



مركز المنصة للتنمية المستدامة  
PLATFORM CENTER FOR SUSTAINABLE DEVELOPMENT

# Critical Review of Economic Reforms in Iraq

## Case Study

## "The White Paper"

2023





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**Critical Review of Economic  
Reforms in Iraq -Case Study-  
“The White Paper”**

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**Critical Review of Economic Reforms in Iraq**  
**Case Study**  
**"The White Paper"**

Critical Review of Economic reforms in Iraq Case study: The White Paper

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## **About the Center**

Platform Center for Sustainable Development (PSDIraq) is a registered NGO at the Directorate of Non-governmental organisations in the General Secretariat of the Council of Ministers under the number (1S2106012). It is a space for thinking, discussing, and working towards positive change in Iraq.

## **Vision**

We seek to establish a platform for dialogue and policies to contribute to achieving sustainable development goals in Iraq.

## **Mission**

Bridging the gap between the state and society in a way that ensures the realization of the essence of democracy represented by the participation of citizens in the decision-making processes, through training, monitoring, analyzing, researching, awareness raising, and advocacy campaigns.

## **Strategic Goals**

- Preparing Youth to fulfill their societal obligations by analyzing root causes of problems, proposing feasible and desirable policy alternatives and advocating for their implementation
- Presenting statistics and issues that occupy the political and societal scene to reflect a deeper understanding of Iraq's realities
- Encouraging youth to work towards achieving sustainable development goals
- Establishing a network of active, informed, and committed citizens towards Iraq's state-building project

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## Introduction

Being an oil-dependent country with an over-bloated public sector and subsidized services, Iraq has become vulnerable to oil prices' volatility, and voices for economic reforms frequently erupt, especially during financial crises. The dual shock of the Covid pandemic and declining oil prices raised the urgency to implement economic reforms. The former government of PM Kadhimi, particularly Finance Minister Ali Allawi, utilized the latter moment to put forward a government program for economic reforms, known as the White Paper, to restore balance to the Iraqi economy.

The White Paper was based on two parts. The first included a thorough diagnosis of the Iraqi economy's ills. The second included 64 detailed projects with fixed timelines, identified authorities, and a governance scheme for implementing reforms.

Council of Ministers established on 10<sup>th</sup> February 2021 the “Higher Committee for Reforms” as a governance scheme for implementing the White Paper, including Ministers of Finance, Planning, Oil, and the Governor of CBI, alongside several advisors.

After two years in office, the former government did little to implement this program across state institutions. In an interview with a senior official in the Higher Committee for Reform, he listed several reasons, including the absence of a political will, bureaucratic resistance, and lacking institutional capacities. Allawi implied the same reasoning in his resignation letter submitted in August 2022 and stressed the extent of corruption, describing it as a “multi-head beast with deep roots.”

Developing and implementing feasible and desirable reform initiatives is a must to ensure a stable and prosperous Iraq. Iraqi population stands at 42 Million in 2023, with an annual growth of 2.5%, expected to reach

50 Million in 2030. The poverty rate stands at 21% in 2022, despite generating 115 Billion USD in 2022 of oil exports. These numeric indicators highlight the paradox of the system's inability to transfer wealth into welfare and the system's ability to buy time through public hiring and the expansion of social welfare programs. However, this has not been sustainable, as evident in the frequent protest that erupted for both socioeconomic and political demands.

This book represents an output of the project of monitoring economic reforms that lasted for six months, including 40 hours of training and discussion seminars on skills and issues of monitoring economic reforms. It includes ten reports that cover the most critical reforms proposed by the White Paper, starting with devaluating the Iraqi dinar, strengthening financial auditing practices, minimizing state expenditure, creating jobs, and diversifying the economy.

These reports proposed desirable policy alternatives and mechanisms for their implementation. Starting with **Mohammed Hashim Helou**, who discussed the devaluation of the Iraqi dinar, the reform associated the most with the White Paper, in his paper entitled "Assessing the devaluation of the Iraqi dinar in light of White Paper's reforms." He demonstrated that the devaluation helped address the liquidity crisis but failed to deliver on increasing the competitiveness of local products, warning of reversing the devaluation and calling for mitigating consequences of devaluation through social welfare spending.

**Raafat Nabel AlBaldawi** focused on strengthening financial auditing in his paper entitled "Developing auditing institutions in Iraq to be compatible with the prerequisite of the White Paper." He calls for authorizing the Federal Board of Supreme Audit to have prior auditing and providing a higher level of independence to internal auditing departments at state entities.

Minimizing state expenditure was studied by both Hashim al-Hosseini and Rami Muhsin. **Hashem Jassim Alhossiny** proposed a procedural and technical solution for mitigating losses from importing oil products that reach up to 3 Billion USD in his paper entitled “Smuggling oil products: compound losses and painful solutions.” On the other hand, **Rami Mohsen Jawad**, in his paper entitled “The role of Public-Private Partnership in mitigating financing pressure for investment projects,” indicated the low level of spending on infrastructure, with only 22% of the total federal budget allocated for investment, mostly on sectors of oil and electricity, proposing PPP to mitigate financing pressure, activate industrial and agricultural sectors, and increase overall GDP.

**Hamed Rahim Janani**, in his paper entitled “Tourism in Iraq: A depleted economic resource,” highlighted the potential of tourism in diversifying the Iraqi economy, proposing to have licensing rounds in the tourism sector, similar to that of the oil sector and detailing a mechanism for its implementation. On the other hand, **Ali Abdul zahra Tohme** focused on e-governance to increase customs revenue by addressing corruption, smuggling, and tax evasion, in his paper “Digitalization as a mechanism for countering corruption, smuggling, and tax evasion at Iraq’s border crossings.”

Job creation received the focus of three researchers: **Morooj Mohammed Hassan**, **Lama Karim Khudair**, and **Ali Adnan Mohammed**. They individually worked on different angles of the unemployment of graduates, particularly their professional skills, academic study, and guarantees in the private sector. They proposed upgrading the curriculum and specialties of higher education, adopting dual vocational training, and offering social protection for those who join the private sector to absorb the unemployment of graduates in Iraq.

In his paper entitled “Mechanisms of reforming Iraqi health sector post-Covid,” **Mohammed Tareq Lafta** focused on the health sector as a testament to the deteriorating public services in Iraq. He stressed the importance of increasing spending on healthcare, strengthening oversight, following the standards of WHO, and implementing the health insurance scheme.

# Assessing the devaluation of the Iraqi dinar in Light of the White Paper Reforms

**Mohammed Hashim Helou \***

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## **Executive Summary:**

After reducing the exchange rate of the Iraqi dinner against the U.S. dollar by (22.7%) in (2022), it is time to undertake a policy evaluation to ensure that the change's intended goals are met, and its repercussions are addressed.

In the post-2003 era, the monetary authorities represented by the Central Bank of Iraq pursued a policy of fixing the exchange rate, aiming to achieve price stability, which is the main goal of the Central Bank of Iraq, as defined by Law No. (56) of (2004). However, this policy has resulted in many undesirable effects that have emerged in recent years.

The time has come to use the exchange rate tool to revitalize the Iraqi economy and support the economic development process by providing a highly flexible productive device and supporting local products' competitiveness by adopting the exchange rate's real value.

The paper is divided into two parts, the first deals with the study of the justifications for reducing the exchange rate in light of what came in the White Paper. The second part deals with analyzing the economic effects of the devaluation of the Iraqi dinar.

The paper concludes with a list of recommendations that may be employed to maximize the benefits of the policy of decreasing the exchange rate and mitigate the negative consequences of that policy.

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\* A researcher at the Platform Center for Sustainable Development.

## **Introduction:**

The White Paper has come up with a set of procedures that are supposed to be implemented with the aim of making fundamental reforms in the Iraqi economy. It also focuses on many of the defects in the Iraqi economy, and perhaps at the forefront of those problems that the white paper addressed is the high value of the exchange rate of the Iraqi dinar against the US dollar, which is known as the issue of (the cheap dollar). Therefore, it has become necessary to move towards a policy of decreasing the exchange rate with the aim of ensuring the sustainability of the federal budget. Throughout the White Paper, the government focused on the fact that the Iraqi Central Bank's policy throughout the previous years did not serve the position of the Iraqi trade balance exchange for strengthening the balances of payments of neighboring countries. Due to the crisis that affected the world economy and had a detrimental impact on the Iraqi economy, depicted in the double crisis of the Covid-19 outbreak and the rapid economic recession, Iraq was subjected to one of the worst economic and financial crises in (2020). With the pandemic-related worldwide closure measures and the subsequent fall of oil prices, which fell to less than \$10 per barrel, the Iraqi government could no longer pay the wages of those employed in the public sector. This is a result of the rentier nature of the Iraqi economy, where oil accounts for more than (90%) of the general budget despite contributing just (60%) of the GDP (gross domestic product). The Central Bank of Iraq's decision to lower the exchange rate in a statement on 12/19/2020 caused the value of the Iraqi dinar relative to the US dollar to drop by (22.7%), from (1190) dinars to 1 dollar to (1460) dinars to 1 dollar. This was the first of a number of solutions that the Iraqi government turned to in order to achieve a set of goals that we will explain in this research paper. This paper assesses the efficiency of the policy of reducing the exchange rate



in achieving the desired goals after two years of that procedure, and then to study the economic and effects resulting from the devaluation of the exchange rate.

### **Background:**

**First:** The justifications for reducing the exchange rate of the Iraqi dinar

Any economic reform process must have a set of explanations for its actions that work to address the imbalance that the local economy experiences. This also holds true for the policy of decreasing the exchange rate that was outlined in the White Paper. We shall examine the factors that led to the depreciation of the exchange rate, which are as follows:

#### **1. Reducing foreign currency sales**

Iraq takes advantage of the currency auction to finance its international trade activities and intervene in the foreign exchange market. A process used by several central banks and one of the tools used for intervening in the foreign exchange market is known as a currency auction to stabilize the exchange rate and fill the gap in local demand for foreign currency.<sup>(1)</sup> The foreign currency auction can function in a number of ways, including the two-way currency auction, in which the central bank intervenes in the exchange market by directly purchasing and selling in a ratio that satisfies the defined objective while maintaining exchange rate stability. The Iraqi Central Bank employs the second method, sometimes known as the one-way currency auction “currency auction” and in this case the central bank intervenes in the exchange market as a seller. The central bank intervention in this case is a one-way intervention, to meet the local demand for foreign currency for the

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(1) Cuevas, Con Alfredo and Werner Alejandro M. (2001) “The Mexican Experience with a Floating Exchange-Rate Regime” IMF work paper, Washington DC.

purpose of import. Therefore, the government works to monopolize the sources of foreign currency supply, and this applies largely to all rentier countries that suffer from an imbalance in the economic structure and have deficiencies in the aspect of local production. In order to achieve this, it relies on imports from other countries, and the central bank then sells foreign currency to the private sector through commercial banks at a price that has been stated in advance. Since it is the exclusive source of foreign currency, the central bank has the most influence over changes in exchange rates, and as a result, the currency auction becomes the foreign exchange market.<sup>(2)</sup>

**Figure (1): One- Way Currency Auction Mechanism**



In Iraq, government earnings from the sale of oil in international markets are deposited into the Ministry of Finance’s account, which is managed by the Iraqi Central Bank. After deducting (5%) for war reparations,<sup>(3)</sup> it is split into two halves. The first sum to cover government imports directly and other government requirements. The second sum is sold to the Central Bank of Iraq to cover private sector financing operations through the auction, and remaining amount is deposited in the foreign currency reserve with the Central Bank of Iraq. Table (1) shows the central bank’s purchases of foreign currency from the Ministry of Finance, and the central bank’s sales in the currency auction, whether they are transfers or cash sales, and the difference between the total sales and purchases represents the addition or withdrawal of foreign reserves.

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(2) Al-Alaq, Ali Mohsen, (2015), Foreign Reserves and the Currency Auction in the Central Bank of Iraq, published research, Central Bank of Iraq

(3) Salih, Mazhar Muhammad, (2012), Monetary Policy for Iraq, Building Macroeconomic Stability, and Preserving a Sound Financial System, First Edition, House of Wisdom, Baghdad.

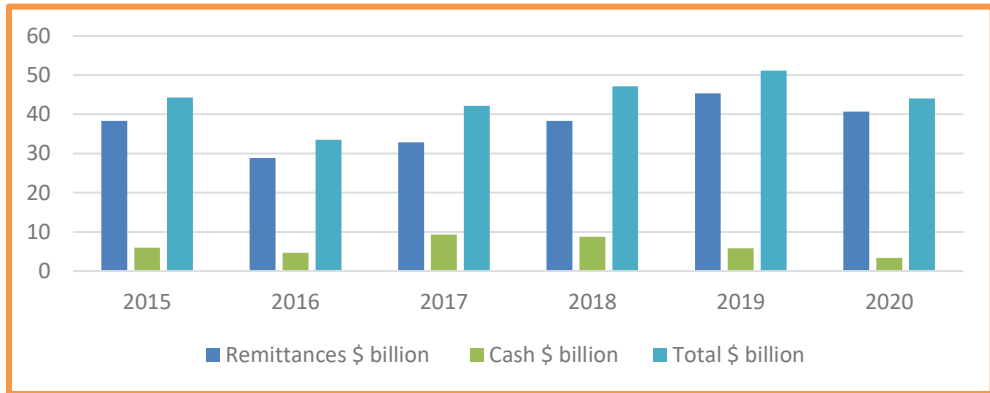
As shown in the table, the amount of foreign currency purchased by the Central Bank of Iraq from the Ministry of Finance decreased from (\$32.450) billion in (2015) to (\$30.730) billion in (2020) due to the decline in oil prices on the international markets. The average amount of foreign currency purchased by the Central Bank from the Ministry of Finance for the period (2015–2020) was (\$40.044) billion. On the sales side, however, we see they were greater during the same period than the Central Bank's purchases.

We also note that sales are divided into remittances, which constitute the majority of sales and cash purchases. The average amount of remittances from (2015) to (2020) was (\$37.440) billion, and these remittances were made to pay for imports. Dealing with cash still makes up a share of all transactions, as the average cash sale in the currency auction over that time surpassed \$6.372 billion (2015–2020), as shown in table (1), since it directly affects how much of the Central Bank of Iraq's foreign reserves are being reduced.

**Table (1): Central Bank's Currency Exchange (2015–2020) (\$ billion)**

Year	Finance Ministry	Remittances	Cash	total sales	Difference	Foreign Reserves
2015	32.450	38.315	5.989	44.304	-11.854	52.782
2016	25.653	28.834	4.690	33.524	-7.871	45.011
2017	40.355	32.849	9.352	42.200	-1.845	49.046
2018	52.229	38.345	8.788	47.133	5.096	64.269
2019	58.851	45.351	5.774	51.125	7.726	67.572
2020	30.730	40.711	3.369	44.080	-13.350	٦٥.٧٩٢

**Figure (2): Central Bank sales of foreign currency**



## 2. Exports Encouragement and Imports Restrictions

The stated primary goal of changing the exchange rate is to encourage exports and restrict imports, and this, in turn, leads to stabilizing the balance of payments. This goal is mainly related to how the deficit in the balance of payments and the general budget occurs as a result of irrational policies in the financial and monetary sectors. As a result, several countries devalue their native currencies to rebalance the trade balance, which is perpetually affected by a structural imbalance. Residents pay higher prices for imported items as a result of the local currency's devaluation, which is intended to increase exports. On the other hand, foreigners may now purchase exports at lower prices, which raises the number of exports. This will have a favorable impact on the trade balance. The commodity structure of the Iraqi trade balance has to be examined in order to determine the basis for this claim.

