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The Investment Budget in Iraq After 2003: Balancing Between the Need for Economic Development and The Lack of Investment Allocations

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Abstract

The investment budget is fundamental and efficient for managing a country's economic resources. It serves as a reflection of the country's intentions and priorities in directing investments toward the sectors that are most in need and of the most importance. Given globalization and the growing economic difficulties, there is a pressing need for efficient solutions to attain economic growth. This study emphasizes the significance of the investment budget as a fundamental tool in fostering economic growth. The investment budget in Iraq has become a crucial matter, particularly since 2003. It involves intricate dynamics between the pressing need for economic growth and the challenges the Iraqi economy faces because of the previous regime's legacy. These challenges have hindered the country's progress, leading to a decline and collapse, including infrastructure underdevelopment and widespread destruction. The Iraqi economy has been plagued by structural imbalances in its non-oil sectors and challenges stemming from a lack of investment allocations. Successive governments have failed to prioritize investment, crucial for expanding the production base and maintaining a balanced economy. Consequently, investment expenditures have not constituted a significant proportion of the overall economy. The allocation of funds in the Iraqi budget heavily favors operational expenses, accounting for three-quarters of the budget, while investment expenses only make up a quarter. This low percentage allocated to investments is insufficient to meet the significant challenges of developing a complex country like Iraq. This elucidates the lack of a comprehensive plan to attain economic diversification across all sectors of the domestic economy. Financing the general budget relies solely on oil revenues, making economic development closely tied to the fluctuations in oil prices. To diversify the government's income sources, it is crucial to implement targeted economic policies that encourage alternative financing methods and increase investment allocations.

Keywords: Investment Budget, Economic development, investment allocation, Iraqi Economy

1. Introduction

The role of the investment budget is highlighted as a decisive factor in driving economic development (Bilbao-Osorio & Rodríguez-Pose, 2004). This is because the investment budget is considered a regulatory mechanism that aims to distribute limited financial resources most effectively to enhance economic development and development in various sectors. This is necessary because there is a lack of investment allocations, which requires the economic administration to find a successful strategy. To ensure that the maximum benefit can be obtained from the resources that are available to be employed in the investment budget in a manner that is commensurate with the current challenges that the country is facing, which requires the government to move away from the consumerist pattern in public budget behavior and direct resources towards actual development and achieving economic efficiency by development policies by directing a significant portion of oil revenues. Through the adoption of a new policy that aims to diversify the Iraqi economy and benefit from oil financial resources in development programs that contribute to reducing dependence on oil soon, as well as to create radical changes in the economic and social institutional structures and expand the base, the objectives of this project are to establish genuine investment channels that are capable of preserving the value of assets and offering high returns. The economic environment would result in a more stable economic environment that is less susceptible to shocks from both the outside and the inside (Acemoglu, Ozdaglar, & Tahbaz-Salehi, 2015). For a considerable amount of time, the investment budget in Iraq has been a source of worry because it is both imbalanced and inefficient. Over the last several decades, traditional approaches to budget planning have resulted in a lack of emphasis on public investment. This has hampered attempts to grow the nation's economy, even though oil imports have supplied significant financial plenty. Numerous studies have been conducted to present suggestions to address this issue. These suggestions include modifying the structure of the general budget, allocating public spending according to function rather than institution, and giving economic growth the highest priority in budget allocations. A further treatment suggested is using public debt for productive investments rather than consumption. This is done to boost public investment and assist the private sector. Implementing strategies for public investment management is necessary to guarantee the effective and efficient use of investment funds in essential areas such as municipal services, health care, education, and energy. In Iraq, efforts are being made to reform the budget system in government units with the desired outcome of increasing public investment via the alignment of budget allocations with the objectives of sustainable economic growth.

2. Investment budget: concept and importance

The investment budget is part of the state's general budget allocated to invest in long-term projects aimed at improving infrastructure, promoting economic growth, and raising the standard of life for citizens (Bierman Jr & Smidt, 2012). These projects include building roads, bridges, hospitals, schools, energy projects, and others that contribute to developing the productive and service sectors. This budget is usually financed through multiple sources, such as state general revenues, internal and external loans, or international donations and aid. The primary goal of the investment budget is to achieve economic development and ensure the continuity of economic growth by stimulating productive sectors and providing job opportunities (Chugunov et al., 2018).

Accordingly, the investment budget is a quantitative and financial plan for investment activities during an upcoming period, usually one year. In this way, it is considered a planning and monitoring program for financial management, as it includes a set of quantitative and financial expressions for a specific program that the government seeks to implement within the framework of its policy and is linked to The investment activities and projects that it undertakes by including them within the framework of the investment budget plan that allows planning and monitoring these activities (Bardhan, Sougstad, & Sougstad, 2004).

