('Sadrists') and other Shi'a factions on the streets of Baghdad and southern cities like Basra.

While tensions were defused by Sadr's order for his followers to withdraw from Baghdad's Green Zone and fears of the beginning of a new civil war in Iraq have been averted for now, the current situation is arguably the worst political crisis in Iraq since at least the end of the conventional war against the Islamic State group that [saw the formal recapture of all lost territory by November 2017](#). The fundamental problem behind this latest round of escalation and de-escalation remains: namely, the inability of Iraq's political parties to agree on the formation of a new government following parliamentary elections in October 2021.

This analysis seeks to explore three important questions: First, why is there an ongoing political deadlock specifically between the Sadrists and the other Shi'a political factions, which constitutes the main obstacle to forming a government? Second, what are the likely scenarios moving forward? Can the deadlock be broken, or will we have to wait until the next parliamentary elections? Third, what are the implications and risks for the economy and those who seek to do business amid the ongoing deadlock?

An analysis of the wider context of the history of government formation in Iraq since 2003 and the timeline of events since the 2021 elections in particular point to a deadlock revolving around competing outlooks among Iraq's Shi'a political class regarding government formation, pitting a Sadrist conception of majoritarian-coalition rule against the idea of national unity consensus rule that is generally favoured by his rivals and has been the norm since 2003 whenever elections have been held.

Sadr's Shi'a rivals, organised in a coalition backed by Iran, obtained legal rulings that effectively prevent their exclusion from government in any current negotiations and outmanoeuvred him in the parliament this summer, despite their general underperformance in the 2021 elections. However, Sadr retains the street power of his followers as an impediment to the formation of a government that could marginalise him. It seems most

likely that no government will be formed in 2022.

Amid the political deadlock, potential risks to business and investors stem from the risk of disruption to oil and gas operations and other business projects through renewed rounds of infighting between Sadrists and other Shi'a factions in Baghdad and the southern regions, where partisans of the opposing sides may vent their frustrations on each other over the ongoing deadlock. These risks stem in significant part from the militiafication of the Iraqi state and society.

We also assess two other risks for business that have existed from the days before the political deadlock: namely, (i) the ongoing low-level 'Islamic State' insurgency stretching across the west and north of central government-controlled areas into the eastern province of Diyala, and (ii) the threat of disruption to Western and Gulf business interests from attacks aimed at them by shadowy Shi'a militia groups who may well have a connection with Iran but afford Iran plausible deniability regarding responsibility for the attacks. Of these risks, we assess that the first is unlikely to change because of the deadlock but the second may increase for reasons we will outline.

The 'National Unity' Norm of Governing

Since the deposal of Saddam's regime in 2003, Iraq's political system has come to be dominated by parties and movements that primarily compete for support among voters of a particular ethnic and/or religious group, similar to the prevailing system in Lebanon. Thus, the three main kinds of parties in Iraq are those that claim to represent the interests of the Shi'a community, those that appeal to the Sunni Arab community, and the Kurdish parties. [As Toby Dodge and Renad Mansour note](#), many of the main parties and movements predate 2003 and were previously operating as an opposition-in-exile, and had already agreed that a post-Saddam Iraq should be based on the idea of power-sharing based on ethnic and religious identity: a concept popularly known as *muhasasa*.

This means that the norm in Iraq after every parliamentary election has been a negotiation period in which a 'national unity government' of consensus is formed among all the parties that win seats, as opposed to a system of a coalition governing as a parliamentary majority and facing an opposition.

Under the 'national unity' and *muhasasa* arrangement, the prime minister (the figure with the most executive power) has been Shi'i, the president Kurdish and the speaker of parliament Sunni Arab. Meanwhile, control over various ministries has been allocated to different parties and coalitions, allowing them to extract wealth and reward their followers in what is essentially a rentier state that is heavily dependent on oil revenues to finance existing government jobs (whether civilian or military) and create new government jobs where possible to cater to the growing population. Indeed, the World Bank notes in its profile of Iraq that over the last decade [oil revenues have accounted for over 85% of the government budget](#).