## Examining the commodities structure of imports in Iraq

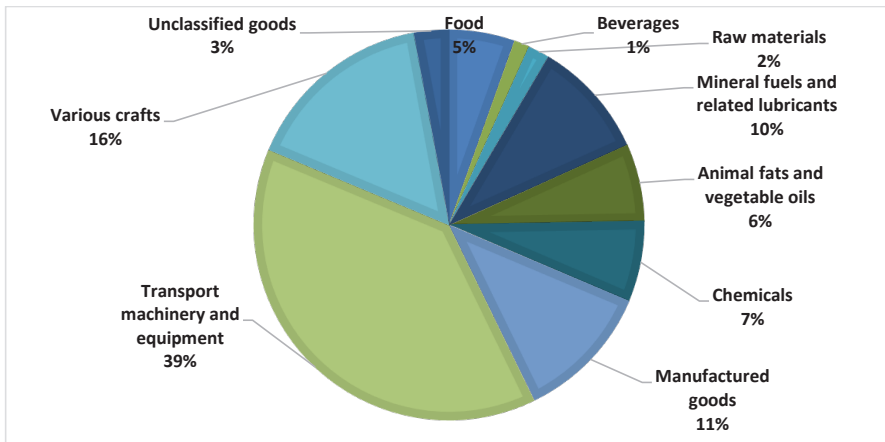
Iraq relies heavily on imports from the international market. This is due to the inflexibility of the productive apparatus to cover the local demand for goods and services. The imports' structure in Iraq is diverse. Table (2) shows that the machinery and equipment items come first in terms of imports volume, where the total import of machinery and equipment reached (\$104.790) billion. The value of miscellaneous manufactured goods totaled (\$43.005) billion over the year (2015–2020), placing it in second position and accounting for one billion dollars during the period (2015–2020), or (38.5%) of total imports for the period (2015–2020). The table below shows that imports fluctuate across the study period (2015–2020), accounting for (15.8%) of all imports over that time period. As we can see from the fact that total imports started to rise after the year (2017) and that conditions in Iraq have improved, imports reached (\$58.138) billion in the year (2019), which is the highest amount during the period of study. This is according to the economic, security, and political conditions the country is experiencing.

**Table (2): Commodities structure import (\$ billions)**

Item type/year	2015	2016	2017	2018	2019	2020	Total
Food	2.592	1.851	2.045	2.470	3.139	2.600	14.697
Beverages	0.624	0.446	0.492	0.595	0.756	0.626	3.539
Raw materials	0.864	0.617	0.682	0.823	1.046	0.867	4.899
Mineral fuels and related lubricants	4.705	3.359	3.711	4.482	5.698	4.718	26.673
Animal fats and vegetable oils	3.073	2.194	2.423	2.927	3.721	3.082	17.420
Chemicals	3.217	2.217	2.537	3.064	3.895	3.226	18.156
manufactured goods	5.473	3.908	4.317	5.214	6.628	5.489	31.029

Item type/year	2015	2016	2017	2018	2019	2020	Total
Transport machinery and equipment	18.484	13.198	14.578	17.609	22.383	18.538	104.790
Various manufactures	7.586	5.416	5.983	7.226	9.186	7.608	43.005
Unclassified Goods	1.392	0.994	1.098	1.326	1.686	1.396	7.892
total imports	48.010	34.280	37.866	45.736	58.138	48.150	272.180

**Figure (3) The relative importance of the import structure**



### Examining the commodities structure of exports in Iraq

Iraq’s production sector is incredibly fragile. The commodity structure of Iraqi exports, which has a significant structural imbalance in favor of oil exports, reflects the one-sided nature of the Iraqi economy. The dominance of fuels and oils was connected to the commodity structure of Iraqi exports, as shown in Table (3). (\$363 230) billion worth of petroleum and associated oils were exported in total between (2015) and (2020), accounting for (99.6%) of all Iraqi exports. This means that the Iraqi economy is always vulnerable to foreign shocks relating to the world energy market. It amplifies the economic crisis and the challenges of recovering from such shocks.

3. Assisting the government in paying the salaries of public sector employees

The budget of the government is severely hampered by the public sector salaries. This resulted from the public sector's expansion from (32,651,615) IQD billion in the year (2015) to (40,037,297) IQD billion in the year (2020). Table (4) shows the growth of the Employees' Compensation in the general budget, with a growth rate of (22.6%) during the years (2015–2020). Employee compensation as a percentage of real total revenues increased from (45%) in (2015) to (63.30%) in (2020). While the proportion of total real expenditures to employee compensation has increased from (39.4%) in (2015) to (52.6%) in (2020), as seen in Figure (4).

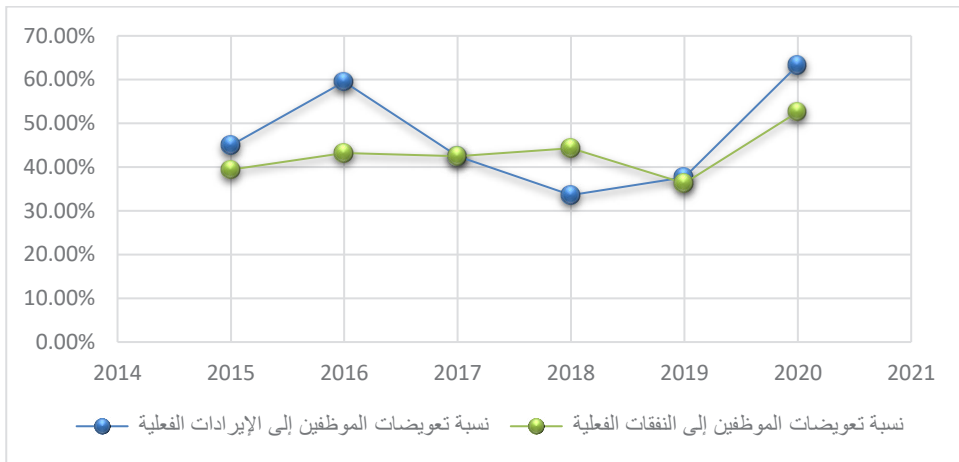
**Table (3): Commodity structure of exports for (2015–20) in ((\$ million))**

Item type/year	2015	2016	2017	2018	2019	2020	Total
Food and living animals	144	114	28	6	16	12	320
Beverages and Tobacco	0	0	0	0	0	0	0
Non-food raw materials except fuel	77	61	13	16	29	33	229
Mineral fuels and related lubricants	50,943	40,453	57,489	86,259	81,412	46,674	363,230
Animal fats and vegetable oils	0	0	0	0	0	0	0
Chemicals	5	4	0	0	0	0	9
manufactured goods	26	21	1	74	128	92	342
Transport machinery and equipment	123	98	28	5	0	0	254
Various manufactures	0	0	0	0	0	0	0
Unclassified Goods	10	8	0	0	0	0	18
total imports	51,328	40,759	57,559	86,360	81,585	46,811	364,402

**Table (4): Salaries growth of public sector (IQD billion)**

Year	(1) actual revenue	(2) actual expenses	(3) surplus or deficit	(4) Employee Compensation	(4) 4/1 %	(5) 4/2 %
2015	72,546,345	82,813,611	-10,267,266	32,651,615	45.0%	39.4%
2016	53,413,446	73,571,003	-20,157,557	31,833,403	59.5%	43.2%
2017	77,422,173	75,490,115	1,932,058	32,866,519	42.5%	42.5%
2018	106,569,834	80,873,189	25,696,645	35,835,519	33.6%	44.3%
2019	107,566,995	111,723,523	-4,156,528	40,633,563	37.7%	36.3%
2020	63,199,689	76,082,443	-12,882,754	40,037,297	63.3%	52.6%

**Figure (4): The ratio of employee compensation for (2015–2020)**





**Second:** The economic effects resulting from the devaluation of the exchange rate.

1. In (2021), the Central Bank of Iraq’s dollar sales declined to (\$37.094) billion, a (15.8%) decline from the previous year (2020), when it totaled (\$44.080) billion. However, this drop in the dollar sales of the Iraqi Central Bank did not endure very long. The dollar sales of the Central Bank of Iraq had a significant increase in the first quarter of 2022, rising to (\$11.7) billion from (\$3.1) billion, or a growth rate of (278.1%), in that period.<sup>(4)</sup> This shows the limitations of the exchange rate policy’s efforts to stop the smuggling of U.S dollars overseas and lower the cost of imports. As a result, it is difficult to effectively safeguard local goods and aid the country’s private sector, whose suffering has gotten worse. due to the expensive costs of imported supplies.

2. Iraq’s total imports in 2021 was (\$40.736) billion, a reduction of (15.3%) from the previous year (2020). The value of Iraqi exports, on the other hand, climbed to reach (\$72.882) billion in the year (2021). With a 55.6% increase over the prior year (2020). The increase in oil prices on the world market is the reason for this increase. Despite the fact that oil exports make up the majority of all exports from Iraq, other export commodities improved in (2021). Exports of consumables and living animals were (\$22) billion, an increase of (83.3%) over the previous year (2020).

Additionally, with a growth rate of (58.6%), exports of manufactured products increased to (146\$) billion in the year (2021). Since oil exports account for the majority of Iraqi exports, improving the competitiveness of domestic products does not solely depend on devaluating the currency; rather, it requires strict application of customs tariffs, the activation of laws protecting producers and consumers, and efforts to

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(4) Central Bank of Iraq, Economic Report for the first quarter 2022, Department of Statistics and Research - Department of Macroeconomics, Baghdad, 2022.

stop neighboring countries' practice of commodity dumping toward Iraq. It should be highlighted that the competitiveness of Iraqi industrial goods is influenced by a variety of factors in addition to price, all of which must be present while implementing the strategy of devaluation.

3. At the end of the year (2021), the foreign reserves in the Central Bank of Iraq reached (\$64) billion (2021). With an increase of (18.5%) over the prior year, when the foreign reserves in the Central Bank of Iraq were (\$54) billion. The growth in foreign exchange reserves held by the Central Bank of Iraq isn't just attributable to the devaluation, but also to the rise in oil revenues. This is due to the high pricing of oil on the global markets.

4. The increase in inflation rates. Iraq's inflation rate climbed from (0.6%) in (2020) to (6%) in (2021). As a result of the local currency's devaluation relative to the US dollar, price levels have significantly increased, which has decreased individuals' real incomes. We see the evolution of the medicine price index from (131.2) in (2020) to (147.3) in (2021) using data from the Central Bank of Iraq. The price index for medications has changed from (131.2) in (2020) to (147.3) in (2020), according to statistics from the Central Bank of Iraq (2021). While the price index for various goods and services has increased from (115.2) in (2020) to (129.0) in (2021).<sup>(5)</sup> This shows that the effect of changing the exchange rate on the real incomes of individuals has increased at a rate that is nearly equal to the rate at which the exchange rate has decreased. Due to the fragility and constraints of the local production sector, the majority of the goods consumed in Iraq are imported.

5. As a result of the change in the exchange rate, public revenues in the federal budget increased from (IQD 63,199.689) billion in (2020) to (IQD 109,081.464) Billion in (2022), and from here it is clear that the

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(5) Central Bank of Iraq, Annual Statistical Bulletin 2021, Department of Statistics and Research, Baghdad, 2021.

Iraqi government was the biggest winner from the process of changing the exchange rate. It saved between IQD (20,000–30,000) billion; As a result of the decrease in the real value of the individuals’ real incomes and retirees; Which positively affected the operational and investment budget in the general budget. The investment expenditures amounted to (IQD 29,136870) billion in (2021).

Thus, it can be claimed that the alteration in the exchange rate was not timely even if it emphasizes that the Iraqi dinar is valued at a greater value than its true value. The COVID-19 and the reduction in oil prices, which reduced the country’s oil earnings, coincided with it, causing a double crisis for the Iraqi economy. A moment when the Iraqi economy was not experiencing a crisis would have been preferable for the implementation of such a strategy. Additionally, it is preferable to put the exchange change policy into effect when there are financial surpluses. The significant movement in the exchange rate, sometimes referred to as the “shock” approach in the literature of economics. A gradual implementation of the exchange rate adjustment program would have been preferable, since this approach has had a significant negative impact on vulnerable groups in society with no meaningful social buffers in place.

## **Policy Alternatives: The options available to improve the efficiency of public finances in a state of uncertainty**

In fact, from their perspective, the government and parliament's inclination toward the policy of reducing the value of the Iraqi dinar was the simplest way to address the overall budget deficit caused by lax oversight of public expenditures and a failure to maximize non-oil revenue. At a time when it was important to address the imbalance and poor financial discipline, redesign the state's general budget to make it more responsive to macroeconomic challenges, take into account the demands of fiscal and monetary policies, take advantage of the many opportunities to increase the state's non-oil revenues, and reevaluate the structure of state institutions. And in light of the need to reexamine the design of state institutions that experience severe flaw and corruption.

It must be noted that the challenges facing the management of public finances in the oil-exporting countries differ from one country to another, in terms of the fluctuation of the main source of revenues. Hence, the medium-term time horizon acquires great importance in preventing annual revenue fluctuations from turning into fluctuations in public expenditures. It can destabilize the economy and reduce the quality of government spending, if it is necessary to take into account the benefit from the periods of financial recovery at the present time, that is, benefit from financial surpluses in the face of pressures on public spending. These frameworks can help protect public expenditures and preserve the placement of the strategic focus of policy plans during times of economic recession. Therefore, the development of medium-term spending plans and adherence to them increases the chances that long-term fiscal goals will not be exposed to the risks of short-term spending pressures.

It is crucial to consider a representative sample of oil-producing

countries’ experiences. Table (5) shows the successes in implementing financial regulations and medium-term budgetary frameworks.

**Table (5): Countries’ experiences in fiscal rules and budget frameworks**

Country	Program	Implementation year	Purpose
Chile Mexico	Structural credit rule	2001	The relevant framework states that each new government must propose its structural balance aim for its term within 90 days of assuming office, and that the draft budget must include a medium-term (four-year) prediction based on medium-term estimates for GDP and commodity prices.
	retirement reserves fund	2016	Covering part of the pension expenses.
Mongolia	Financial responsibility law	2006	It aims that growth in structural current spending (primary current spending minus spending governed by automatic rules such as pensions and electricity subsidies) may not be higher than potential growth (estimated by the Minister of Finance).
Norway	Financial Stability Act	2013	Setting an upper limit for the structural deficit in the public budget at 2% of GDP, and setting an upper limit for expenditure growth based on the growth of non-mineral GDP.
	stabilization fund	2013	When mineral revenues are higher than structural mineral revenues, the difference should be placed in a stabilization fund, and when they are lower, the resources of the fund may be used to cover the deficit.

Country	Program	Implementation year	Purpose
Chile	Public finance framework for managing oil revenues	2001	For the purpose of achieving the four goals: macroeconomic stability, continuity of public financial conditions, intergenerational justice, and efficient use of resources. It was based on the following pillars: a structural base for public finances, and the establishment of a sovereign wealth fund.
Mexico	Fiscal framework for managing oil and gas	2013	Oil revenues are calculated according to the rule based on oil prices over the previous ten years, and when prices are higher than the reference price, the additional revenues are saved in the oil reserve fund, and when the resources of the reserve fund reach 7% of GDP, 50% of the allocations are transferred Additional 50% to the National Wealth Fund, and 50% to infrastructure projects.

Iraq’s reliance on oil revenue presents special difficulties for public fiscal policy in terms of how to handle changes in the country’s primary source of income. A series of actions must be taken. to deal with these issues in the future and to learn from the experiences of countries that produce oil on how to implement the necessary steps. Adopting a medium-term expenditure framework is one of the steps that must be considered. This will enhance spending planning and increase its degree of efficiency, in addition to strict public finance regulations that aim to achieve fiscal discipline. These regulations are (the rule of structural public balances, or the setting of maximum spending limits, or a combination of both). These fiscal regulations will keep public spending distinct from changes in government revenue from oil.