As for the importance of the investment budget, it represents an essential tool in planning and directing public investments as it is a crucial element in planning national development, directing the course of the economy, and achieving the social and economic goals of the state. It is a translation of the implementation of the government's strategy in providing the long-term needs of investment projects and identifying the most critical sectors and projects that deserve public investment based on criteria such as expected return, public benefit, and the investment budget helps ensure that public money is used in a way that maintains the financial sustainability of the state in the long term. The investment budget is usually a response to future challenges, enabling governments to prepare and adapt to demographic changes and challenges—environmental and technological developments by directing investments towards projects that address these issues.

3. The relationship between investment budget and economic development

The relationship between the investment budget and economic development is close and interconnected, as the investment budget plays a significant role in achieving economic development through several mechanisms:

1. **Financing public projects**: The investment budget is used to finance public projects such as infrastructure (roads, bridges, airports) and public services (education, health), which are considered fundamental pillars for achieving economic growth. The investment

budget represents an essential tool for governments to direct and stimulate economic growth by focusing on strategic sectors and providing the necessary support to improve infrastructure and human competencies, creating a favorable environment for investment and economic development (Araújo & Sutherland, 2010).

2. **Attracting private investment**: When the government invests in developing infrastructure and improving services, the economy becomes more attractive to private investment, which leads to enhanced growth and economic development.

3. **Stimulating economic activity**: Government investment spending stimulates economic activity by increasing demand for goods and services, creating job opportunities, and raising income levels.

4. **Achieving economic stability**: By directing spending towards vital sectors, the investment budget can help achieve economic stability by reducing fluctuations in economic growth.

5. **Supporting sustainable development**: Investing in environmentally friendly and sustainable projects contributes to achieving economic development while preserving natural resources and protecting the environment for future generations.

4. The reality of the investment budget in Iraq

To launch real development, Iraq underwent radical changes in all aspects of life, including the economic aspect and the investment budget, after 2003. These changes replaced the bleak situation with an advanced development situation. This was done after decades of a major collapse in all aspects of the Iraqi economy, which was represented by attempts to rebuild and modernize the infrastructure and institutions that the damage was done to it during the war and the years of economic sanctions that came before it. Because of this, the Iraqi government moved toward increasing investment spending on investment projects in various fields (Nouraldeen & Hassan, 2018). However, this spending was not at a level that was commensurate with the requirements of the Iraqi economy. This is because investment allocations do not meet the enormous burdens of constructing a country whose conditions are known to be like Iraq. Although the government has been publishing a set of detailed and comprehensive plans, it has also received several proposals related to national development from international organizations such as the International Monetary Fund and the United States Agency for International Development. This is even though the government has been developing national development strategies modeled after its socialist legacy for the past fifty years. The years 2005-2007 were the timeframe in which the first strategy was formulated, focusing on the growth and restoration of the oil industry. A focus on structural reforms of the economy, including the creation of a diversified economy and the activation of the role of the private sector via the simplification of government processes at the business level, as well as the privatization of state-owned firms and the restructuring of government banks (Al Saedi, 2020). Regarding the plan for the period of 2010-2014, it incorporated axes that had not been given any consideration in the earlier plans for Iraq. It is a one-of-a-kind plan developed using contemporary techniques and tools for technical planning and other activities linked to it. Prior plans comprised compiling a list of projects and allocating them to various economic sectors via a distribution process. Moreover, this plan centered on the problem of the spatial dimension of development and the distribution of the benefits of growth in an equitable way and just over the whole of Iraq, considering the degree of deprivation and the population's requirements. The transition from central management of the economy to decentralized management, which is represented by the state of the market economy and competition, the empowerment of local governments by the gradual method, which aims to establish and localize the mechanisms of the market economy in the process of setting priorities and making decisions, and the empowerment of the local and foreign private sector in the process of financing the development process were some of the hypotheses that were included in this report. In addition to creating chances for work. To achieve the economic goals of the plan, the yearly growth rate of the gross domestic product had to be increased by 9.38% throughout the plan. In addition, efforts should be made to diversify the Iraqi economy, which is currently highly dependent on oil revenues, and to transform it into an economy that is characterized by a gradual increase in the contribution of other sectors to the gross domestic product, particularly the productive sectors in agriculture, industry, and tourism. To achieve a higher employment rate, particularly among the younger population and women, it is necessary to activate the role of the private sector in employment in such a manner that guarantees a decrease of the high unemployment rates that Iraq is presently experiencing by fifteen percent. It has been projected that the amount of investment that must be obtained to meet the sectoral targets in their economic dimensions is roughly 218 trillion Iraqi dinars, equal to 186 billion dollars, throughout the five-year plan. This is funded by the federal budget and is based on a rate of thirty percent annually. The contribution from the government sector is fifty-three-point-seven percent, equivalent to around one hundred billion dollars. while the contribution from the private sector is 46.3%, equivalent to around 86 billion dollars, and is funded by both the domestic and international corporate sectors (Faihan, 2014). This plan also focused on distributing investment priorities among the leading sectors by giving the oil and electricity sectors high priority at fifteen and ten percent of the total investments, respectively. This was done because oil is the primary financier of financial resources to sustain development, at least in the medium term, and the electricity sector is a basic infrastructure necessary to achieve any development and development in the production and service sectors. Given that agriculture is an important source with promising potential to contribute to diversifying the economy and achieving food security for the country, as well as its role in generating job opportunities that contribute effectively to reducing levels of unemployment and poverty and stabilizing the productive labor force in the countryside, an advanced priority was also given to the agricultural sector at a rate of 9.5% Given that agriculture is an important source with promising potential to contribute to these goals, the agricultural sector was given an advanced priority. In addition, the transportation and communications sector received a percentage of nine percent because it is an important focal structure with high functional interconnections with other sectors, and the buildings and services sector occupied a percentage of seventeen percent of the total investments to provide housing units (Mofid, Younis, & Sadik, 2017). This was done to prevent migration to urban areas and the competition for services that are already scarce in urban areas.