This model of government formation and exploitation of the state by political factions to reinforce their systems of patronage encourage rampant corruption and also lead to a relatively weak state in which it is very difficult for a single individual, party or coalition to consolidate power. This process has generally been accepted by the international community and also works in favour of Iran in particular, even as Iran did not devise this system. Iran's closest Iraqi Shi'a allies carve out their own spheres of influence even if they cannot dominate Iraq, the Shi'a parties as a whole incline to cooperation with each other, and Iraq itself is kept in a relatively weak state and cannot pose a threat to Iran, which still remembers the devastating impacts of the Iran-Iraq War of the 1980s initiated by Saddam. Under this process, Iran effectively gets some say over Iraqi government formation and one can say that Iraq's political system has been partly hostage to Iran.

While the political elites themselves may have derived enormous wealth and short-term benefit from this system, it is not sustainable in the long-run, as the cultivation of patronage through the rentier state is highly vulnerable to declines in oil prices and cannot keep pace with population growth to provide jobs. The [population reached over 41 million by the beginning of 2022 and is increasing by around a million per year](#). The private sector remains woefully underdeveloped. The government has little spare cash for major reconstruction still needed in areas most affected by the war against the Islamic State group (e.g. the old city in Mosul). The government is also ill-prepared to deal with growing challenges posed by [climate change and water scarcity](#). For example, the UN's Environment Programme in 2019 classified Iraq as the [fifth most vulnerable country to climate change](#). At the end of 2021, the [International Organisation for Migration recorded 20,000 people displaced in ten provinces of](#)

Iraq because of water scarcity, salinity and poor water quality.

Unsurprisingly, growing disillusionment among the wider population with issues like unemployment, electricity shortages and corruption has led to multiple rounds of protests over the years, with the most substantial being the [‘October Revolution’ of 2019](#) in which hundreds of protestors were killed and wounded.

Electoral Reform and the Surprise Results of 2021

In December 2019, a new electoral law was put forth partly in response to the ‘October Revolution.’ The new electoral system under this law- ratified in 2020- replaced the proportional representation system with a system based on districts (rather than provinces) and the concept of the single non-transferable vote. This electoral reform was based on the idea of fostering a greater connection between voters and politicians but was not intended to alter the fundamental system of power sharing and government formation.

Indeed, this electoral reform has failed to counter the growing disillusionment of the wider population with the political system as [voter turnout in the 2021 parliamentary elections was at 43.54%](#) (the lowest level since 2003). Yet the new system did mean that parties had to rethink how they could secure seats as [votes in a given area were no longer transferable to different candidates from the same party](#).

In effect, the system now favoured those who knew how to play it to their advantage, rather than representing an outcome more representative of popular will. This led to the somewhat unexpected result in which the Sadrist increased their seat count up to 73 out of a total of 329 (as opposed to 54 in 2018), becoming by far the single largest bloc in parliament. In contrast, the Fateh Alliance, which is led by Hadi al-Amiri of the Badr Organisation and is closest politically to Iran among the Shi’a factions, did very poorly, securing a mere 17 seats as opposed to 48 in 2018. Meanwhile, the long-established State of Law coalition led by former Prime Minister Nouri al-Maliki increased its seat count to 33, having suffered a massive decline in the 2018 elections from 92 to 25 seats (in comparison with the 2014 elections).

These results came about despite the fact that the [popular vote for State of Law was only marginally greater than the popular vote for the Fateh Alliance](#) (502,188 votes for State of

Law versus 462,800 votes for Fatah Alliance), and the popular votes for both of these coalitions combined exceeded the popular vote for the Sadrist (885,310 votes). Thus, despite claims made by pro-Iranian factions in particular about electoral fraud, it is poor electoral strategy that explains their failure in the 2021 elections.