## Conclusion

We discover that Iraq has averted a significant financial shock and that the policy of devaluing the currency has accomplished the planned financial aims. Other objectives, including improving the competitiveness of domestic industry, have not yet been met because it requires a set of conditions that are not met yet. Although the primary objective was financial, it was expected that these criteria would be met after the process of reducing the exchange rate had begun. Therefore, if the conditions necessary to support the process of dropping the exchange rate are satisfied, the economic consequences may be more noticeable in the medium or long term rather than in the near term.

And as a result of the requirement of returning the exchange rate to its prior value and the political shift the country has undergone over the past several months, concerns in the political or social environment have become louder. Therefore, it is important to stress the risk of reversing the devaluation to prior levels because doing so will cause the collapse of trust in local currency. The flexibility of prices is high when they rise, but it is low when they fall, so when the exchange rate returns to its prior level, prices won't drop at the same pace at which they increased. Additionally, adopting such a step would welcome currency speculators. As a result, trust in the nation's banking and financial system is undermined. The existing exchange rate must be maintained while a series of processes based on abundant financial resources are implemented in addition to the profits made by altering the exchange rate. These procedures should include:

1. Increasing the allocations and preparation of those covered by the social welfare network, in addition to working to develop the social welfare system.

2. Achieving food security, provide all items of the ration card, and ensure that it reaches those who are eligible, especially after announcing the existence of (4.5) million people below the poverty level line.

3. Finding other alternatives; To maximize public revenues, such as controlling border crossings, and collecting tax money incurred by telecommunications companies and other companies.

4. Public sector downsizing and restructuring it, while activating the private sector and creating new job opportunities; To absorb the high rates of unemployment, through diversifying the economy. Moreover, avoid relying solely on the oil industry to overcome the phenomena of economic unilateralism.

5. Supporting and reviving the industrial sector, particularly the manufacturing sector, in order to improve the flexibility of the Iraqi production system as well as its resilience to economic shocks and fluctuations. This is done by utilizing the financial surpluses brought about by the exchange rate fluctuation, which are then used to fund investment spending in the industrial sector.



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# **Developing auditing institutions in Iraq to be compatible with the prerequisite of the White Paper (Federal Board of Supreme Audit as a model)**

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**Raafat Nabel AlBaldawi \***

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## **Executive Summary**

In many countries throughout the world, the authorities in charge of auditing public funds are among the most significant institutions due to its function in protecting public funds, enforcing laws, rules, and directives, and assessing institutions’ performance.

This paper discusses the reality of auditing public funds, the way the auditing system works in Iraq, and the roles of auditing institutions, with a focus on the Federal Board of Supreme Audit (FBSA); in order to present solutions that help this institution to achieve its task of preserving public funds in light of its applicable law and other applicable provisions.

The paper also clarifies the supervision role of the FBSA by issuing (3173) auditing reports within one year on various topics and tasks, as well as the role of the Internal Oversight Services (IOS) divisions running in governmental entities. It also discusses the issue of pre and post-disbursement audits, referencing the recent issue of tax directorate theft, known as the heist of the century, as an illustration of the role of each division, based on the following question: Does the defect lie in the regulatory system, or in the supervisory procedures, or in both?

This paper presents the following proposals: granting FBSA the authority to pre-audit the disbursement of large sums, and to grant the IOS divisions greater independence in exercising their role; in order

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to link it with the Board external oversight, training and development programs in supervision methods, especially the oversight based on initiative, risks and relative importance through cooperation with international bodies. In addition to accelerating the digitalization of the financial and banking sector, which is considered the main obstacle to the work of monitoring some critical accounts in Iraq.

The paper also reaches the following conclusions, the most important of which is that the auditing authority in its current form is unable to confront the forces of corruption to preserve public funds, the development of corruption mechanisms and the multiplicity of its sources. The researcher recommends expanding the powers of FBSA with regard to prior supervision and setting criteria for the appointment of senior officials, and granting greater independence to the IOS divisions, taking the State Audit Bureau of Kuwait (SAB) experience as a model.

## **Introduction**

The white paper announced by the Iraqi government at the end of 2020 came with many goals, and one of the most important goals is the development of oversight authorities of all types. Since this paper represents the latest and most supported roadmap from international institutions towards achieving various economic and administrative reforms, we will discuss and mature ideas for developing the work of auditing institutions.

The oversight system in Iraq consists of four components. The first is the Council of Representatives, whose oversight is one of its essential functions according to the Iraqi constitution in force.<sup>(1)</sup> It oversees over all State institutions. The second party is FBSA, whose function is regulated by Law No. (31) of (2011), as amended,

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(1) The Iraqi constitution for the year (2005) Article-61 Second.

mainly in charge of Monitoring public funds. The third party is the Federal Integrity Commission which is regulated by the amended Law No. (30) of (2011), whose primary role is preventing and facing corruption and case follow-up. Fourth is the IOS divisions operating in the ministries of the state (internal auditors) that are technically linked to the Ministry of Finance and administratively to the institutions to which they belong and whose main objective is Auditing the financial transactions of all institutions before initiating any financial action.

Despite the multiplicity of oversight institutions, financial and administrative corruption has been and continues to drain out the country's resources, and constitutes one of the significant challenges facing the work of the Iraqi state and successive governments. Only gradual and accumulated change is the way to achieve reforms, and given the difficulty of comprehensive change in light of the expansion of the arms of corruption and the evolution of its methods , and the legal and political protection that is provided, we will try discussing the development of the work of FBSA; being one of the most important oversight authorities in Iraq, and the main arm for supervising the spending and collection of public money.

This paper aims to discuss some of the problems facing this institution work, and to present a set of solutions that can be implemented in the short and medium term, through which we seek to try to intensify supervision, prevent and neutralize cases of financial and administrative corruption by increasing efficiency In the work of the institution, the subject of the paper, and the development of its methods.

## FBSA oversight of public funds

The provisions of Article (5) of FBSA Law in force indicated that “the Board is a financially and administratively independent body that has a legal personality and is considered the highest supervisory and financial body, linked to the Council of Representatives,”<sup>(2)</sup> as stated in Article (3) of the law indicated that his role is to by “monitoring and auditing money wherever it is located, as well as monitoring the work of the entities subject to its oversight and auditing throughout Iraq.” Within this role, FBSA issued (3173) a variety of reports during the year (2021) on various Ministries and entities subject to its supervision, according to the following table:<sup>(3)</sup>

**Table (1): Number of reports issued by FBSA for (2021)**

Item	Numbers
Data	738
Investment Budget	46
Business Results	463
Periodic Reports	113
Performance Appraisal	3
Special Tasks	192
Inspection Reports	101
Contracts	340
Other tasks	1160
Specialized Reports	17
Total	3173

The issuance of this huge number of reports and the thousands of violations they contain of the laws, regulations, and instructions in force, despite their different importance and impact, does not lead to complacency or failure in performance. However, they indicate that

(2). Federal Board of Supreme Audit Law No. (31) of 2011 (amended).

(3). The first and second half reports for the year 2021 issued by the Federal Board of Supreme Audit and published on its website..

there are violations that are legally and politically protected and may not be affected by the role of the Auditing Board.

The issue of deposit tax theft amounting to about (3,700) IQD billion recently led to a wide discussion and debate in the scientific, professional and public circles about the effectiveness of the various financial auditing authorities and the prudence of their procedures.

This discussion and controversy raise several questions, the most important of which is whether the real problem lies in the measures taken, the system in place, or in both? As procedures, FBSA sees in its statement issued on (20/10/2022)<sup>(4)</sup> that its audit procedures begin after the disbursement, as the pre-disbursement supervision is the task of the IOS divisions within the institutions. This vision is supported by the provisions of Article (6-First) of its law in force, which indicates that the Board’s mission is to “monitor and audit the accounts of the activities of the institutions subject to supervision and verify the soundness of disposition of public funds.” Although there is no explicit provision within the law confirming that subsequent supervision rather than prior one, the international accounting norms also support the former Minister of Finance (Dr. Ali Abdul Amir Allawi) opinion that it takes on the role of the external, not the internal audit.

On the other hand, Dr. Allawi sees in his statement issued on (19/10/2022) on the same subject,<sup>(5)</sup> that the withdrawal of FBSA, and limiting the process of auditing the transactions of returning the amounts of tax deposits to the General Authority for Taxes, as requested by the Parliamentary Finance Committee in the House of Representatives, led to an increase in the possibility of fraud in the

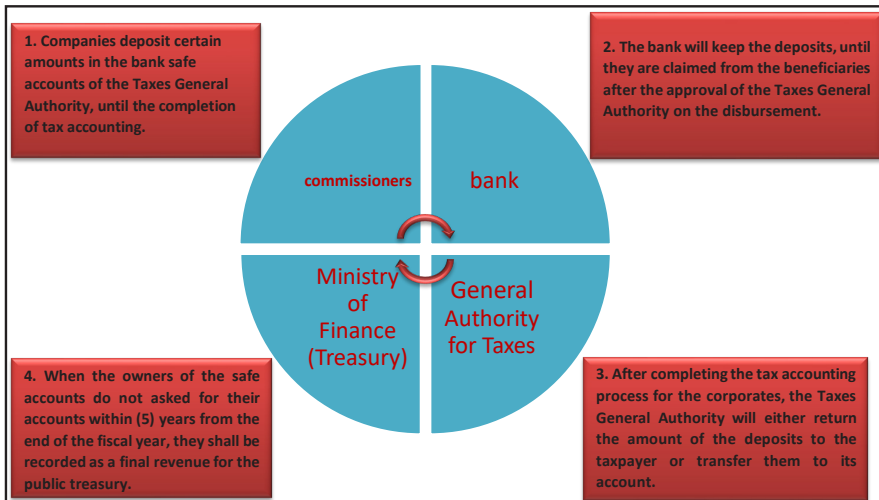
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(4)The statement issued by the Federal Board of Supreme Audit regarding tax deposits published on its official website on 10/20/2022.

(5) The statement issued by the former Minister of Finance (Dr. Ali Abdul Amir Allawi), published in the media on 19/10/2022.

tax directorate. He added however, the internal procedures of the tax authority, which was in charge of verifying the legality of deposits withdrawal, should have stopped direct fraud.” Dr. Allawi adds, “We would like to point out the failure of some general managers and state employees to comply with the regulations and laws governing their duties, their failure to follow ministerial orders and the minister’s directives. Their concealment of information and the prevention of audit departments from carrying out their role and reporting.” Allawi referenced both the case of the Ishtar Company contract, which was signed, despite his rejection, and the tax directorates that issued (247) deposit checks, despite the Minister of Finance’s explicit directive to halt the issuance of these checks. All of this is due to the loyalty of employees to influential political parties that earn money from the whales of corruption and provide immunity to the corrupt.

**Figure (1): The parties concerned with tax deposits**



The aforementioned statements remarkably illustrate that both the system and the traditional oversight procedures have not been able to stop the waste and theft of public funds. This means that we are facing



corruption that exceeds the development of supervision authorities.

In recent years, several administrations have made a number of measures to fight corruption, the most important of which was the establishment of councils and committees to do so. Following a surge of protests against corruption and calls for holding the corrupt accountable, the Joint Council for Combating Corruption was founded in the years (2007) and (2015), respectively. The later was re-branded by the former prime minister (Haider Al-Abadi) as the Supreme Council for Combating Corruption.<sup>(6)</sup> However, this effort had little impact. The council was reconstituted in (2018) during the assumption of Mr. Former Prime Minister Mr. (Mustafa Al-Kadhimi) in (2020) a committee called (the committee specialized in corruption cases and important crimes), known as (the Abu Ragheef Committee).<sup>(7)</sup> Despite the fact that the theft of tax deposits took place while the committee was in session, but it was still far from addressing the scope of the issue. The current prime minister, Mr. Muhammad Shayaa Al-Sudani, established the Higher Commission for Combating Corruption and its accompanying staff to assist the Federal Integrity Commission in carrying out the same tasks as the earlier committees and councils. Insofar as they were labeled great aims that resulted in tiny actions, the creation of all these councils, committees, and bodies did not result in bettering procedures, evaluating legislation, or altering the oversight structure.

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(6) Ghazwan Rafiq Awaid, Supreme Council for Combating Corruption, an oriental vision, a paper published on the website of Al-Bayan Center for Studies and Planning

(7) On May 2, 2022, the Federal Supreme Court issued a decision stating that “Board regulation No. (29) of 2020, which includes the formation of a permanent committee to investigate corruption cases and important crimes, is not valid.” The statement issued by the court stated that the cancellation decision came; As a result of its violation of the provisions of the Constitution that guarantee the protection of human freedom and dignity and the principle of separation of powers and the independence of the judiciary.

This system-adopted corruption requires a quiet conversation about rethinking how systems operate, improving procedures, and taking the initiative in a way that ensures the safety of public funds from theft and loss, away from the major headlines and slogans carried by previous experiences, regardless of their good intention.

### **Policy alternatives**

The quest for unconventional methods and alternatives is prompted by the ineffectiveness of the established processes used by the Iraqi audit system. These possibilities have some bearing on the audit authorities themselves, while others have to do with the technology advancement of the organizations and entities that are being overseen. Here are some suggested actions:

**First:** Authorizing FBSA pre-disbursement auditing.

The audit board was previously tasked with the auditing of pre-disbursement of tax deposits during the government of Mr. Al-Abadi (2014-2018), and the Board was instructed at the time to audit all transactions. However, as was mentioned above, the audit board's role is limited to post-disbursement control. The Board has accepted this assignment and started working on its auditing responsibilities right away, i.e. returning the amounts of customs and tax deposits before they are dispersed and subject to the amounts previously dispensed from the date (1/1/2015). The Board's acceptance of the duties shows that it does not object to this kind of auditing, even though if the task assigned comes from higher authorities, i.e. the House of Representatives, which according to Article 5 of the current Board Law stipulates that the Board is affiliated with it.

The Board was a member to the prior audit, but that does not imply that the Board is now acting in the capacity of internal auditors. Hence, this mandate is not comprehensive nor thorough. As an example, the

Board undertaking a pre-disbursement auditing of sums over (1) billion dinars,<sup>(8)</sup> including auditing contracts and investments with a sum exceeding (15) billion dinars, should be included.

**Second:** Advance control of appointment procedures with regard to higher and special degrees

Setting special requirements for holding high positions in state administration and giving the Board the power to oversee their implementation will exclude many people who are unqualified to do so. The access of some non-professionals to sensitive positions, the majority of them partisans and profiteers, propels the wheel of corruption forward.

**Third:** Granting greater independence to IOS divisions to support the Board of Audit procedures

The Federal Financial Management Law No. (6) for the year (2019) stated that the provisions of Article (31-Third) required that “if a dispute arises between the person ordering the payment and the employee responsible for the payment, it shall be settled by a written order issued by the person ordering the payment, and the oversight and internal audit formations shall inform FBSA.” The two parties’ views within a maximum of fifteen (15) days of the exchange order’s date.<sup>(9)</sup> The Financial Management and Public Debt Law No. (95) for the year (2004) had this provision, but it was never implemented and was therefore a dead letter. Giving this type of control some independence could encourage its employees to communicate with the higher control authorities and report violations before they happen without

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(8) The aforementioned amounts are suggested approximate amounts, and subjecting the proposal to in-depth study by the competent authorities will determine the feasibility of approving, increasing or decreasing these amounts.

(9) Financial Management Law No. (6) of 2019 published in the Iraqi Gazette, Issue / 4550 issued on 5/8/2019.

fear or anxiety, as if the IOS division has complete independence in their official correspondence with the higher control authorities. This is because IOS are subordinate to the administrative unit themselves. Additionally, the supreme president's right to order disciplinary sanctions as a result of internal disagreements in the course of their job has been removed, and this jurisdiction has been transferred to a higher authority.