As for the plan for 2013-2017, it is the first link in a system of strategic paths for economic progress, and it marks a new step in preparing for development over the next several years. Building a diverse and booming economy headed by the industrial, energy, agricultural, and tourist sectors as development poles and increasing the proportion of their contribution to the generation of gross domestic product over time were the primary goals of its economic aims. In the long run, the goal is to attain the planned yearly growth rate in production, which is 13.31% with oil and 7.5% without oil use—increasing the level of productivity of economic activities as well as worker productivity in a manner that improves the competitiveness and variety of the economy and allows the private sector to play an influential role in investment and job production.

This plan will complete the development path of the previous plan, in which the public, private, and civil society sectors will be development partners. This plan will also work to build the foundations of economic partnership and activate it between the public and private sectors, with the public sector contributing 79% of the plan's total investments, equivalent to a value of 329 trillion dinars, while the private sector will contribute. Twenty-one percent of the overall investments in the plan, which amounts to 88 trillion dinars, in a manner that guarantees the progressive transition to a market economy in line with the principles of efficiency and competitiveness. In addition, the plan anticipated that the state's total public income would reach 812.263 trillion dinars over the plan years. Oil earnings would account for nearly 95% of this total, equivalent to 768.721 trillion dinars.

However, income from sources other than oil accounts for around 5% of total revenue, approximately 43.541 trillion dinars. Suppose the volume of government investment amounts to approximately 329 trillion dinars, which constitutes 79% of the total investments required for the plan. In that case, the plan also assumes that this amount is spent on the projects that have been committed to implementation, which numbered 5,861 projects at the end of 2012, in addition to fulfilling the obligations of the oil licensing rounds. While the private sector is anticipated to contribute 88 trillion dinars, which will be spent in various investment sectors selected under the plan, the private sector's contribution is 21% (Khodr & Zirar, 2013).

Even though the plans of the Iraqi government include a multitude of initiatives in many sectors of the Iraqi economy, the efforts of the government to accomplish the targets that have been established are not balanced. This is because the general government agreement, which includes its operational and investment components after 2003, is essentially connected to the amount of income. Revenues from oil are very sensitive to fluctuations in price. Additionally, the operational side of public spending was dominant in government budgets, with operational expenses outweighing the cost of investment in developing and executing the general budget. This occurred during the same period. Additionally, there is a consistent increase in the size of the government agreement, which is sensitive to oil income, particularly about the oscillations in global oil prices that co-occurred with worldwide crises and oil price reductions. It led to fluctuations in expenditure by oil prices, which confirms that the government's involvement is quantitative rather than qualitative, which means that it does not have a precise orientation. Because of this, the state's role has been characterized by modest investment programs and modest implementation of the investment programs contained in the general budget from the beginning of the political change until now. This has resulted in the continued lack of public infrastructure services and the state's inability to keep up with the growing demand for these services. The total amount of public expenditures, operational costs, and investment expenses, as well as the ratio of these amounts to total public expenses, are shown in the following table.

Table 1. Size of governmental spending and ratio of operational and investment costs to total expenditure

Years	Overhead	Operating expenses	Investment Expenditures	The ratio of Operating Expenses to Overhead %	The ratio of investment expenditures to public expenditures %
2004	23053	19550	3503	84.81	15.19
2005	24411	19288	5122	79.02	20.98
2006	24075	22270	1805	92.50	7.50
2007	27564	24422	3142	88.60	11.40
2008	50685	43847	6838	86.51	13.49
2009	44929	42003	2926	93.49	6.51
2010	55002	50722	4279	92.22	7.78
2011	59521	53263	6257	89.49	10.51
2012	77508	69177	8332	89.25	10.75
2013	91658	83802	7856	91.43	8.57
2014	71661	50279	21381	70.16	29.84
2015	59558	43852	15706	73.63	26.37
2016	56741	43294	13447	76.30	23.70
2017	63759	49853	13906	78.19	21.81
2018	68421	56728	11692	82.91	17.09

As can be seen in the table that is located above, the proportion of overall public expenditure that is comprised of investment spending is relatively low. In addition to the imbalance in the structure of public spending, which favors current expenditures over weak investment spending, we see that many investments are marginal investments that are a long way from building a productive base that can stimulate the economy and advance its urban, service, and production reality. Furthermore, these allocations were not spent on financing economic growth or establishing development projects that would diversify the economy of Iraq. On the contrary, every single resource was thrown away due to dishonest financial and administrative practices.