Sadr vs. the 'Coordination Framework'

Sadr himself is a complex political figure, but it is important to note that rhetorically he positions himself as a champion of 'reform' and Iraqi nationalism, emphasising his independence from Iran in particular, contrasting with his earlier ties to Iran in the first several years after the American invasion of Iraq. That said, his independent line does not mean that he aligns himself with the West or Gulf states, despite his visits to the [United Arab Emirates](#) and [Saudi Arabia](#). Further, while Sadr may portray himself as a champion of 'reform' and an outsider in Iraq's political system, his followers have been active participants in *muhasasa*, having run the portfolio of the health ministry, which has been considered [one of the most corrupt government institutions](#). Further, many members of his 'Peace Brigades' militia are on the registers of the Hashd Sha'abi Commission (as [brigades 313, 314 and 315](#)) alongside the brigades of militias of Iranian-aligned factions like Badr, Asa'ib Ahl al-Haq and Kata'ib Hezbollah.

Fundamentally, [Sadr has long seen himself as the true leader of Iraq's Shi'a community](#), and by extension he believes that he should lead the process of government formation. In contrast, the other Shi'a political parties oppose the idea that Sadr should be kingmaker in Iraq even if he himself does not become prime minister, and they are united in this opposition regardless of their own ties to Iran. It is this unity built around a negative and a preference for the old model of unity government that have led to the formation of the 'Coordination Framework' (Arabic: *al-itar al-tansiqi*) as an actual coalition of the other Shi'a parties. This alliance has been backed by Iran.

Sadr himself no doubt felt emboldened by the 2021 parliamentary election results and saw them as a chance to blaze forward with his own path to 'reform' based on a majority-ruling government whose formation would be led by him and his followers. This led to Sadr's reaching out to form a cross-sectarian alliance principally with the Progress Party of Muhammad al-Halbusi (who now dominates political representation among Iraq's Sunni Arabs

and secured 37 seats in the 2021 elections), Khamis al-Khanjar (the other main Sunni Arab political figure whose alliance won 14 seats), and Masoud Barzani's Kurdistan Democratic Party (the main Kurdish party which won 31 seats).

Sadr's alliances with Sunnis and Kurds, constituting a coalition called 'Saving the Homeland,' secured a simple majority of around 180 members of parliament that could have led the way for the formation of a government that excluded the need for the participation of the 'Coordination Framework.' However, the latter sought to challenge Sadr through the courts, and ultimately a series of rulings came out that ended Sadr's initial vision, most notably the 3 February 2022 Supreme Court ruling that the parliament required a two thirds majority to elect the president (a key part of government formation): that is, a minimum of 220 members of parliament.

This development, alongside the fracturing of Sadr's original coalition, is what has produced the current political deadlock that is now an intra-Shi'a affair. Sadr could no longer exclude the 'Coordination Framework' in its entirety. Even before the Supreme Court ruling of 3 February, Sadr had sought to include part of the 'Coordination Framework' in his majoritarian coalition. However, Sadr's outreach to the 'Coordination Framework' was based on the condition of excluding Maliki, who has been Sadr's most bitter rival, with animosity going back to the days when Maliki took action against Sadr's 'Mahdi Army' militia in Basra in 2008. Sadr's overture based on excluding Maliki has been consistently rejected by the 'Coordination Framework.' Meanwhile, it would appear that after the Supreme Court ruling, Sadr rejected apparent Iranian mediation led by the Revolutionary Guards' Quds Force commander Esmail Qaani, who probably urged Sadr to settle on a unity government.

On 12 June, Sadr decided to call for the withdrawal of the Sadrist members of parliament in protest at the deadlock, but in retrospect this move was a grave mistake, because it allowed for the 'Coordination Framework' to take the initiative to form a government without Sadr, as candidates from their parties could replace many of the resigning Sadrists. This is precisely what happened in a session held in parliament on 23 June, thereby making the 'Coordination Framework' the largest parliamentary bloc with 120-130 seats and allowing the 'Coordination Framework' to try to begin the process of forming a new government. In effect, Sadr had shot himself in the foot, and mobilizing his followers on the streets was the only way of being able

to exert any influence on the formation of government.