**Fourth:** International professional support with regard to procedures development

The majority of international organizations' collaboration concentrates on initiatives for spending and collecting money rather than putting proper priority to managing such funds. The supervisory staff desperately needs ongoing training and development, keeping up with the most recent advancements in the field of overseeing public funds, as well as familiarizing themselves with international experiences in order to develop its control procedures, particularly those proactive measures that stop violations before they happen.

**Fifth:** Implementation of electronic systems to support control procedures

The major challenges that face the FBSA's employees' are the outdated nature of the banking and financial sector's systems and the challenge of tracking down money transfers. Due to the reliance on paper records, the additional time and work required by non-electronic systems that are frequently unavailable, the lack of workers, and the numerous tasks that must be completed by them.

The availability of electronic systems enables the oversight bodies to access any suspicious withdrawals, such as those that occurred in the tax deposits account without the knowledge of any of the oversight bodies, including the Central Bank of Iraq, and makes it simpler for

them to track the movement of money to the entities that are under their supervision.

### **The feasibility of implementing alternatives**

Many countries have allocated the responsibility of maintaining prior auditing over the financial conduct of the entities under supervision. The State Audit Bureau of Kuwait (SAB) Law No. 30 of 1960 stated in its provisions found in Article (7) that “the audit of the Bureau is prior and subsequent in line with the terms of this law.”<sup>(10)</sup> Additionally, Article (13) of the same law states that “if the value of one tender is twenty thousand dinars or more,” “tenders connected to supplies and public works are subject to the previous control of the Bureau.” This signifies that FBSA’s experience of prior control of public is an internationally adopted method. It is not a recent experience for the supreme audit bodies, and its application represents support for the country in preserving its public funds.

Because of the extension of its arms and its penetration into the body of governmental institutions, some political parties are unable to benefit from and obtain privileges in a legal manner. This is especially true of those parties that own economic bodies that receive benefits from state ministries and obtain numerous privileges, some of which may be covered by legal means. Because all financial transactions, regardless of their size, must pass through it, the independence of IOS gives it strength and professional authority within the entities subject to auditing. It also prevents it from being subject to pressures and directives from upper authorities that are disguised under the pretext of “necessary action” and “and according to the applicable regulations.” This is the strategy used by most CEOs; They then push the exchange and IOS officials to transmit orders verbally in a manner

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(10) State Audit Bureau of Kuwait Law No. (30) of 1960, which is published on the official website of the Bureau.

that breaches the regulations and instructions in order to provide them legal protection; As a result, the managers are legally protected even though they gave illegal and ambiguous verbal instructions, and the IOS's personnel is held completely accountable.

Multiple, independent oversight authorities are not necessarily fully competent or in charge of public finances. The researcher's own experience has shown that the supervision team urgently needs ongoing training and development. Additionally, they must stay up to date on any advancements in the field of initiative-based supervision and unexpected inspection, understanding of electronic fraud techniques, risky bank accounts, potential audits, and others. The financial and banking sector's automation also offers a great deal of flexibility in applying audit procedures and tracking the movement of funds, as well as the ability to impose restrictions on using paper money, particularly with regard to large sums of money used for investments, real estate purchases, etc., which makes it easier to find the sources of those funds and track them down.

## **Conclusions**

1. Due to the expansion of corruption methods and the variety of its sources, the oversight system is no longer able to combat the forces of corruption in order to protect public funds.
2. Like the executive staff, the oversight staff need ongoing training and development. maintain knowledge of current global advancements and audits and monitoring techniques.
3. The lack of adoption of electronic systems in the financial and banking sectors still represents the main stumbling block in the application of control procedures on the movement of cash and the circulation, spending and collection of public funds.

## **Recommendations**

1. Expanding the powers of FBSA with regard to prior control, criteria for appointing senior officials, and granting greater independence to the IOS departments, while taking Kuwaiti experience as a model.
2. Increasing international support in the field of training and granting FBSA an adequate budget for training.
3. The Ministry of Finance should expedite the implementation and approval of possible regulations in the financial and banking sectors; In order for FBSA and other oversight authorities to carry out their tasks according to sound mechanisms and methods.

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3. Federal Financial Management Law No. (6) of 2019.
4. State Audit Bureau of Kuwait Law No. (30) of 1960.
5. The first half report for the year 2021 issued by Federal Board of Supreme Audit.
6. The report for the second half of the year 2021 issued by Federal Board of Supreme Audit.
7. The statement issued by FBSA regarding tax deposits, published on its official website on 10/20/2022.
8. The statement issued by the former Minister of Finance (Dr. Ali Abdul Amir Allawi) published in the media on 10/19/2022.
9. Ghazwan Rafiq Awaid, Supreme Council for Combating Corruption, an oriental vision, a paper published on the website of Al-Bayan Center for Studies and Planning.



# Smuggling Oil Products: Compounded Loses and Painful Solutions

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Hashem Jassim Alhossiny \*

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## Executive Summary:

One of the most significant issues facing the energy sector, particularly the Iraqi economy, is oil smuggling. This issue leads to several complicated crises that are related to and directly and indirectly impact the other sectors.

This paper examines the feasibility of implementing some of the recommendations made in the government’s White Paper on economic reform concerning the prevention of oil smuggling and its desirability of achieving such a goal. The paper also makes several recommendations that facilitate implementing these solutions and mitigate the adverse effects of removing subsidies.

The possibility of applying these alternatives and solutions basically requires the presence of political will and public acceptance, which are the cornerstones for any reforms and in all sectors, as the needs of vulnerable people have been employed for decades to achieve political gains and enrich influential individuals.

The solutions presented in this article are thought to be successful in ending the smuggling process, based on two significant projects, the first of which is procedural and the other is technical,

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## Introduction:

Iraq annually loses more than (\$3) billion to import oil products such as gasoline and petroleum gas. In (2021), according to the data of the Oil Marketing Company, it imported oil products worth (\$3.5) billion,<sup>(1)</sup> which are sold at subsidized prices. This encourages oil smuggling because of the difference in its prices between Iraq and its regional neighborhood. For example, the price difference per liter between Iraq and Turkey is about half a dollar.

According to a statement made to NasNews by the assistant director of the Oil Products Distribution the general budget of Iraq supports gasoline prices by about 3 IQD trillion, or almost (\$2) billion annually.

Ministry of Oil, through the Petroleum Products Distribution Company, revealed in mid-April that around 7 million liters of gasoline is smuggled daily.<sup>(2)</sup> This was confirmed by the former deputy speaker of the Iraqi Parliament (Hakim Al-Zamili) in a meeting with the security leaders held in Baghdad on (June 5) last year when he stated that what is smuggled daily is equivalent to half of the local production of oil.<sup>(3)</sup>

Removing subsidies is one of the most important tools for limiting smuggling, reducing government expenditure on welfare goods, and redirecting funds to other more pressing areas that affect the lives of citizens.

Removing subsidies for some services can be viewed as a double-edged sword since it might mobilize people to oppose and reverse such efforts. Also, beneficiaries will likely not accept any reform measure that harms their interests.

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(1) Ministry of Oil / Oil Marketing Company / data of 2021

(2) Ministry of Oil / Oil Products Distribution Company

(3) Iraqi news agency, <https://www.ina.iq/157756---.html>

This paper aims to present an alternative policy that reduces the smuggling of oil products. The paper presents and discusses alternatives to determine the most effective policy alternative to mitigate the problem and its desirability and feasibility.

### **Background: Smuggling Crisis**

Oil smuggling depends primarily on political cover, as influential parties, either political or military parties, control the smuggling operations. Such political cover undermines any attempt to control smuggling through traditional mechanisms, such as the oil card that was applied in some northern governorates and did not achieve the desired goal.

This problem has many root causes, which could be summarized in two points:

**First:** The price difference between the official price of oil in Iraq and its price in smuggling destinations, as this difference, which is twice the subsidized price, encourages the formation of influential networks linked to each other by interests and partnerships that facilitate the smuggling processes.

**Second:** the absence of modern mechanisms for monitoring and following up fuel tank tracks and a developed distribution system that depends on determining the path and matching the quantities. The current limited supervision and censorship that are exclusively based on old mechanisms are easy to circumvent.

## **Problem Effects**

One economic crime that harms national security and the economy is the smuggling of oil products. This requires careful consideration of possible policy alternatives, even if doing so causes some hardship for beneficiaries from government subsidies.

Although Iraq has not achieved self-sufficiency and suffers from the need to import petroleum products, it still does not control, in a fundamental way, the smuggling operations, which results in double waste; the first is by wasting subsidies for prices, and the other by smuggling these subsidized products.

The smuggling of oil products is a source of funding for organized crime gangs and cross-border crimes, with the likelihood of contributing to the financing of international terrorism, and thus constitutes a threat to the country's national security.

## **Policy Alternatives**

The first section of the government reform paper (the White Paper), describes a plan to change the distribution of oil products via “Automating the distribution sector and introducing solid local, regional and international companies specialized in marketing and distributing of oil products, and liberalizing the prices of High-quality gasoline.”<sup>4</sup>

The Anti-Smuggling Law of Oil and its Products No. (41) of 2008 restricted the trading and transport of oil and its products to official authorities, prohibited their transportation and circulation outside of this framework, and imposed charges some of which approach the level of terrorism charges if the smuggling process includes the sabotage of state facilities. This law failed to deter smuggling operations due to the political cover provided for its network.

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(4) The government reform paper (the white paper), part one, 2020

**Table (1): White Paper projects related to the reform of the oil sector / oil products**

<b>Project's name</b>	<b>Implementing and supporting agencies</b>	<b>Implementation schedule (starting from the implementation plan launch/ Months)</b>
Oil products (33)	Ministry of oil	1 24
Editing improved gasoline prices	Ministry of oil	1 6
Completion of gasoline improvement	Ministry of oil	1 12
Project Settling the files of investment refineries and other projects	Ministry of oil	1 9
Resolve the issue of the Nibras Petrochemical project	Ministry of oil	2 10
Implementation of the integrated south project in the form of phases	Ministry of oil	5 24
Attracting investors to establish a petrochemical complex that establishes a city and industrial activities	Ministry of oil	4 12
Entering into partnerships with foreign refineries	Ministry of oil	6 18
<b>Project's name</b>	<b>Implementing and supporting agencies</b>	<b>Implementation schedule (starting from the implementation plan launch/ Months)</b>
Oil products distribution (34)	Ministry of oil	1 18
establishing a well-researched method to replace the present system for selling crude oil for domestic	Ministry of oil	1 3
Automation of the distribution sector	Ministry of oil	3 10
introducing trustworthy regional, national, and worldwide businesses that advertise and distribute petroleum products	Ministry of oil	3 12
combining the internal network's operator	Ministry of oil	4 18

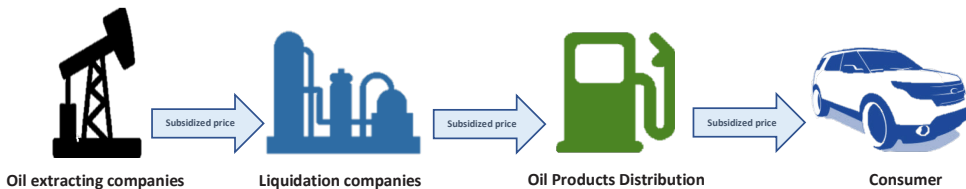
The white paper included from chapter (23) to Chapter (35) details of projects in the oil sector and its reform in general, and oil products in particular, and referred to the project to liberalize the prices of improved gasoline (high-octane gasoline). The latest project is in fact one of the most significant remedies for smuggling activities, and minimize government support for well off beneficiaries, hence given it serves two purposes concurrently. However, this project has not been carried out for the reasons listed by Mr. Allawi in his resignation letter, with political considerations ranking as the most significant of these reasons.

The process of lifting fuel subsidies can be the most important and strongest sustainable remedy in combating smuggling, as raising the price of fuel to levels close to regional rates leads to the non-viability of smuggling, as this limits the process and eliminates it without the need to intensify security efforts or issue deterrent penalties that it can be easily bypassed in light of the corrupt system that exploits this file.

**The process of subsidizing petroleum products is divided into two parts:**

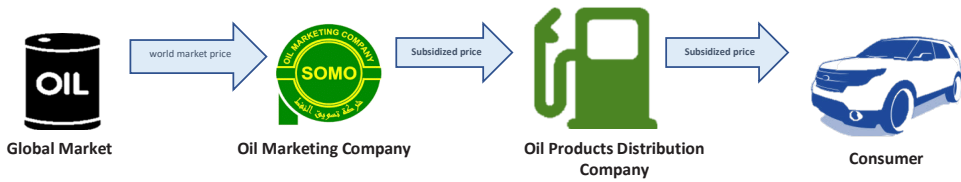
The first part / local products, which are products that are produced and processed locally, as these products pass through a chain of operations, as shown in Figure (1-a), and in this process it is subject to a government support process along the chain, until it reaches the end-user, who is the consumer.

**Figure (1-a): Oil Products Subsidy Chain (Domestic)**



The second part / imported products, which are the products that Iraq imports from the global markets at the global market price, then subjected to the subsidy process and sold to the consumer at a subsidized price, as in Figure (1-b).

**Figure (1-b): Oil Products Subsidy Chain (Imported)**



### **Possibility of Applying the Alternative**

Legislators and decision makers who are considering lifting fuel subsidies will face two types of resistance, first of which is political resistance from individuals and mafias run the smuggling operations. The number of detainees in the first half of this year has reached nearly 1,000 detainees on fuel smuggling charges. The other category is those who benefit from the fuel subsidy process.

The first challenge could be overcome through awareness-raising, which must precede the process of lifting subsidies to show the damages and losses caused by the subsidies. This ensures that smugglers are preempted and socially isolated; In anticipation of any reaction through which they mobilize public opinion against such decisions. Addressing the second challenge could be through the possibility of minimizing fuel prices for vulnerable groups only.

This mechanism will be one of the most important fenders that reduce the expected damage and the increase in the transportation bill, given personal transportation depends mainly on subsidized fuel, and Iraq lacks large mass transportation projects such as railways and metro.

The funds made available as a result of the elimination of fuel subsidies can be used to build mass transit infrastructure, such as railways, metros, and buses. This lessens the harm done to the most vulnerable groups affected by the process and eases pressure on the transportation sector's infrastructure by lowering the number of private vehicles that can fit a limited number of people. This reduces traffic and consumption of roads and bridges, and also contributes to reducing pollution levels resulting from vehicle exhausts.

One of the key processes that promotes the switch to using liquefied gas as automotive fuel is the process of eliminating government subsidies on fuel costs. Given the fact that Iraq is one of the countries that exports liquefied gas, this helps the process of lowering carbon emissions by removing the need for imports, which also lessens the depletion of foreign currency during import operations.



## Conclusion

Although the process of government subsidy for services is designed to support the vulnerable and poor classes, it has become a means for wasting resources, and given:

1. Outdated systems cannot stop the smuggling operations.
2. Though it is the most challenging, the process of removing subsidies is the best policy alternative.
3. Smuggling operations can be decreased only through the cooperation of lawmakers, policymakers, and the popular acceptance.

Therefore, it is important to plan the process of subsidizing oil products carefully, and implement it gradually with the necessary procedures. To ensure that there are no negative repercussions, and to ensure that the public contributes to this process through:

1. Anticipating the process of raising subsidies with a media campaign to clarify the desired benefits.
2. Finding an alternative for vulnerable groups before starting the removal of subsidies.
3. Gradually lift subsidies on specific categories of luxury cars, and the subsequent stages include the rest.