The fact that the government has not paid much attention to the investment component, which is the fundamental link of any economy, is shown by the fact that investment expenditures have decreased compared to operational expenditures. With the absence of investment expenditure during the years of plenty (2004-2014), which amounted to around $71,441 million, the issue that constantly emerges is why investment spending could not yield fruit despite its restricted allocations. This is the question that is always asked. If the funds were allocated to investment projects, where did they go, and how were they utilized?

The industrial sector, especially the extractive industry, continues to account for the highest proportion of overall investment spending, reaching 80.6%. This can be discovered by anybody who follows the exchange chapters on the percentage of total public expenditures allocated to investment spending. This is because the oil industry is a capital-intensive business, which is why it dominates most investment funds concerning investment funds. Money needs large sums to sustain it by purchasing giant machinery and equipment, in addition to the fact that the oil sector is the primary sector composing the general budget revenues (Group, 2018). The buildings and services sector received 14.6% of the total investment spending, and the transportation and communications sector also received a percentage of 6.2%. Moreover, the agricultural sector ranked next to last with an estimated percentage of 1.6%. Finally, the education sector came with a percentage of 0.6%, the lowest percentage among the components of the expenditure sections for investment expenditures in 2018 (Al-Mawlawi, 2019). As a result of low investment expenditure, the restoration and building of infrastructure for schools, hospitals, and health facilities is hampered. This is especially true in combination with the expanding population.

A clear imbalance in the distribution of investment allocations between economic sectors has resulted from the low proportion of investment expenditures out of total public spending. This imbalance has led to unbalanced growth between sectors. It has perpetuated the situation from which the Iraqi economy suffers, which is structural imbalances, by focusing on a specific sector and excluding other sectors, thus causing the economy to suffer. This policy did not provide a balanced, diversified, and developed economic model during that era, due to the lack of a sound economic vision for the planner, legislator, or economic policymaker in Iraq at a time when the Iraqis were looking forward to advancing the development reality and achieving levels of development commensurate with its capabilities and the needs of its population and carrying out reconstruction and reconstruction and establishing a state. Within the context of the economic and human growth process, new initiatives capable of doing this and re-utilizing the material and human capabilities that the nation has are being developed.

5. Challenges of economic development in Iraq

Because successive governments were unable to find additional sources of funding for the budget and did not make any efforts to address the structural imbalance, they were unable to achieve economic development and stimulate non-oil economic sectors in a manner that ensures economic diversification to be a sustainable resource for financing the general budget (Cordesman, 2019). On the contrary, the circle of financial and administrative corruption became more extensive, and the amount of money allocated to the various sectors was reduced—the ratio of overall governmental spending to individual productivity. In addition, the government's neglectful handling of the economic file has resulted in the accumulation of some economic obstacles and has made the problems that already existed much more severe. The following are some of the problems that are present:

A. Fluctuation of funding sources

From 2003 to the present, the government's revenue structure has been characterized by the overwhelming dominance of oil revenues (Le Billon, 2015). This indicates a heavy reliance on oil revenues to finance the general budget, which comes with inherent risks associated with the oil commodity. Privacy is crucial because historical evidence demonstrates the extreme volatility of oil prices. Fluctuations in oil prices, particularly declines, may lead to a financial crisis for the government and hinder its ability to pay its expenditure obligations. The decline in oil prices has clearly impacted the government's deficit. This has led to the need for external borrowing, associated debt services, and other political considerations. These effects, which stem from the reliance on oil revenues, prevent the government from effectively carrying out its role in planning and development processes. This further complicates the process of development planning and hinders economic development. By its very nature, it poses a hindrance to progress. The correlation between the country's development plans and the magnitude of oil revenues significantly strains the state's overall budget. Consequently, sustaining elevated levels of public expenditure will pose a challenge if oil and gas prices remain low. Rentier countries perceive oil export revenues as a primary source of income. All development efforts became susceptible to fluctuations in oil prices, resulting in a decline in economic well-being and the disruption of essential investment projects required to achieve development goals. Consequently, the implementation of development policies on the ground deteriorated due to structural imbalances in oil financing. Each decrease in oil prices in the worldwide energy market triggers the manifestation of characteristics associated with an economic crisis. In response, the government is compelled to implement economic austerity measures under the guise of economic reform. These measures include imposing supplementary charges on certain goods and services, eliminating subsidies on specific oil products, and raising fees and taxes (East & Dept., 2017).