A Compromise Candidate for Prime Minister and Protests

Politically, the factions of the 'Coordination Framework' share some ideas and goals such as opposition to Sadr's dominance of Iraq as well as a [desire to revise the electoral laws](#) in order to reverse setbacks suffered in the 2021 elections. Nonetheless, disagreements between them further impeded government formation process during the summer even after they gained the upper-hand in parliament over the Sadrists. Most notably, the 'Coordination Framework' was divided on the question of who should be prime minister.

While Maliki may be Sadr's arch-rival, he is in some way analogous to Sadr in that he sees himself as entitled to lead the Shi'a community (and by extension Iraq) and [would like a third term as prime minister](#). His sense of entitlement probably grew with the fact that his coalition is the largest single faction in the 'Coordination Framework' and did relatively well in the 2021 elections. However, a third-term for Maliki is generally opposed by the other factions of the 'Coordination Framework.' After all, he was noted for his strongman tendencies while in office, and he had previously been removed from his position as prime minister following the disastrous collapse in the security situation in 2014.

By late July, the 'Coordination Framework' settled on a compromise candidate in Muhammad al-Sudani. Sudani was previously part of Maliki's coalition and set up his own party (Furatain) for the 2021 elections. He did very poorly in the elections, securing just one seat for himself. His suitability as a compromise candidate was precisely due to the fact that he would be a weak prime minister who could not forge his own decisive agenda that might disadvantage any factions who supported his nomination. In effect, Sudani would be hostage to the system.

The nomination of Sudani, who was seen as close to Maliki, triggered protests from Sadr's followers, culminating in a takeover of the parliament building- a move that [received Sadr's stamp of approval on 31 July](#) as a "peaceful revolution" and an opportunity to do away with "corruption, monopolisation of authority, loyalty to foreign powers, *muhhasasa* and sectarianism." This endorsement was not surprising since this kind of mobilisation was the only way Sadr could prevent government formation by the Coordination Framework. While the protestors subsequently left the parliament building, their actions- based on obedience to

Sadr's will- have helped prolong the deadlock. Sadr has focused on trying to get parliament dissolved, though this demand has been without success, most recently because of the [Supreme Court's rejection of the demand on 7 September](#).

Sadr's 29 August announcement that implied a withdrawal from politics and was the immediate precipitating cause of the storming of the Green Zone and presidential palace by his supporters was in part the latest round of his expression of frustration at the inability to get his way. Yet there was also an issue of religious authority in relation to Sadr's announcement, as his announcement came partly in response to a [statement by Ayatollah Kadhim al-Ha'iri that he would be abandoning his role as a spiritual guide and reference figure](#). Ha'iri, based in Iran, has served as a spiritual guide for the Sadrist, but [now he has urged that those who had relied on him should turn to Iran's Supreme Leader Ayatollah Ali Khamene'i](#) instead. Further, he implicitly criticised Sadr as deviating from the legacy of his own father (Ayatollah Muhammad Sadiq al-Sadr) and his father-in-law (Ayatollah Muhammad Baqir al-Sadr).

Regardless of the specifics of this dispute between Ha'iri and Sadr and whatever the actual sequence of events as to who fired the first bullets on 29 August, it is unlikely that Sadr intended for his announcement to be taken as a call for or endorsement of the violent escalation that resulted in dozens killed and hundreds wounded, hence his immediate call for de-escalation on the day after.

The deadlock remains in place between Sadr and the 'Coordination Framework' with neither side currently able to force through the formation of government, while the Sunni and Kurdish factions currently sit on the sidelines and are reluctant to get involved.