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# The role of Public-Private Partnership in mitigating financing pressure for investment projects

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Rami Mohsen Jawad\*

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## Executive Summary:

Governments utilize Public-Private Partnerships (PPP) due to the limited fiscal space available for building infrastructure. These partnerships are resorted to as an effort to shift government activity from operating infrastructure and public services to focusing on setting policies and strategies and monitoring service providers to upgrade them.

The average annual spending on investment projects over the period (2009–2021) was (22%) of the total spending of public budgets, whereas operational spending accounted for (78%). Investment in the oil and electricity sectors rose by (10%) for oil and (2% for electricity), while the total rate of spending on the remaining vital sectors combined did not exceed (10%). The volume of this spending no longer increases with the increase in oil revenues; as a result of the increase in operating spending by (95%) in the same period, the decrease in financial allocations allocated to investment projects led to an increase in the number of suspended projects, from (37) projects in 2013 to (1452) projects at the end of (2021).

Resorting to the method of a partnership between the public and private sectors (PPP) is meant to encourage the private sector to provide infrastructure assets and services based on it, and to reduce the pressures of financing investment projects from the general budget, which depends on fluctuating oil price. The participation of the private sector

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also helps raise the country's GDP and revive the industrial sector.

One of the biggest problems with PPP projects is lacking legal framework. The delay in approving laws in this area may be due to legislative authorities and political parties' lack of knowledge of its significance, in addition to political conflicts that block the adoption of these projects, plus the spread of financial and administrative corruption in government contracts. This makes it difficult to persuade political parties to support PPP projects.

The success and development of partnership projects require the government to adopt procedures and legislative frameworks to protect the public and private sectors from potential risks.

The paper proposes several solutions necessary to develop this type of partnership in the Iraqi environment, which represents one of the projects of the economic reform program, the White Paper.

### **Introduction:**

A public-private partnership (PPP) is a set of contractual arrangements between government agencies and private-sector corporations in which the private partner agrees to supply the government with the necessary financing and services that have historically been delivered by public-sector enterprises.

There are numerous types of these contracts, such as the endeavor to establish and operate infrastructure or the participation of management, in order that the private sector plays a larger role in the process of planning, financing, constructing, or operating public services and can benefit from its diverse experiences and abilities.

Governments utilize partnerships with the private sector (PPP) due to the limited fiscal space available for infrastructure construction or as

an effort to shift government activities from operating infrastructure and public services to developing policies and plans and overseeing service providers’ efforts to update them.

The Iraqi economy has inherited unorganized and unstable conditions in the relationship between the government and the private sector. Starting with the emergence of the mixed sector designation as the beginning of the concept of partnership between the public and private sectors with the legislation of the Shareholding Companies Law in 1964, which determined the state’s share at (51%) compared to (49%) for the private sector. The Companies Law was enacted in (1997), allowing public companies to form partnerships with foreign firms but not with the local private sector, just as the guidelines for the execution of government contracts in (2014) did not authorize partnerships between state institutions and the private sector.

The Iraqi economy is threatened by unstable oil income and high-interest international loans, which make infrastructure funding difficult. This has slowed or stopped infrastructure construction, necessitating alternative solutions that reduce fiscal gaps and address project delays.

This paper aims to highlight the dangers of relying on state budget allocations as the only source for financing infrastructure projects and neglecting the role of the private sector in this aspect.

### **Background:**

**First:** The government’s need for partnership with the private sector

According to the World Bank’s Doing Business report, Iraq has a poor record when it comes to ease of doing business. It ranks (172) out of (190) nations, earning (44.7) points out of 100. <sup>(1)</sup> The lack of a strong

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(1) The World Bank / Doing Business Report (World Bank, Business 2018, Reforming to Create Job Doing).

relationship between the private and public sectors, which would assist in enhancing the business and investment environment and avoid the private sector's erratic inflation, represents the most significant issues facing the private sector. <sup>(2)</sup>

Due to the low participation rates of important sectors like the agricultural sector, which recorded (3.7%), and industry (2.1%), compared to (40.9%) for the oil sector, Iraq suffers from a low percentage of the private sector's contribution to GDP at current prices, which was recorded (33.6%) in 2019. <sup>(3)</sup>

Iraq also suffers from the weakness of the basic infrastructure required by the population, such as sanitation projects, as the largest percentage of Iraqi governorates are still not served by sewage networks, such as Nineveh Governorate, in which more than (97%) of its population lacks sanitation services, followed by Babylon Governorate with (90%), then (Diyala, Salah al-Din, Anbar and Diwaniyah) with a rate of (80%), due to the lack of investment projects in this sector. <sup>(4)</sup>

The Private Sector Development Strategy (2014–2030) has recognized the Iraqi government's need to legislate a partnership law with the private sector as a priority that requires urgent action due to its importance in developing the private sector and providing support to state institutions. <sup>(5)</sup>

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(2) Ministry of Planning - National Development Report for the years 2019 and 2020.

(3) The Central Bank of Iraq - Annual Economic Report, 2019.

(4) Ministry of Planning - Department of Economic and Financial Policies - Follow-up report of the National Development Plan (2018–2022) for the year 2020.

(5) Council of Ministers - Board of Advisors & UNDP, Private Sector Development Strategy (2014–2030).

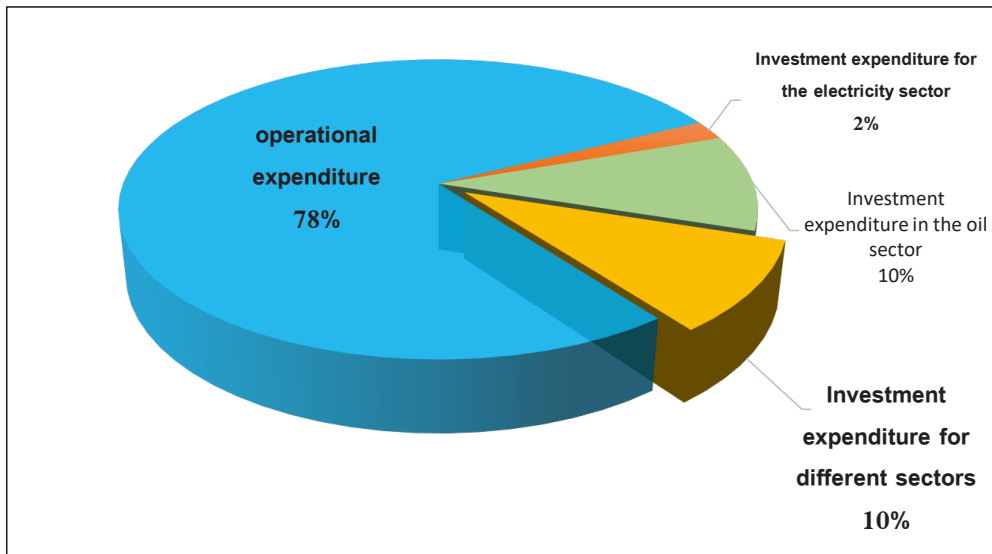
**Second:** The reality of spending on infrastructure

Studying the overall public spending of the state’s general budgets for the period spanning from (2009 to 2021), which recorded an amount of (1152.8) trillion dinars, it was found that Iraq suffers from low levels of spending on investment projects and basic infrastructure projects.

– Annual investment spending accounted for (22%) of overall spending, compared to (78%) for operating spending (salaries, grants, subsidies, service requirements, commodities, and debt services).

– The oil and power industries saw the majority of investment spending, accounting for (10%) for the oil sector, (2%) for the electricity sector, and only (10%) on the remaining key sectors, namely industry, agriculture, health, education, transportation, and telecommunications, as shown in the figure (1).

**Figure (1): Total public spending for public budgets**



**Third:** Risks of relying on oil revenues to finance investment projects

Despite the fluctuations in oil revenues and the volatility of oil prices, Iraq continued to rely on those revenues by (95%) to fund its annual budgets due to being directly impacted by international policies and conflicts. Iraq continues to depend on oil revenues to finance its annual budgets, with investment spending reaching its peak in (2013) and (2014), when it recorded (40.3) trillion dinars in 2013 and (38.7) trillion dinars in (2014). After the financial shock of dropping oil prices in (2015) till 2022, the investment budget was limited to around (3.2) trillion.

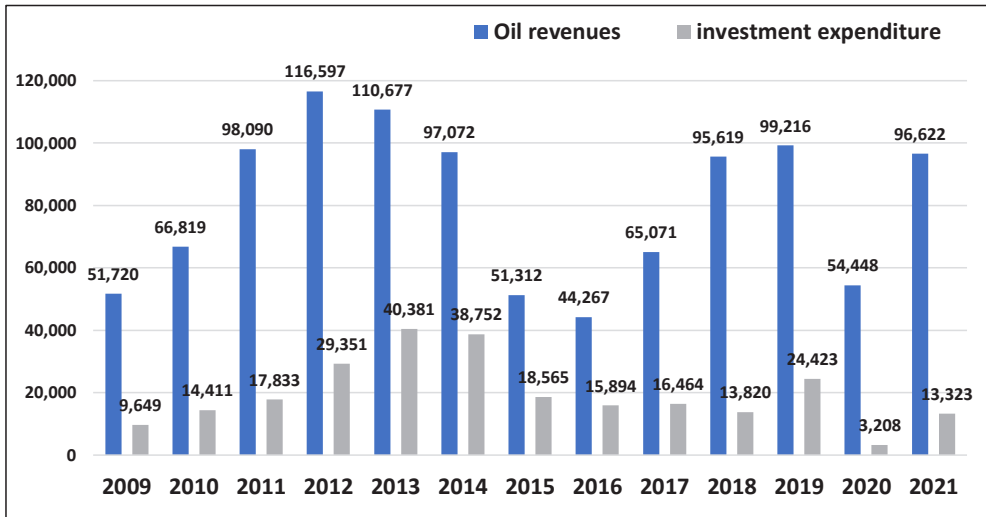
It is also noticeable that the volume of this spending no longer increases with the increase in oil revenues as it decreased to (13.8) trillion dinars in 2018, (24.4) trillion dinars in 2019, and (13.3) trillion dinars in 2021, despite the increase in oil revenues. This is attributed to the increase in recurring spending by (95%) for the period from (2009 to 2021), represented by the increase in the salary bill, grants, and social benefits, which increased from (34.4) trillion dinars in 2009 to (68) trillion dinars in (2021).

According to the data of the Ministry of Planning, the number of ongoing projects for the year 2017 amounted to (4682) projects with a total cost estimated at (232.7) trillion dinars. However, the annual allocation percentage for them, according to the budget law, did not exceed more than (10.6%) of the required fund, with an amount of (24.8) trillion dinar.

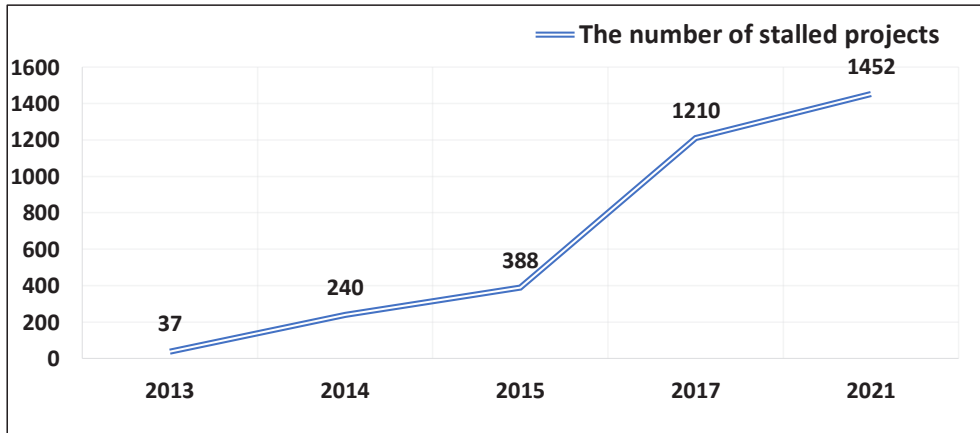
The decrease in allocations for investment projects has led to an increase in the number of suspended projects from (37) projects in 2013 to (1452) projects at the end of (2021).



**Figure (2): The volume of investment spending compared to oil revenues (billion IQD)**



**Figure (3): Number of suspended projects**



## **Policy alternatives:**

### **Successful approaches include public–private partnerships.**

To encourage the private sector to deliver infrastructure assets and services, a growing number of nations have adopted the Partnership Principle (PPP). Economic infrastructure projects (such as transportation projects) are typically better candidates for collaboration than social infrastructure projects (such as health care and education); this is due to three primary factors according to the International Monetary Fund:

1. Projects that enjoy financial soundness and address clear differences in the path of infrastructure such as roads, railways, ports, and energy projects are likely to have high rates of return and are attractive to the private sector.
2. Usage fees are often more feasible and desirable in economic infrastructure projects.
3. Economic infrastructure projects usually enjoy more developed markets that combine construction and the provision of related services (such as building, operating, and maintaining a toll road) compared to social infrastructure projects.

### **Challenges facing the implementation of public–private partnership in Iraq:**

The absence of legal framework is one of the most prominent challenges facing the implementation of (PPP). Lack of awareness of the legislative authorities and political parties of the importance of such a legal framework delays its approval. Also, political conflicts and the spread of financial and administrative corruption in government contracts discourages political parties from supporting PPP Projects.

The other challenge is represented by the lack of sufficient experience among public sector institutions in concluding long-term contracts that characterize partnership projects (PPP), which may reach (30) years. In addition, the lack of practical experience in managing the type of partnership, which prevents stakeholders from being persuaded to move toward this type of contracting.

The weakness of the banking system and the lack of funding directed towards mega-infrastructure projects are also among the reasons that impede the progress of these projects.

### **Alternative Application Mechanism:**

#### **Proposed solutions for the success of PPP in Iraq**

For the success and growth of PPP projects, the government is required to adopt a number of procedures and legal frameworks in order to protect both the public and private sectors from potential hazards; we propose the following significant solutions:

- Enacting a law for public-private partnership that is characterized by relative simplicity, and focuses on creating a favorable and attractive environment, rather than including onerous conditions that impede the smooth implementation of projects and represent confusion for investors.
- The executive authority selects the proper contract form so as to protect the financial and legal rights of all parties.
- Determine the areas in which the private sector can participate in the development plans for the next ten years.
- Establishing a government advisory entity specialized in studying the economic and technical feasibility of projects, linked to the Ministry

of Planning and supported by specialized competencies to conduct a feasibility study for the projects to be contracted for.

- Submitting the draft of contracts before their conclusion to the evaluation and audit of the Federal Board of Supreme Auditing; After that, a specialized independent party review the contract, and all notes should be addressed prior to the final approval to ensure the safety of contracts from the suspicions of corruption.

- Determining the optimal partnership method that is appropriate for each type of project, such as determining the partnership method that pertains to road and bridge contracts, and other methods that pertain to contracts for the construction of sewage networks or municipal services.

- Stimulating the banking system to grant financial facilities through the cooperation of the Central Bank of Iraq to grant the necessary funds for projects at low-interest rates by benefiting from the investment of foreign reserves internally.

- The commitments of each partner to accomplishing the aims of the other partner in addition to its objectives. Each party must be dedicated to fulfilling the aims of the other parties for PPP infrastructure projects to succeed, as contracts alone cannot accomplish this. The legal documents specify what must be done correctly, such as the spending mechanism, responsibilities, steps, outputs, and dates, as well as what happens when things go wrong, such as terminating the contract or turning to the courts, but they cannot anticipate every potential problem. They also do not give a road map for promptly resolving issues to assure the accomplishment of targets. According to a survey conducted by Harvard Business Review of a group of North American leaders of organizations that design, build, fund, and manage partnership

projects. The partnership can be transformed into a productive working relationship over the long term by focusing on three common issues: commitment to a strong partnership that extends beyond the terms of the contract, built-in mechanisms for exchanging perspectives on the project (especially pro-active communication), and a shared vision for the project.