B. Misuse of financial resources

The scarcity of funds and material resources often challenges funding and executing development initiatives. In Iraq, the financial framework of the state relies on conventional methods of formulating the general budget, which involves acknowledging and accommodating a rising budget deficit. A rationale becomes apparent upon examining the general budget's functioning and performance. Various factors contribute to the misuse of public funds. The preliminary evaluation of the budget indicates that it starts with a fiscal deficit and concludes with a fiscal surplus. This was evident due to the overstatement of the anticipated general budget's expenses and the deliberate decision to spend more than the projected income. As a result, the government resorted to increasing domestic and foreign borrowing to address this imbalance. The government was compelled to turn to the International Monetary Fund to get loans and engage in hedging agreements, resulting in a heavy debt load. Additionally, the government had to comply with a program that imposed stringent requirements. Furthermore, this shortfall led to a shortage of investment allocations under the guise of deficit reduction. However, the situation reveals that many of Iraq's budgets have generated financial surpluses, except for specific years such as 2004, 2015, and 2016. These deficits were caused by the decrease in global oil prices and the war against them. During that period, terrorist organizations exhausted their financial resources to enhance security and defense spending, decreasing the proportion of funds allocated for investment. This, in turn, had a significant adverse effect on economic development plans, particularly in terms of executing and implementing development projects. Table (2) displays the precise figures for the revenues, public expenditures, surplus, and deficit from 2004 to 2018.

Table 2. Public income, expenditures, deficit, and surplus in the 2004-2018 general budget

Years	Public revenues	Overhead	Deficit and surplus	Investment Expenditures
2004	22591	23053	(462)	3503
2005	27478	24411	3068	5122
2006	35266	24075	11192	1805
2007	44864	27564	17300	3142
2008	68475	50685	17789	6838
2009	47187	44929	2258	2926
2010	59420	55002	4418	4279
2011	85469	59521	25948	6257
2012	102458	77508	24950	8332
2013	97571	91658	5913	7856
2014	90383	71661	18722	21381
2015	56235	59558	(3323)	15706
2016	46032	56741	(10709)	13447
2017	65318	63759	1559	13906
2018	90161	68421	21740	11692

Table (2) shows that the overall budget is still heavily reliant on oil and its income. The economy's dependency on these rents, together with the ongoing decrease in investment expenditure, suggests that adverse effects will impact the national economy and pose a danger to its development. The general budget has developed a habit of assigning relatively small proportions to investment expenses each year. The 2018 budget allocation amounted to around 17%, a relatively low proportion that falls short of addressing the significant challenges and infrastructure needs of a nation with highly intricate conditions.

C. Lack of legislative and executive compliance

It is necessary to go through three different parties to formulate and implement development plans. The first of these parties is the Ministry of Planning, which is responsible for formulating a development plan and determining the amount of financing required for each sector of the economy to improve it and achieve self-growth. The Ministry of Finance is the second party, and it is responsible for allocating financial amounts for investment expenditures per its financial capability. The third party is the entity that is accountable for the implementation of development policies. This responsibility extends to the different ministries or local governments, and the third party is responsible for executing projects following what is planned and according to the finance capacity that has been assigned. The reality of the situation indicates that most of the investment expenditures allocated to investment programs from 2004 to 2018 were only implemented. This is in addition to the supporting body, which is represented by the legislative body. The legislative body is responsible for issuing laws, regulations, and instructions to facilitate the work of the relevant authorities and achieve the highest success rates. The low creation of fixed capital in Iraq may be better understood since it is less than half of what was expected. On the other hand, the implementation of more than 80 percent of operational expenditures has been completed. The implementation rates for operating and investment expenditures are shown in Table 3.

Table 3. Operational and investment spending percentages 2004-2018

year	Percentage of implementation of operating expenses %	Implementation rate of investment expenditures %
2004	70	20

2005	75	25
2006	83	27
2007	83	52
2008	100	95
2009	84	64
2010	89	65
2011	91	59
2012	94	78
2013	94	37
2014	59	38
2015	67	45
2016	63	52
2017	75	58
2018	84	57

The data shown in Table 3 demonstrates that the percentages provide evidence of the non-implementation of all economic projects or even the halt of the completion of the execution of a portion of these projects owing to the termination of financing or corruption. This is because Iraq does not have the essential legal framework for executing development plans, and these plans were not provided with a binding legislation for execution, which caused them to lose their strength and efficacy. As a result, this situation has arisen. Several factors, including inadequate execution, follow-up, and supervision, and the deficiencies in the implementation element mainly caused the diversion of economic development plans from their respective stated pathways. The delay in announcing the budget for the development plan also contributed to the obstruction of investment projects, whether they were implemented at the level of local governments (regional development) or the investment program of the federal ministries (Group, 2018). This resulted in several adverse effects on economic development, represented by a significant decrease in investments, which obstructed the implementation of investment projects. As the population rose, rehabilitating and creating infrastructure for schools, hospitals, and health facilities continued until 2018. This was in connection with the reduction in the implementation rates of investment expenditures. Additionally, the low implementation rates of investment allocations were not directed towards the construction of new or advanced infrastructure; instead, they were restricted to the maintenance work for existing projects or the establishment of small projects that do not amount to being vital projects and the establishment of new productive capacities within the Iraqi economy (Noland & Pack, 2011).