While the clear Iranian desire to block a Sadrist-led government excluding the 'Coordination Framework' has been noted and it is likely that the Iranians have played some kind of mediation role to urge a path of unity government, the Saudi role is more limited even if there was a preference for a Sadr-led majority government. The Saudis have limited themselves to [expressing hope for a peaceful resolution to the ongoing political crisis](#) and are thus marginal players at best in this crisis. The Saudis continue to provide support to Iraq's caretaker government under prime minister Mustafa al-Kadhimi to bolster stability and cooperation where possible, such as an [agreement on electricity signed between the two](#)

[countries in July.](#)

Scenarios Moving Forward

There are five possible scenarios moving forward:

(i) Sadr and the 'Coordination Framework' come to a compromise agreement and Iraq goes on the usual path of 'unity government.' This scenario cannot be completely ruled out but essentially amounts to a major concession from Sadr, who would have to come properly to terms with the fact that the other Shi'a factions are unwilling to let him and his faction gain hegemony over the Iraqi state. It means that Sadr would be essentially relinquishing his 'reform' agenda and idea of overturning the norm of consensus government in Iraq, which would severely undermine his image. There is also the issue of how practically this compromise agreement would work in the present circumstances, beginning with the question of how the Sadrist members of parliament who resigned could regain their seats. Sadr's online 'minister' persona- 'Saleh Muhammad al-Iraqi'- [has ruled out their return to parliament](#) on the basis that it might lead to a consensus government with the 'Coordination Framework.' For these reasons, this scenario seems generally unlikely.

(ii) Sadr manages somehow to bring about a substantial split in the 'Coordination Framework' to agree to a process in which he leads government formation. Although members of the 'Coordination Framework' have had differing views on the value and need for dialogue with Sadr (e.g. with Hadi al-Amiri being more open than Maliki to dialogue with Sadr), these differing views do not change their opposition to Sadrist hegemony over the Iraqi state. This scenario is effectively the opposite of (i) in that it would amount to a concession by some or most of the 'Coordination Framework' to allow Sadr to play the leading role in the Iraqi state. It has already been seen however that Sadr's play failed in this regard, especially with his bid to exclude his arch-rival Maliki, and it now seems even more implausible considering Sadr's mistake in withdrawing the Sadrist members of parliament. In addition, this scenario faces the same logistical problem as (i) in how to return the Sadrist members of parliament who resigned back to their seats. Thus, this scenario seems generally unlikely similar to (i).

(iii) The 'Coordination Framework' manages to proceed to form a government that excludes Sadr. Such a scenario depends on other factions- most notably, the Sunni Arab and Kurdish

factions- agreeing to the process of government formation, as well as a concession from Sadr to back down from mobilising his followers on the streets to stop government formation, effectively sitting back and watching. Besides the fact that other factions seem unwilling to go along with such a move and instead [prefer early elections](#), it seems implausible that Sadr would make such a concession, as it would mean all his efforts have amounted to nothing. Hence, this scenario seems generally unlikely, similar to (i) and (ii).

(iv) A devolution into full-blown civil war, in which a violent escalation by the Sadrist and/or their rivals expands into a wider large-scale conflict between the Sadrist and factions of the 'Coordination Framework.' Yet it has been seen from the recent events how much sway Sadr's explicit will and decrees have over his followers, and how quick he was to de-escalate. A civil war would essentially happen if he wanted it to happen, but Sadr's own statements and actions indicate that he is keen to avoid violent 'fitna' ('internal strife'). The 'Coordination Framework' also wishes to avoid this outcome. Therefore, this scenario seems very unlikely.

(v) The deadlock continues until new elections can be held, which would most likely not take place until next year. This scenario effectively continues the current state of affairs. This scenario would suit the interests of some groups in the 'Coordination Framework' such as the Fatah Alliance that made strategic errors in the last elections. Assuming that the electoral system is not altered, many of Sadr's Shi'a rivals will likely have learned from their mistakes in 2021 and so the next election would likely produce results less favourable to the Sadrist and more beneficial to groups like the Fatah Alliance. From Sadr's perspective, new elections may also be the only realistic way to assert leverage in the political system beyond the use of street power, which now only serves to impede government formation and cannot bring about his original vision of majoritarian coalition rule led by the Sadrist. Considering that this scenario seems most feasible for the Sadrist, the 'Coordination Framework' and other factions and that this scenario entails the least risk for them, it is the most likely of the five outlined scenarios.