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12. Harvard Business Review – <https://hbr.org/2019/01/what-successful-public-private-partnerships-do>





# Tourism in Iraq: A Wasted Economic Resource

Hamed Rahim Janani \*

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## Executive Summary:

The Iraqi economy desperately needs to diversify its sources to lessen the hazards of crude oil dependency. Iraq possesses religious, archaeological, and natural touristic sites, but the high turnout recorded at religious pilgrimage highlights the significance of religious tourism. It is vital to advance this sector and increase its contribution to GDP, creating jobs and supply market with foreign currency. This requires utilizing foreign expertise to the existing local skills in the tourism sector by adopting licensing rounds similar to those of the oil sector, which has substantially improved oil output. This is accomplished by the government announcing an investment roadmap to attract reputable domestic and foreign firms to develop the Iraqi tourism sector and benefit from its economic viability, not to mention the international openness to Iraq.

## Introduction:

Iraq’s religious status made it a tourism destination. This feature is expected to have a beneficial economic impact that supports the concept of economic diversity, which has been a significant challenge for Iraq since the discovery of crude oil as an economic resource till the present day. After the years of change in (2003), oil emerged as the most valuable resource. Hence, the focus on oil has grown. The rentier state of the Iraqi economy is the cause of these structural imbalances due to the unilateralism caused by the political economy of the rentier model and the political mentality that viewed the economy as a tool for advancing political objectives. These issues were one of

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the primary reasons for the diminishing positive influence of Iraq's economy. Perhaps the influence of the tourism sector is one of them, as we do not find an impact on the GDP other than with an implicit reference in the section (wholesale and retail trade, hotels, etc.). The average percentage of the contribution of all these items did not exceed (7,32%), as will become apparent in the following section of this paper.

Therefore, the issue lies in the fact that Iraq has a prominent religious status, making it a center of touristic attraction, but it is not utilized to generate economic gains. Hence, it is a wasted opportunity.

## **Background**

**First:** Analyzing the components of the GDP and the role of tourism.

Economic activity is measured and better depicted by the GDP, which measures the monetary value of final goods and services, that is, those that are bought by the final user, and produced in a country in a given period of time (say a year). It is one of the important indicators that provide perceptions about the nature of the existing economic activity. Although there are complaints about it, such as the environmental impact of economic activity, it remains at the forefront of the indicators and is highly referred to in the analysis of the nature of economic activities, and it is one of the important basis for comparisons between activities.<sup>(1)</sup>

Studying the GDP of Iraq shows the following, as seen in Table (1).

1. Oil has the largest share in the sectoral contribution. This takes us to the issue of price fluctuation and the associated economic hazards, in addition to the shortcomings of the economic rentier model.
2. The manufacturing industry is at the lowest levels of contribution;

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(1) Todaro, Michel. 2006, *Economic Development*, translated by Hosni, Mahmoud and Muhammad, Mahmoud Hamed. Riyadh - Saudi Arabia, Mars Publishing House.

Which means that the Iraqi economy is fragile and underdeveloped according to the developmental standard.

3. The absence of contribution from the knowledge industries plainly demonstrates economic activity’s lag in keeping up with economic modernity, as this sector leads economic activity in the civilized world.

4. Most crucially, there is no explicit reference to the tourist sector, only an implied reference in the section (wholesale and retail trade, and hotels), which is completely out of proportion to the relative benefits of tourism. The result is that the sector is deprived of tourism revenues in general, and religious ones in particular, in creating job opportunities and expanding production, and most importantly, attracting foreign currency to the country.

**Table (1): Percentages of the sectoral components of the GDP in Iraq at current prices**

Year	The primary			The second sector		The third sector (service)					The fourth sector (cognitive)
	Agriculture Forestry Hunting	Oil	mining quarries	manufacturing industry	Construction	Electricity and water	Transportation and storage	Wholesale and retail trade, and hotels, and others	Finance, insurance, and real estate services	Social and personal development services	
2003	8.32	68.14	0.07	1.01	0.73	0.22	7.64	6.41	1.31	6.22	0
2004	6.90	57.68	0.09	1.75	1.28	0.82	8.28	6.07	6.90	10.32	0
2005	6.85	57.34	0.20	1.31	3.63	0.80	7.97	5.68	7.41	8.81	0
2006	5.80	55.02	0.19	1.53	3.59	0.81	7.02	6.61	8.27	11.16	0
2007	4.91	52.71	0.23	1.62	4.40	0.87	6.55	6.23	9.71	12.77	0
2008	3.81	55.02	0.22	1.67	4.16	1.16	5.41	5.30	8.48	14.77	0
2009	5.19	42.54	0.43	2.59	4.28	1.76	6.47	7.83	10.80	18.11	0
2010	5.13	44.70	0.41	2.25	6.29	1.78	5.79	7.64	9.43	16.58	0
2011	4.54	52.72	0.34	2.81	4.74	1.57	4.65	6.46	8.21	13.96	0
2012	4.10	49.50	0.30	2.70	6.00	1.70	5.60	7.70	7.70	14.70	0
2013	4.80	45.70	0.30	2.30	7.30	1.80	6.60	7.50	7.70	16.00	0
2014	4.91	43.72	0.19	1.87	7.15	2.19	7.28	7.83	7.71	17.15	0
2015	4.16	33.23	0.20	2.16	6.38	3.02	10.60	10.87	8.37	21.01	0

Year	The primary			The second sector		The third sector (service)					The fourth sector (cognitive)
	Agriculture Forestry Hunting	Oil	mining quarries	manufacturing industry	Construction	Electricity and water	Transportation and storage	Wholesale and retail trade, and hotels, and others	Finance, insurance, and real estate services	Social and personal development services	
2016	3.94	33.91	0.20	2.23	6.17	3.25	11.38	9.35	8.95	20.62	0
2017	2.89	38.77	0.17	2.58	5.68	2.84	10.46	8.04	8.39	20.18	0
2018	1.92	46.33	0.13	1.77	4.20	2.89	10.49	7.67	7.58	17.02	0
2019	2.64	44.66	0.99	1.60	2.75	2.75	10.49	7.64	7.6	19.8	0
Average	4.88	48.56	0.22	2.00	4.74	1.71	7.63	7.32	7.93	14.96	0

**Second:** The source of foreign currency in Iraq and the influence of tourism

There is no doubt that tourism is an important source of foreign currency for the economy, which strengthens the balance of payments accounts and avoids the deficit that may result; due to the difference between the foreign currency ins and outs. In Iraq, the balance of payments shows a disordered pattern by almost completely relying on the crude oil commodity for exports, as shown in the following table.

**Table (2): the level of oil commodity dominance in Iraqi exports**

Year	Export Concentration Index	Year	Export Concentration Index
2005	98	2013	99
2006	97	2014	99
2007	95	2015	99
2008	97	2016	99
2009	98	2017	99
2010	99	2018	98
2011	99	2019	96
2012	99	-	-

High percentages of oil’s contribution to total exports indicate that it is practically the only source of foreign currency in Iraq, which necessitates a diversification of sources in order to face oil price fluctuations and fluctuations in production; tourism is one of these sources that should be revitalized. Activating the tourism sector would help support Iraqi economic activity in foreign currency, and this is what reduces to some extent the phenomenon of economic exposure, As a result of the almost absolute dependence on oil as a source of US dollars.

**Third:** Analyzing the root causes of the problem

Iraq possesses religious, archaeological, and natural touristic sites. The high turnout recorded during religious pilgrimage is regarded as one of the world’s largest religious gatherings. As for the archaeological sites in Iraq, they are of tremendous cultural and religious significance and attract the attention of worldwide universities and research organizations. While the nature tourism is represented by the marshes, and the mountainous areas of northern Iraq. Despite this, we do not notice a major impact on economic activity (value-creating); rather, the absence of an explicit reference under the heading (Tourism Sector), as previously stated, on the GDP map. This demonstrates the wasting of the comparative advantage of this industry.

Religious tourism is the most appealing component for travelers, and it covers regions such as Baghdad (Kadhimiya, Adhamiya), Najaf, Karbala, Samarra, and Nineveh. These cities contain important religious centers for various religions and sects, and they suffer from problems that have caused them to lose their ability to play a pivotal role in (economic value) creation. They appear in the statistics of the Central Statistical Organization of the Ministry of Planning, and this is due to a number of factors, including the following:

**1. The political factor**

This factor is externally and internally tied to the conflict, as the political situation in Iraq is unstable and there are attempts to influence political change through the intersection of religion, sectarian conflicts, and the management of state affairs. Political experience and the quota system of position distribution have demonstrated that the institutions responsible for handling these events are under the control of parties and groups that have reduced their ability to fulfill the desired objective. Governmental centers responsible for overseeing religious

matters, shrines, and others have been involved in a portion of these ongoing conflicts. Occasionally, the issue of border control and access ports is also highlighted. In many instances, government entities tasked with port management show disorder and lack of control. Which further complicates the scene and produces misunderstanding over the inventory of the arrivals as well as other issues.

## **2. The social factor**

Religious issues and the uniqueness of values that bind Iraqi society with its religious background have resulted in a fusion of religious beliefs and those values. Based on the belief that serving those who visit religious shrines drives one closer to God, Iraqis offer all services free of charge, starting with food, accommodation, and health services.

## **3. The service factor**

There are additional factors relating to the underdevelopment of infrastructure, poor services, government difficulty in managing such events, and the state's inability to organize; due to the state's overall predicament. There has been a major drop in services in the country, depriving Iraqi society of the bare minimum of services, such as municipal services, namely waste collection, electricity provision, roads and bridges system, and more. How can Iraq cope with the massive influx of foreign tourists, which demands a doubling of effort, further complicating the scene and revealing the reality in a manner that is not consistent with the intended performance? All of these variables diminished our potential to capitalize commercially on such important religious events.

An important issue is mentioned here, stating that the religious tourism landscape today does not contribute effectively to achieving revenue for the government budget through exemptions granted to



some foreign arrivals, as well as weak tax monitoring due to problems related to the tax sector, which did not contribute more than 7% of public revenues at best.

**Fourth:** Tourism and the White Paper for Economic Reforms

The White Paper did not refer to the tourism industry as a direct objective, as it did with sectors of oil, gas, banking, and others. It is completely illogical to prepare a reform paper comparable to the size of the white paper that aims for economic transformation without recognizing the significance of the tourism sector and its role in generating employment opportunities and developing governorates that are home to religious shrines. As this sector must be present, and as we do not forget the role that tourism can play in increasing the volume of tax revenues, the developmental transformation of the economy necessitates that we stimulate the value-creating economic sectors and stop relying on the single resource represented by oil. This requires careful consideration of each sector. The comparative advantages that the national economy holds, and perhaps the tourist benefits on top of that, show an obvious deficiency in the white paper.

**Fifth:** Tourism in other countries

Countries with religious and non-religious tourism, such as Saudi Arabia in the Hajj season and Iran in the season of visits to their religious shrines and even the World Cup events and the Vatican celebrations and others, witness high level of organization that generates economic returns through the stimulation of economic activities. The fact that large numbers of arrivals will increase consumer demand beyond the normal levels of aggregate demand will result in a doubling of imports and an acceleration of economic development.

### **Success story:** Tourism in Saudi Vision (2030)

The Hajj season in Saudi Arabia attracts millions from different parts of the world, but we find that municipal services are developed and do not stop at any circumstance. The absorptive capacity of service units such as hotels and others has no issues, and the result is that the Hajj season is an economic season par excellence. The vision for Saudi Arabia included the following:<sup>(2)</sup>

1. Establishing entertainment cities, developing tourism islands, and encouraging the private sector to invest in tourism.
2. Establishing more tourism facilities and developing tourism services; Which contributes to creating more job opportunities.
3. Protecting national heritage sites and raising awareness of their importance locally and globally.
4. Developing tourism events and festivals to attract tourists and stimulate religious and other tourism.
5. Creating a greater contribution from tourism to the Saudi GDP.

This will not occur unless the relevant state entities plan, organize, and follow up to accomplish the intended outcomes. All of these comparisons reveal the magnitude of the organizational gap between Iraq and other nations. This caused us to lose the opportunity to invest in the tourist event and the available benefits in order to transform it into a source of economic growth with additional value.

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(2) For more information see: drasah.com

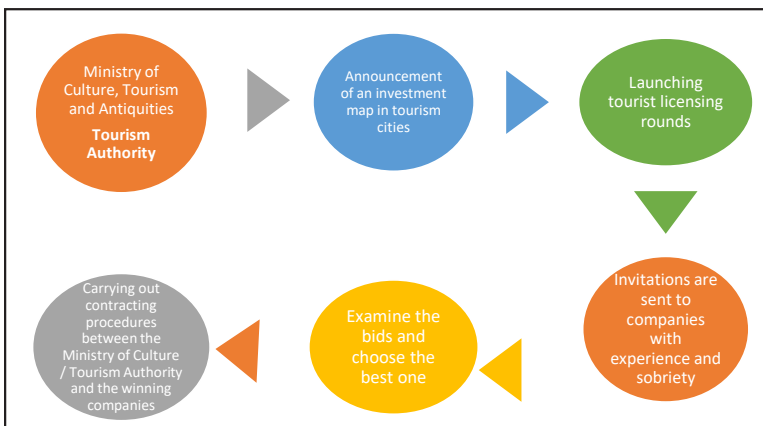
### **Policy Alternative:** Tourist licensing rounds

The ability to think creatively and discover solutions to existing challenges is essential. From this viewpoint, it is possible to examine the Iraqi oil industry in terms of a technique known as (licensing rounds). In )2009(, the first of these rounds was announced, followed by four additional rounds. These rounds featured a series of procedures beginning with the identification of oil fields (productive fields, discovered fields, and exploration blocks). It concluded with the signing of (service) contracts with the competing international companies, which were in the best interests of the North Oil Companies, the Basra Oil Company, the Middle Oil Company, Maysan, and Dhi Qar. Through its Contracts Department, the Ministry of Oil has taken on all aspects of contract completion. The actual effect of this oil policy, regardless of what the critics claim, is that the oil production of the fields referred to in these rounds has increased significantly, as the oil production has reached nearly )4.5( million bpd since the first referral to the present day. The production ceiling did not exceed two million bpd prior to the licensing rounds. Not to mention the incorporation of modern technical approaches into the production of cutting-edge technology, as a result of the immense capacity of the majority of enterprises involved in licensing rounds.

Based on the possibility of simulation of the idea of licensing rounds, it is possible that such a method will be adopted in the tourism sector. Where the (Ministry of Culture, Tourism, and Antiquities) announces investment opportunities in sectors that support tourism prosperity (religious shrines and religious areas, in general, are a national asset that cannot be transferred to the private sector) in the manner of successive licensing rounds. The contracts should be (partnership contracts) rather than (service contracts). The fact of the seasonal nature of the tourism industry causes fluctuations in revenue and brings the partnership closer to accomplishing its objectives. Transportation lines

such as garages, airports, railways, etc., and the creation of service facilities such as restaurants, rest houses, and hotels are examples of initiatives that assist religious tourism. In addition to creating roadways connecting to religious cities to facilitate the flow of vehicles and people, and addressing other issues that attract domestic and international investors. This is a simulation of the licensing rounds technique upon which the concept of investing in Iraqi oil reserves is founded. The first phase is the announcement of the geographic areas that are referred to for investment or contracting. The second step is to announce the sort of project, such as tourist cities, railroad stations, commercial free zones, etc. Obviously, the project's technical specifications will be disclosed. So that enterprises interested in these opportunities submit applications, and then the contracting process takes place; so that the projects announced in the anticipated licensing rounds can be implemented immediately. The Tourism Authority is responsible for contracting, but the Ministry of Culture may consult with specialists from the Ministry of Oil to benefit from their expertise in oil licensing rounds. To overcome challenges and communicate the positive aspects of their experience.