D. Poor structural plan-economic development plan linkage

The lack of legislative law that enables the follow-up and execution of investment projects included in development plans was seen throughout the process of establishing and executing development policies after the political shift in 2003. It is challenging to address stable institutional frameworks for formulating policies coordinating public expenditures and then evaluating the role of planning in them. This is because there is no precise mechanism or necessary means of application that makes the ministry an effective means of influencing policies and coordinating the work of ministries. Despite the broad powers of the Ministry of Planning to develop concepts, studies, plans, follow-up, evaluation, and information, as well as its direct communication with other ministries and public institutions, the Ministry of Planning cannot effectively address stable institutional frameworks for these purposes. The lack of such a system and methods of enforcing the coordinating process (whether in the Planning Law or its implementation instructions) results in the Ministry's involvement in executing plans and projects relying on political backing. This is the case even though the Planning Law specifies many duties. Considering this, the majority of the national development plans that have been produced do not amount to being processes or laws that are legally enforceable and must be executed to the degree that they are the consequence of a necessity. When it comes to public money, these proposals are entirely unrelated. In the budget papers and tables, these initiatives are not mentioned. This is because no clear mechanism can compel budgets to execute investment allocations that match the expenses of a list of projects, even if such a list existed. Considering this, the projects that are included in the budget are contingent upon submissions from a variety of ministries that are determined by the urgent need. Due to the lack of conscious and genuine planning in Iraq, there has been an increase in the amount of oil financial resources that have been wasted, officials have been given more leeway to dispose of public funds, corrupt individuals have been allowed to expand their activities and practices, and the state of chaos in the economic and political practice of state institutions and governance has been deepened.

E. Government failure to combat corruption:

The proliferation of the phenomenon of corruption in Iraq and the unprecedented interconnectedness of its links and mechanisms has become one of the obstacles that threaten the development process. This is because it has caused the government to have difficulty performing its economic functions, such as implementing economic policies and allocating resources, and this is something that we are witnessing today, in addition to the fact that it has led to difficulties in the government providing these services. Because it did not contribute to the investment of financial resources in fixed assets at the level of the economy, which is one of the components of promoting the economic development of the country and a factor that attracts foreign investment, financial and administrative corruption played a significant role in the waste of those resources that were allocated to investment expenditures. This was the case even though numerous regulatory bodies are responsible for monitoring cases—the fight against corruption and referring the matter to the police and the courts.

Iraq occupied shallow positions in those reports from 2004-2018, according to the annual reports issued by the Transparency Organization. At the same time, the Corruption Perceptions Index did not rise above levels (2), and according to the report compiled by the organization's experts, the Corruption Perceptions Index assigns countries scores of zero. On the assumption that zero indicates the existence of high levels of corruption and ten indicates the presence of low levels of it, we go from zero to ten according to this principle. As a result of the widespread corruption in Iraq, the country has remained at the bottom of the corruption index maintained by Transparency International. This classification places Iraq among the most corrupt nations in the world, and it is anticipated that this ranking will continue for a longer time. Under the research findings by Transparency International, the following table presents the indices of attitudes toward corporate corruption.

Table 4. Iraqi Corruption Perceptions Index 2004-2018

year	Number of participating countries	Iraq Sequence	Corruption Perceptions Index
2004	146	129	2.1
2005	194	170	2.2
2006	163	160	1.9
2007	180	178	1.5
2008	180	178	1.3
2009	180	176	1.5
2010	178	175	1.5
2011	183	175	1.8
2012	176	169	1.8
2013	171	166	1.6

2014	168	166	1.6
2015	169	165	1.6
2016	168	166	1.7
2017	180	169	1.8
2018	180	168	1.8

The squandering of enormous quantities of money via theft or bribery, as well as the improper allocation of funds to pointless economic initiatives that did not help boost the productive capacity of the national economy, are all examples of how corruption has prevented development programs from being implemented in a meaningful and indirect manner. The private sector was also dissuaded from playing its part in productive economic activity because of corruption, which resulted in the withholding of a significant resource to finance development.

F. Difficult investment environment

The investment environment in Iraq is characterized by several factors, including the difficulty of companies entering the market, the presence of high risks, and a regulatory environment that is not transparent. Additionally, the banking sector is weak and unable to provide extensive credit facilities. This is because successive governments have not intended to carry out fundamental and practical reforms that work to facilitate the conduct of business and reduce bureaucracy in a manner that can make the commercial environment more appealing to foreign businessmen. This can be accomplished by providing financial incentives such as tax exemptions or reductions in fees and taxes, which encourage attracting foreign capital investment. Iraq's infrastructure, which includes roads, ports, and networks, is also a significant factor. Electric power. These factors encourage many foreign companies to engage in investment operations and establish development projects. These projects have the potential to play a role in providing sources of financing to developing economies through the flow of capital. This helps increase capital and enhance economic growth by transferring these funds for large development projects. Additionally, the transfer of technology and skills and the promotion of industrial modernization contribute to the development of local capabilities and provide employment opportunities. However, the reality of the situation indicates that the investment environment has been unclear throughout the past two decades of the current century and has repelled foreign investment, not only because of military operations and the deterioration of the security situation but also because of the continuing political differences that are working to eliminate the opportunities to advance the Iraqi economy and move it to a competitive market economy, and they are resisting. It must be changed with great force to keep the nation stuck in a cycle of reliance and backwardness and prevent it from taking off.