None of these scenarios suggests a swift resolution to the political deadlock. In the most optimistic assessment, negotiations that could make progress on forming a new government as supposed in scenario (i) for example would likely take a few or several months at least. Thus, whatever actual scenario transpires, it is unlikely that a government will be formed in

2022.

Implications and Risks for Economy and Business

The main problems caused by this deadlock from the government's perspective relate to lack of federal budget allocation and thus the ability to fund infrastructure and service projects, especially in areas where reconstruction funds are still needed (e.g. parts of Mosul city). On the other hand, the oil industry in the country that generates most of the country's revenue continues to export more than **3 million of barrels of oil per day** and is largely unaffected by the deadlock itself, but instead export capacity may be occasionally **affected by technical issues unrelated to the deadlock**. With continuing high oil prices, the government is still receiving substantial oil revenues (**slightly below \$10 billion in August**). The state can in the meantime continue to pay salaries of civil servants and security personnel. This prevents a collapse of the system for the time being.

However, those interested in doing business in Iraq should beware of the risk of renewal of rounds of armed escalation and de-escalation between the Sadrist and the 'Coordination Framework' supporters while the deadlock continues, which may see business projects and those working on them in the areas of Baghdad and wider oil and gas operations in the south getting caught in crossfire, rather than deliberate efforts by the opposing sides to sabotage those projects and the operations at southern oil fields.

Although **some of Sadr's followers surrounded the Majnoon oil field during the latest escalation** and there is understandable popular anger in Iraq's southern regions about how the massive oil wealth has failed to translate into prosperity for ordinary citizens, Sadr's followers backed off from the oil field per Sadr's de-escalation order. However much Sadr talks of changing the system, he himself has little idea about how to move beyond Iraq's current economic model, and he would not seek to sabotage Iraq's primary source of government revenue on which the livelihoods of so many (including many of his followers) depend in this rentier state.

The general cohesion and large scale mobilisation of the security forces together with ongoing American support in particular for counter-Islamic State insurgency operations means that the relatively low-level security threat of the Islamic State group in the areas

where it is most active (in particular: Anbar, Kirkuk, Ninawa, Salah al-Din, and Diyala provinces) is likely to remain unchanged, whatever online glee the group's supporters may feel about the deadlock and infighting. As Moustafa Ayad of the Institute for Strategic Dialogue points out in speaking to Castlereagh Associates, online monitoring of the discourse of the group and its supporters should not translate into overstating the threat that the group poses on the ground.

The other risk- likely greater in nature- comes to Western and Gulf business interests in particular and stems from the threat of Shi'a militia groups, which often go by obscure names on social media and are deliberately vague about their origins, but echo familiar rhetoric of the Iranian-led 'resistance axis' and seek to disrupt Western and Gulf interests in Iraq and the wider region. Possibly front groups for more established factions with links to Iran, they afford plausible deniability for Iran if they are in fact receiving Iranian support and directives for the attacks they carry out.

The risks posed by these obscure groups remain serious even in the absence of the deadlock. The practical consequences of their actions for business have already been apparent in recent months. During the summer, rocket attacks likely conducted by one or more of these groups on the Khor Mor gas field in the Kurdistan region [forced the withdrawal of American contractors working to expand the field.](#)

It is likely that these attacks were conducted in a bid to stop Western and/or Gulf business interests from developing the gas field in partnership with the Kurdistan Regional Government, which is also facing other setbacks in developing its oil and gas reserves in light of the [Supreme Court's rulings that have deemed the conducting of any deals independent of the central government's oversight to be unconstitutional, thus deterring investment by foreign companies.](#)

The risks of these attacks are likely to remain so long as tensions between the U.S. and Iran persist- tensions that are probably chronic and indefinite in nature. Yet it is also possible that these groups may seek to escalate attacks on perceived Western and Gulf targets amid the ongoing deadlock in order to make a show of reminding Iraq's Shi'a who the supposed real enemies are and the need to avoid 'fitna' and concentrate on fighting said enemies.

Editor