**Figure (1): Mechanism for launching licensing rounds for the tourism sector**



## Feasibility of the Alternative

The importance of foreign direct investment to promote tourism:

There is no doubt that Iraq’s current situation<sup>(3)</sup> and the economic downturn it is experiencing as a result of political factors have reduced the country’s ability to manage economic files in general. As a result, partnering with international companies is needed to conduct economic infrastructure projects.<sup>(4)</sup>

Concerning tourism, and what this sector requires in terms of a holistic development approach that demands established international companies implement projects such as airports, contemporary transit routes, appropriate architectural styles, and others. This, in turn, will be the most essential component in the religious tourism growth in Iraq, reflecting a realistic assessment of available capabilities and achieving efficiency in the use of relatively limited resources.

The direct investment method through contracting was one of the most important factors in the success of economic experiments, such as the Gulf experience in terms of fundamental changes in the urban movement and the development of the service sector, and the basis for that was a foreign direct investment. The latter will be a crucial factor in pushing Iraq to replicate these experiences. We can summarize the economic feasibility of reviving religious tourism as follows:

### 1. Finding factors that help diversify economic activity by increasing

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(3) A problem may arise in this section; Because of the religious specificity and the nature of foreign companies investing in this economic activity.. In order to avoid this issue, it is possible to invite specialized companies from Islamic countries such as Malaysia, Indonesia, Turkey, Iran, and others with regard to dealing with religious shrines directly. As for the rest of the supporting facilities such as infrastructure and others, the invitation is open for foreign companies. The best example is the expansion of the shrine of Imam Ali in Najaf by Iranian companies

(4) Karianin, Mordechai.2010, International Economics, Policy Introduction, translated by Mansour, Muhammad Ibrahim. And Attia, Ali Masoud. Riyadh – Saudi Arabia, Mars Publishing House.

the contribution of the tourism sector to the GDP.

2. Religious tourism will create sustainable economic activities in Iraq, such as hotels, transportation companies, money transfers, and others.

3. The activities associated with religious tourism will attract a large segment of the labor market and contribute to reducing unemployment rates.

4. The expansion of employment rates will reduce poverty rates, and this is an essential factor. The fact that poverty in Iraq, according to official government statistics, reaches about 21% of Iraqi population.

5. The flow of tourists from abroad contributes to the expansion of domestic aggregate demand. This boosts the producing sectors, whether goods or services, and doubles the increase in capacity, hence boosting the annual economic growth rate.

6. Stimulating additional industries, such as internal and external transportation, the crafts industry, and many more. The tourism sector is a leading one.

7. Finding a new and critical source of foreign currency entering the local economy. This contribute to the diversification of the sources of the US dollar that are to be achieved through imports from tourists reduces the risks of economic exposure and reliance in the Iraqi economy resulting from almost complete dependence on crude oil.

8. Finding diversification in the sources of government revenues and supplementing the annual budget, all of which is a result of the entry fees of foreign tourists, in addition to expanding the size of the (tax base), as tourism will pave the way towards creating new projects.

## **Conclusion**

There is an opportunity to benefit from the relative success achieved in the oil sector through licensing rounds and to simulate that idea to the tourism sector to launch a tourism licensing round. Religious tourism activity is a highly feasible investment opportunity. It constitutes a great incentive for local and foreign companies, and above all, a group of factors must be available for the success of this opportunity to reach the maximum possible extent in investing the comparative advantages provided by religious tourism, and this is achieved by:

1. Ensuring the highest standards of transparency and accountability for all government actions proposed to prevent the likelihood of corruption.
2. Preparing media programs and reports to be broadcasted internally and externally to introduce tourist sites.

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6. [www.drasah.com](http://www.drasah.com)



# Digitalization as a mechanism for countering corruption, smuggling, and tax evasion at Iraq’s border crossings

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Ali Abdul zahra Tohme\*

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## Executive Summary:

For nearly two decades, Iraqi resources were depleted through its border crossings and customs gates. As we are currently witnessing the smuggling of commodities at border crossings and customs evasion by misrepresenting the imported items’ description, this has damaged a vital pillar of the country’s resources, which enjoys abundant land, sea, and airports.

Therefore, the government program for reforming the economy and diversifying state revenues underlined the necessity of implementing electronic governance at border crossings and digitalizing customs. The program was established in response to the country’s current financial crisis and to implement the White Paper.

There is no other way to combat corruption, public funds waste and prevent smuggling, than by adopting an electronic system for auditing by border crossings and customs agencies. To control the files of forgery and manipulation of the imported products description, and to halt the phenomena of commodities smuggling and tax and customs evasion.

When the ports governance and customs automation projects are completed, the country’s earnings will be maximized, and one of the most significant money laundering windows will be stopped. Especially when we consider that over (25\$) billion were laundered and smuggled

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in (2020). The Central Statistics Organization (CSO) at the Ministry of Planning reported that Iraq's imports of products in (2020) totaled (15\$) billion, while the Central Bank of Iraq reported that remittances overseas in the same year totaled (\$40) billion.

Despite the fact that great progress has been made in the advancement of electronic connectivity, substantial challenges still need to be addressed, namely not integrating the border crossing of the Kurdistan region of Iraq into this system, as well as the unauthorized border crossings that lie outside the authority of these two entities (border crossings and customs).

Therefore, it will be the responsibility of the government to complete the cycle of integration of these two projects, eliminate the threat to national security and the national economy, and achieve the principle of maximizing state resources.

## **Introduction**

Iraq's unilateral economy, given its over-dependence on oil imports to fund the country's general budget, to the degree that the government was unable to pay its employees' salaries on time for several months when the global oil markets crashed. Thus, the Iraqi policymaker was persuaded of the need to diversify and optimize the state revenue. Hence, customs received attention, given that the imports of border crossing and customs have the potential to contribute significantly to the national economy.

In the years that followed (2003), this essential resource was exposed to ongoing depletion and waste for a variety of causes, security-related and politically oriented, in addition to the economic visions that were dependent on the rentier economy in their interactions so they disregard this resource. Furthermore, the pressure exerted by a few influential

individuals to prevent the seizure of entering goods, and the economic well-being of numerous parties depends on the items that flow via these economic ports.

In October (2020), the federal government announced an economic reform program the “White Paper,” which included projects on border crossings’ governance and customs automation. These projects were initiated, and the electronic connectivity operations have begun.

To shed light on what has been accomplished and what should be accomplished in these two projects, interviews were conducted with the director of the Border Crossings Commission, the General Authority of Customs, and the relevant departments of the Ministry of Finance, as well as reviewing latest statistics published by these agencies and interviewing economist.

Recognizing the efforts made to complete this crucial economic file is necessary. However, it is also vital to understand the obstacles to its completion and the gaps that political interests would create in its operational realities, as well as how to address these issues and prevent the waste of public funds. If these issues are addressed, then it would be easier re-employ the funds to deliver services to Iraqi citizens who were directly impacted by the shocks of the global oil markets and the fragility of the country’s economy.

### **Background:**

The depletion of Iraqi resources continued for approximately two decades, in and out, through its border crossings and customs gates. The smuggling of commodities at border crossings and evasion by fabricating the description of imported goods. This has damaged an important pillar of the country’s resources, which have countless land, sea, and airports in various directions.

Therefore, the government program<sup>(1)</sup> to restructure the economy and diversify the country's revenue stressed the need to implement electronic governance at border crossings and digitize customs. This program was developed as a result of the country's current financial crisis and in response to the White Paper.

E-Governance is a modern and developed idea that has risen due to global financial crises and economic barriers due to globalization and the separation of management and ownership, aiming to avoid corruption, strengthen business control, and protect shareholders' interests. With the development of bank and company globalization, public governance emerged, which governs the powers and duties of government institutions and their departments without bias towards other countries, involving citizens, and increasing transparency in their work towards citizens, and through this, the concept of borders crossings and customs governance emerged.

With this approach, the government aims to maximize the country's revenues by putting an end to customs evasion and the smuggling of commodities. As they are essential contributors to the country's revenue, it makes these departments an active participant in strengthening and diversifying the national economy. Especially if we consider that Iraq imported goods worth a total of (\$73.3) billion throughout the years (2018–2020).<sup>(2)</sup>

Despite the increase in the volume of Iraq's imports in the years that followed (2003), which coincided with the years of financial surplus due to the rise in oil prices, this did not reflect positively on the public revenues obtained from fees, taxes, and customs tariffs. All of that affected the potential growth of the private sector in producing

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(1) The final report of the emergency cell for financial reform – the white paper: <https://rnc.gov.iq/assets/ViewerJS/#../pdfs/white-Iraq-1.pdf>

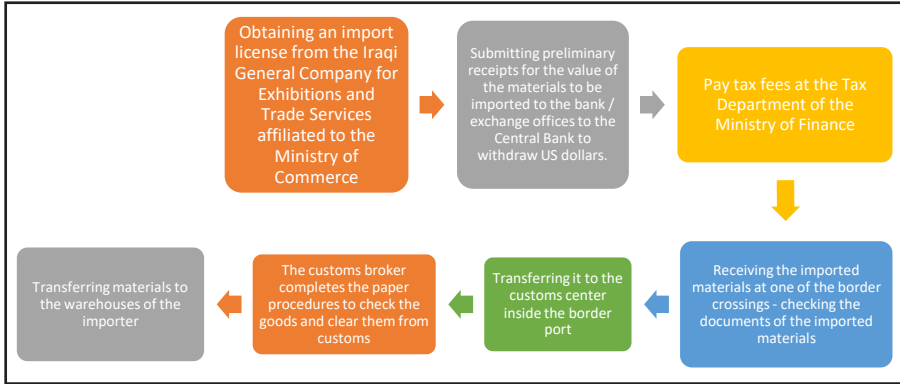
(2) Ministry of Planning, Central Statistics Organization annual reports: <https://cosit.gov.iq/ar/>

commodities locally. Consequently, this led to the fragility of the national economy and increasing reliance on imports.

Given that the Iraqi economy is suffering as a result of the oil price crisis, the Covid-19 pandemic, the low contribution of the non-oil sectors, the ineffectiveness of the private sector, and the deeply rooted corruption associated with political networks, interest in the border crossings can be viewed as the most important factor in achieving a radical reform that begins economically and extends to politics and societal fields.

In light of this, the Iraqi government has initiated a dramatic reform program in order to achieve one of the White Paper’s most significant goals by address the budget deficit. This creates the time and financial space necessary for executing reform programs that will put Iraq’s economy and budget on a sustainable path. It also supports the efforts of the authorities working inside the border crossings to control the movement of funds, facilitate administrative and technical procedures, and stay abreast of modern technology, largely through the efforts of the Information Technology Department staff in the General Secretariat of the Council of Ministers, in coordination with the technical staff in the Border Crossings Authority, customs and tax departments, Iraqi exhibitions, and the Border Crossings Authority. (Refer to the diagram below to see the relationship between these various departments.)

**Chart (1): Official import process steps in Iraq**



**Policy Alternative: Adoption of the global “Skoda”.**

The Iraqi Customs implemented the application of the global (ESCODA) system to digitize the customs procedures in all of its directorates and centers of authority, in combination with the governance of the procedures in the Border Crossings Authority. This is accomplished through cooperation with the international team assigned by the United Nations Conference on Trade and Development (UNCTAD) at the beginning of March (2022), after which work on the electronic connection between customs, border crossings, the Industrial Development Directorate, and the Investment Authority commenced in the first half of the year. With the implementation of the “electronic customs connection” in May of (2022), corruption and forgery will be considerably reduced, which will positively impact customs work and maximize country revenue.

The Escuda system is an internationally adopted system that transitions paper-based procedures in customs transactions to an electronic system in which all steps are completed by computer. As stated by the head of the Customs Authority, it will contribute to the development of the authority’s departments, improve its performance, and achieve

effective management, in addition to achieving financial sustainability and diversifying the economy in accordance with the principles of integrity, transparency, and anti-corruption. In addition to turning the departments of the General Authority of Customs into significant sources for maximizing the country’s financial resources, which are the second greatest financial revenue after oil, according to the former Iraqi finance minister Ali Allawi.<sup>(3)</sup>

This step also contributes to documenting and exchanging customs information between countries and combating customs smuggling. As well as, unifying documents and data between country’s institutions, and thus contributes to reducing the phenomenon of corruption and waste of public money.

The only way to combat corruption and waste of public funds and limit smuggling is for the Border Crossings Authority to implement an electronic audit system. This was confirmed by the commission’s head, Major General Dr. Omar Al-Waeli, who also indicated that the electronic system aided in the seizure of a large number of forged files, altered pre-examination paperwork, and altered customs and tax receipts.<sup>(4)</sup>

As a result, an electronic audit system was adopted in the Border Crossings Authority, and the latter established its own platform, which was linked with the Iraqi State Exhibitions Company. In order to audit the import sessions, it has also been connected with the General Company for Land Transport; In order to check papers for examining goods received from neighboring countries, the platform has also been linked with the Ministry of Commerce and Commercial Attachés; To

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(3) Ministry of Finance, General Authority of Customs:  
<https://www.customs.mof.gov.iq/ar/node/1941>

(4) A special interview for the researcher with the head of the Border Crossings Authority, Major General Dr. Omar Al-Waeli at the commission’s headquarters, October 2022.

audit and follow up the authentication of documents and invoices for certificates of origin.

The creation and development of this platform came after the formation of the Executive Order (22) of (2022). After which, the work of the platform was expanded through the establishment of a program to audit the customs and tax receipts and to prevent any employee from tampering with the state's customs fees, in addition to activating another program, which is the most important – according to Al-Waeli – Exempt Goods Program. This controls exempted formal letters and quantities received, and to avoid distortion and manipulation of the amounts and types permitted for this exemption, which represents a qualitative change from ordinary paper work to electronic work. This enhanced data accessibility and eliminated fabrication and manipulation of quantities and descriptions of exempted commodities.<sup>(5)</sup>

These procedures have extensive electronic connections. The work in the two authorities (customs and border crossings) is ongoing until a comprehensive connection is established, including training and expanding the abilities of their personnel on the electronic process and how to archive past transactions to secure the auditing of information and data, as well as their interaction, so as to establish comprehensive electronic governance.

From this perspective, it is vital to assess the effectiveness of port and customs governance and automation. Did it accomplish the desired results by activating the electronic link program, which is coupled with the electronic gates to prevent instances of customs tariff manipulation? Did it achieve control over taxes received from retailers and wholesalers? In addition to detecting obstacles and locating suitable countermeasures.

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(5) A special interview for the researcher with the head of the Border Crossings Authority, Major General Dr. Omar Al-Waeli at the commission's headquarters, October 2022.



## Feasibility of the alternative

The General Authority of Customs achieved double revenues, according to the Director General of the General Authority of Customs,<sup>(6)</sup> in which he revealed that revenues amounted to IQD (737) billion and (83) million (about \$507 million) in August (2022) only, compared to the period prior to the application of the electronic connection, as it was at its best achieving IQD 99 billion (\$68) million<sup>(7)</sup>.

Since the implementation of these programs at border crossings and the departments functioning within them, they have effectively contributed to the reduction of description manipulation, smuggling, and official document forgery. As well as, its role in assuring the collection of legitimate government imports and the protection of local products and Iraqi consumers, as verified by the chairman of the Iraqi Border Crossings Authority. In conjunction with the Central Agency for Standardization and Quality Control, a program of pre-examination documents has been established. To ensure that all covered goods that come into direct contact with the requirements of citizens are checked<sup>(8)</sup>.

With regard to the connection with the General Authority of Customs, the cooperation was present, when the Ports Authority proposed to train customs staff on the new program, on a voluntary and free basis, in field workshops within the customs centers, in the various border crossings.