6. Improving economic development investment allocations

The primary emphasis of development plans in Iraq is on diversifying sources of revenue to fund government expenditure in general and investment spending in particular. This is the most apparent primary focus of development strategies. As a result, attaining economic development necessitates providing the necessary financial resources to fund the investment programs that are needed within the development plans. This is done to produce high growth rates for national income and transformation. The general budget can get sustained revenue from its diverse economic structure, which can supply such income. Many economists think diversifying the economy is where it is possible to find prospects for development. The following are some of the available chances:

A. The Economic diversification policies

Economic diversification policies are a tangible alternative to obtaining additional sources of financing by creating a sustainable production base that leads to a fundamental change in the structure of sectoral use of economic activities in a diverse manner capable of providing sustainable use and decent living for the population and alleviating dependence on the rentier reality, as the importance of seeking to diversify structures The productivity of the country lies in reducing dependence on a single resource in financing the general budget and working to provide additional income that contributes to increasing allocations for investment spending. This is because diversifying the economic base includes developing the economic sectors represented by the productive sectors, which include the agricultural and manufacturing sectors, as well as developing the service sectors. And distributive (Hvidt, 2013)Iraq has several opportunities and natural and human resources that can effectively lead to the recovery and development of the economy and then contribute to the diversification and expansion of its production base. The primary goal of economic diversification is to create a state of sustainable economic growth based on the internal capabilities of the national economy, and one of the most important of these is The policies are as follows. (Fitzgerald, 2009):

- **Developing the agricultural sector**: The agricultural sector has a number of forward and backward interconnections that make it a link within a series of sectors that make up the national economy. It is also a base of the Iraqi economy that works to develop production in a way that allows achieving self-sufficiency and then providing security and food for the country.
- **The industrial sector**: The industrial sector is one of the most prominent and influential economic sectors in the national economy due to its central role in raising the level of production and productivity, generating income, and providing job opportunities. This sector is also unique in its ability to achieve productive diversification through the many stages of production processes that contribute to producing various goods that help increase export capacity. In addition, it completes the structural and technological transformation process and spreads the manufacturing scope (Barakat & Zyck, 2009).
- **The tourism sector**: Tourism and the historical and cultural heritage it is based on in the world have begun to play an essential role in economic development and the provision of foreign currency, as it is one of the fundamental pillars of service economies in addition to its role in strengthening the local economy at the macro level with developmental and diversification roles. It is one of the activities That contributes effectively to increasing the gross domestic product as it is a multi-directional activity and intertwines with all economic and social activities, whether directly or indirectly. This sector is of very great importance to Iraq because it is distinguished by containing many religious, archaeological, and natural sites.

B. Strengthening the tax system

In most nations across the globe, taxes are the primary source of funding for most of their regular expenses. Certain nations, such as Senegal, fund their development expenditures via the utilization of tax income. For the tax to be able to play a role in the economy, its revenues need to be substantial. This is because any decrease in tax revenues might hurt investment. Indirectly, and in Iraq, some reforms must be worked on to eliminate the continuing low tax collections and the decline in their relative importance in total revenues (Hadi, Abed, & Kadim, 2018). This requires reforming the tax collections in the Iraqi economy by increasing the efficiency of the tax administration in controlling the taxable bases and reducing the amount of tax income collected. As a result of instances of tax evasion, the imposition of direct taxes and fees on private sector institutions and personal income tax, and the expansion of the tax base to contain the general budget deficit, the increase in the total public debt, the preservation of the total foreign exchange reserves, and the efforts to increase the proportion of investment allocations from the total public spending (East & Dept., 2017). The customs tax can discriminate by imposing customs tariffs according to the types of goods and exempting the necessary ones, which means that it can increase the tax revenues entering the budget without affecting the basic needs of those with limited incomes. This is in addition to raising the currently applicable tax rate, particularly regarding the wide-scale customs tax, represented by the value of goods and materials imported by Iraq, which exceeds fifty trillion dinars annually. The customs tax is also being worked on to raise the tariff rate on many luxury and recreational goods, which has nothing to do with people with limited incomes. A radical change in the current path to make optimal use of increased financial resources and then finance public spending, especially investment spending, and then meet the need for investment programs in national development plans is represented by the shift toward expanding the use of tax revenues to finance public spending. This shift represents the right path for spending direction and a radical change in the current path.

C. Developing oil refining industries

The oil refining industry is considered a strategic option to diversify the outputs of the oil industry, particularly in oil-producing countries. This is because the raw material produced by this industry can be converted into refined oil products with a high financial value that is more significant than the value of the raw material. Additionally, the oil refining industry works to provide additional sources of funding for the general budget, considering the decline in oil prices. Raw resources on the international market and contributing to boosting investment allocations to fund other economic development plans are both examples of what will be discussed. It is possible to direct a significant portion of the crude oil to the refining industry to produce products of high quality and value more significant than the value of the raw materials. This is because Iraq is a rentier country with oil reserves estimated to be approximately 145 billion barrels. Additionally, the country can produce up to 4.5 million barrels per day. By transforming crude oil into refined products that are ready for direct consumption by commercial, industrial, and household consumers, the refining sector contributes to enhancing the economic value of crude oil and creating additional value. One way to accomplish this goal is to establish new refineries to refine crude oil from oil earnings. These refineries should have a high output capacity that is more than what they produce. The total design capacity of Iraq's twelve operational refineries, according to the OAPEC report 2019, amounted to 834 thousand barrels per day. This is less than the total required for petroleum derivatives, with a deficit estimated at 56 thousand barrels per day (COUNCIL, BUREAU, & SECRETARIAT, 2020). This means that the total capacity of Iraq's refineries is four times greater than the current refineries. Legislation that directs large amounts of crude oil toward the refining sector so that the quantities of petroleum derivatives surpass the quantities of crude oil transported abroad is required, in addition to the fact that it is necessary to enact such a law.

D. Enhancing the investment environment

Changing the economic structure to move toward comprehensive economic development based on a broad front of investments that leads to activating investment in all economic sectors is one way to make the investment climate more attractive for foreign direct investment. This is accomplished by creating an investment environment that incorporates the principle of economic freedom, the readiness of the digital infrastructure, and the ease of conducting business. As part of its efforts to resuscitate the productive sectors of the Iraqi economy, such as industry and agriculture, it also strives to alleviate various sectoral difficulties that the economy is experiencing. To advance the Iraqi economy and rehabilitation, it is possible to rely on it as an external source of finance from which financial resources and investment expenditures may be obtained. Furthermore, the introduction of economic city projects has increased because of the influx of foreign direct investment. Not only does it strive to increase the market for certain activities in the service sectors, such as tourism, but it also works to meet the essential infrastructural requirements.

7. Conclusions and discussion

A continuous increase in the volume of operational expenditures at the expense of investment expenditures, as well as the weak ability of the general budget to adapt operational expenditures in the event of a decline in public revenues with revenues from other sources, contributed to the fact that the economic policies that were planned did not bring about any changes in the structure of the economy. The failure of development programs, plans, and strategies in the Iraqi economy may be attributed to the absence of formal law, which led to the reluctance and non-implementation of some investment projects. Additionally, the lack of financial resources essential for investment in many projects makes it difficult to allocate these resources. Cases of widespread financial and administrative corruption in all aspects of the Iraqi state have affected the nature of development planning. This has resulted in the ineffective direction of resources, a reduction in the effectiveness of development programs, and an increase in the costs of implementing strategic projects, further exacerbating the development crisis. A lack of a business climate in the economic field led to the inability to construct development projects and investments in non-oil industries. As a result, the formation of such projects was left up to the state's financial problems. In rentier nations in general and Iraq in particular, there is a direct link between the amount of money spent by the government and the amount of money it makes from oil sales. The decrease in oil income will be reflected in the reduction of governmental spending, which will immediately come at the price of decreasing investment expenditures.

It is necessary to design development plans and strategies that work toward diversifying sources of revenue to accomplish a progressive withdrawal of the public sector from economic activity and achieve the adoption of the free economy system. Engage in activities that will result in the creation of opportunities and capacities via development planning. These activities will contribute to eliminating the economy's dependency on oil resources and lessen the dependence on oil revenues for finance. Sooner or later, there will be economic progress. Through the simplification of procedures, the provision of incentives to both domestic and international businesses, and the strengthening of strategic partnerships with investors, the creation of an investment environment that is appealing to foreign investments can be accomplished. This will result in the development of projects that have both an economic and social impact, which will, in turn, stimulate investment in specific economic sectors. An effort is being made to change the tax system in Iraq to fulfill the need for investment programs in national development plans. This will be accomplished by enhancing tax revenues and broadening the tax base. To enable those in charge of development policies to implement development programs and plans to expand the capacities of the national economy and strengthen its structure, it is required to increase the proportion of investment expenditures in the general budget from 17% to 40%. Finding a tangible alternative to obtain additional local sources of financing by establishing a sustainable production base that leads to a fundamental change in the structure of sectoral employment is one way to accomplish the goal of mobilizing the most significant possible amount of local financial resources. This can be accomplished by transferring surplus oil revenues to the non-oil sectors to implement and establish the necessary development programs for economic work.

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