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(6) Director General of the General Authority of Customs, Shaker Mahmoud Al-Zubaidi, statement to the official agency, September 2, 2022, 12:08pm: <https://www.ina.iq/164601--.html>

(7) An official statement of the General Authority of Customs, published on the National News Agency website, July 6, 2022, 18:44: <https://ninanews.com/Website/News/Details?Key=986449>

(8) A private interview of the researcher with the head of the Border Crossings Authority, a previously mentioned source.

However, this step, and despite the achievement of a great progress in the steps of electronic connectivity, it faces serious challenges represented in not linking the ports of the Kurdistan Region of Iraq with this system, as well as challenging the unofficial border crossings that fall outside the authority of these two institutions (border crossings and customs).

And in the event that the two projects of port governance and customs digitalization are completed, this will increase the revenues of the state revenue, and eliminate one of the most important windows for money laundering, especially if we point out that only in (2020) about (\$25) billion were laundered and smuggled, as the Ministry of Planning reported that the volume of Iraq's import of goods in (2020) amounted to (\$15) billion, while the volume of remittances abroad during the same year amounted to (\$40) billion, according to the Central Bank of Iraq report.

Therefore, the government should be tasked with finishing the cycle of integration of these two programs, eliminating the threat to national security and the national economy, and implementing the maximization of country resources principle.

## **Conclusion:**

This positive image will not be complete until the following significant obstacles, which are on pace with this achievement, are eliminated:

1. Standardization of electronic procedures with the border crossings in the Kurdistan Region of Iraq.
2. Control and close the unofficial crossings between the borders with neighboring countries in various directions.
3. Cancellation of customs and tax exemptions that greatly affected the country’s economy, especially since approximately (70%) of goods entering Iraq are currently exempt from customs fees.
4. Unification of collection at the border crossings with the Kurdistan region.
5. Activating the proposal to pay customs and tax fees at Iraqi exhibits following the issuance of an import certificate to prevent the corrupt from blackmailing the customs broker or merchant and to ensure that the government collects legitimate payments directly.
6. Activating the proposal to open laboratories at the border crossing rather than sending them to Baghdad, as the process of sending them to Baghdad and then returning their paperwork to the border crossing is time-consuming and leaves the forms vulnerable to manipulation.
7. Providing political support for procedures to complete and activate governance, while activating the role of the Border Guard Forces to prevent smuggling that takes place through unofficial ports, which are outside the authority of the Border Crossings Authority, and away from the hands of the Customs Authority.

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3. Ministry of Planning, Central Bureau of Statistics annual reports:

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7. The Central Bank of Iraq – Annual Report 2020.

# The Contradictions of the Iraqi Labor Market

**Mrooj Mohammed Hassan\***

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## Executive Summary

The government efforts made to create sustainable job opportunities by improving the quality of vocational education and training did not achieve the desired goals of addressing unemployment and developing human capital, which came within the economic reforms of the Iraqi government (White Paper 2020). The white paper included various projects and procedures in trying to solve this problem, and one of these projects is the Vocational Rehabilitation Project (VRP) (55), which is implemented by the Ministry of Labor and Social Affairs and the Iraqi Central Bank from (2021 to 2024).

More than a third of young people in Iraq are still unemployed, undereducated, or even untrained. Despite the country’s compulsory primary education, teenage illiteracy rates have climbed by (7.4%), and one in every five employed people is unemployed. The lack of skills has restricted graduates from Iraqi universities’ ability to find employment, and in some cases, this has resulted in their being locked in positions that are not commensurate with their talents and low productivity and earnings.

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In addition, educational and training programs and systems still do not keep pace with the future shifts in the labor market. For example, technological developments, massive changes in the labor market, and the skills required to work in the areas of data analysis, advanced industry, and other types of jobs related to climate change. Also, the political will to implement reform measures and provide sustainable job opportunities was not at the required level. This negatively affected the implementation of reform measures.

This is in line with the high population growth rate, rising job demand, the nature of upcoming labor market changes, and the rise of contemporary jobs that necessitate raising educational standards and connecting them to vocational and technical training. Additionally, it promotes the incorporation of the basic pillars of global management and labor standards into the design of educational and training initiatives. This can be achieved through the application of Germany's dual-track vocational training program, known as the VET, which is a mixture of theory in the academic institute and practical practice in the production sectors, (70%) within the institution, the workshop, factory, company, or office, and (30%) in the vocational school, and targets all individuals in society.

Dual vocational education and training in Iraq will achieve the following: helping trainees acquire vocational qualifications and specialized skills and providing practical application in appropriate

working conditions. Trainees also receive a financial reward during the training period. As for the companies, factories, or private institutions, this program will guarantee them the provision of specialized professional labor following the labor market requirements. Implementing this program will offer high levels of production, human development, and the creation of long-term work possibilities.

### **Introduction**

Unemployment rates are still high among Iraqi youth, as the majority of graduates from Iraqi universities suffer from a lack of skills that restricts their ability to obtain work and the lack of alignment of their skills with the needs of the labor market. This leads to being stuck in jobs that do not commensurate with their skills, low productivity and wages, and difficulties in obtaining work. Also, Iraq’s educational and training systems do not keep pace with the requirements of the future labor market.

According to the current data, it appears that the majority of Iraqi youth are not employed, educated, or even trained, as shown in the Labor Force Survey in Iraq in the year (2021). The Iraqi Ministry of Planning believes that these indicators will contribute to setting policies in the long term and confronting the challenges of the labor market, and knowledge of the basic requirements for providing job opportunities in Iraq.

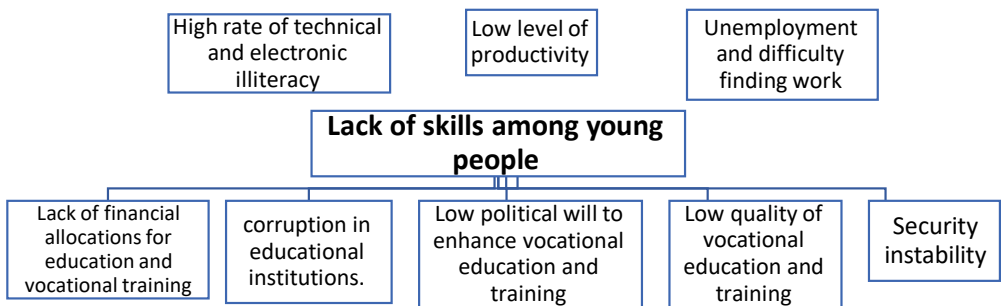
This paper aims to identify the problem of lack of skills among youth in Iraq, which leads to difficulty in obtaining work, by clarifying the roots of the problem and the current reality of education and vocational training, training programs, and projects. To solve this problem, the paper presents the reforms that the white paper suggested. In addition to clarifying the level of political will in these reforms, this paper also reviews the alternative that can contribute to solving this problem by presenting the experiences of other countries.



## Background

One of the challenges the Iraqi economy is currently facing is the lack of technical and vocational skills needed for the workforce among young people in the country. The long years of instability and widespread corruption in Iraqi institutions, low spending on education and training compared to Iraq’s neighboring countries, dependence on oil revenues and price fluctuations, as well as the effects of the Covid pandemic (2019), are all significant factors that contributed to the lack of quality in the nation’s education and training system, which resulted in a lack of skills and a decline in the development of the human population. An analysis of the issue of young people’s lack of skills is shown in Figure 1.

**Figure (1): Analysis of the problem of lack of skills among youth**



This happens to coincide with high unemployment, low productivity, and unqualified Iraqi workers, as well as difficulties moving and finding suitable jobs. All of this is reflected in the country’s economic

and social conditions, as well as its stability. We saw this during the October protests (2019), where one of the main motivators was the high unemployment rate, which reached (16%), with one unemployed person for every five-working people.<sup>(1)</sup> This aligns with the doubling of Iraq's population, which is expected to reach (50.2) million by (2030), with the majority of the population being young people.<sup>(2)</sup>

In addition, 7% of the working-age population is outside the labor force, and high rates of job seekers may take up to 12 months to find a job.<sup>(3)</sup> With this abundance of human resources and the demand for jobs, creating enough decent and productive jobs to keep up with technical and global changes becomes a challenge. The Iraqi government included several projects in the White Paper (2020) to create job opportunities for young people, including the vocational rehabilitation project No. 55, which is being implemented by the Ministry of Labor and Social Affairs and the Central Bank of Iraq (2021 to 2024).

### **Iraqi vocational education and training**

Since (3.2) million Iraqi children of school age are out of school<sup>(4)</sup>, Iraqi youth are not qualified for entrepreneurship, decent work, or human capital development. Despite compulsory primary education<sup>(5)</sup>,

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(1) The International Labor Organization. Iraq and the International Labor Organization launch the first national labor force survey in a decade. 2022. [https://www.ilo.org/beirut/media-centre/news/WCMS\\_850384/lang--en/index.htm](https://www.ilo.org/beirut/media-centre/news/WCMS_850384/lang--en/index.htm)

(2) The White Paper 2020.

(3) International Labor Organization. Labor Force Survey. 2022.

(4) UNICEF. education. 2017.

(5)The National Survey of Adolescence and Youth 2019. 2020,

youth illiteracy rose by (7.4%). Educational institutions’ infrastructure has been damaged, and some are out of service and need repair. This prevented accommodating the large population of student<sup>(6)</sup>. The Ministries of Higher Education and Labor and Social Affairs struggle to hire enough qualified teachers, academics, and trainers who follow international standards and modern training methods. Educational and training curricula also fail to incorporate new technologies, developed industries, and labor market needs.

This led to a lack of quality education and training in Iraqi schools, universities, and rehabilitation and training centers, which only prepare students for public sector jobs. The UNICEF report shows that (60%) of Iraqi youth lack the skills for employment and job transition and that most second and third-graders cannot read age-appropriate material<sup>(7)</sup>. As was the case with Iraqi children in the past, which is a serious indicator of student empowerment, they are supposed to be rehabilitated according to modern education and training systems that keep pace with new professions in the next decade<sup>(8)</sup>.

### **Vocational training projects and their success**

The Iraqi government’s economic reform measures include policies to create sustainable job opportunities, provide qualified human

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(6) UNICEF. education. 2017. <https://2u.pw/vqkop>

(7) The United Nations. 2022. <https://2u.pw/KDhKz>

(8) The World Bank. Paving the way for improving educational outcomes in Iraq. 2022. <https://2u.pw/ZwXUg>

resources that meet labor market demands, and boost productivity (White Paper 2020). The Ministry of Labor and Social Affairs and the Central Bank of Iraq are implementing vocational rehabilitation project (No. 55) to address this issue (2021 to 2024). The project aims to give vocational institute and preparatory school graduates priority in granting licenses to practice the profession following market standards, motivating those with technical skills, providing financial facilities to establish small projects, establishing government-adopted programs for training, development, and rehabilitation. As well as renovating rehabilitation centers, and establishing modern vocational training centers in the Ministry of Labor and Social Affairs; to fill the gap in constructing a skilled workforce.

However, government vocational training efforts are not novel. The Ministry of Labor and Social Affairs has established centers and implemented training programs in Iraqi governorates over the past decades, following Labor Law No. (151) in (1970).<sup>(9)</sup> The Ministry of Labor and Social Affairs has organized and developed training programs and centers since then to empower youth with the needed skills for permanent, suitable jobs.

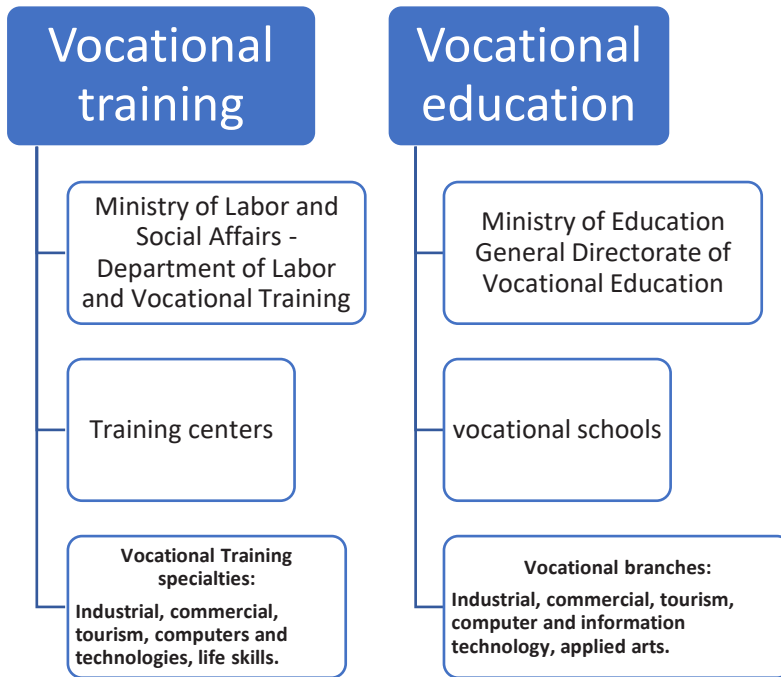
After finishing intermediate school, Iraqi students can apply to one of the vocational schools and study for three years to earn a preparatory

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(9) The civilized dialogue. Sawsan Shaker. 2021. Developing the reality of vocational training, employment and loans in the Ministry of Labor and Social Affairs is a step towards eliminating unemployment among youth. <https://2u.pw/kjXcD>

certificate. The General Directorate of Vocational Education (GDVET) of the Ministry of Education manages vocational schools, and the Technical Education Authority of the Ministry of Higher Education and Scientific Research manages university technical education. Labor and Social Affairs trains them. Iraq’s vocational education and training structure is shown in Figure (3).

**Figure (3): Structure of vocational education and training in Iraq**



The Vocational Training and Employment Department of the Ministry of Labor and Social Affairs provides training enrollment data quarterly. As shown in Table 1, the number of people enrolled in

vocational training in (2018) was (11086), including (9261) unemployed, with (4591) males and (4670) females.

**Table (1): Categories of graduates from training courses**

No.	Trainee Category	Males	Females	Total
1	unemployed	4591	4670	9261
2	Employee	351	71	422
3	Organizations	161	365	526
4	Borrowers	97	9	106
5	Organizations/displaced persons	57	118	175
6	student	361	204	565
<b>Total</b>		<b>5622</b>	<b>5464</b>	<b>11086</b>

From 1/10/2018 to 31/12/2018, the Vocational Rehabilitation Department trained (2471) people at centers throughout Iraq. (756) male and female students passed business innovation training, and (182) female trainees acquired life skills through those training courses.

The Ministry of Labor and Social Affairs has completed (17) of (21) projects and had (4) variations, according to the semi-annual report on the first government program (2018–2022). Due to not providing financial allocations for these initiatives, achieving targets and completing these projects were delayed in the coming quarters.

According to the government performance report and the Prime Ministry’s white paper for May (2020) –May (2021), (3000) loans were

given to unemployed Small Enterprise Support Fund members to alleviate unemployment. Three batches of small loans have established more than 80 industrial and productive initiatives across Iraq’s governorates, with 16,000 borrowers until April (2021).<sup>(10)</sup>

These reforms and government efforts to promote vocational training failed to solve unemployment and increase human capital. (33%) of Iraqi adolescents are unemployed, uneducated, or untrained.<sup>(11)</sup> Vocational education and parallel training admissions dropped to (15,572). Due to the federal state’s delay in issuing budgetary allocations from the Ministry of Labor and Social Affairs’ budget,<sup>(12)</sup> these metrics do not match the labor market’s need for employment and technical vocations.<sup>(13)</sup> This reduced the number and distribution of training centers, educational and training programs that do not meet international education and training standards and are not recognized internationally. It also fails to keep up with technological advances, major labor market changes, and the skills needed for data analysis, sophisticated industries, and climate change-related employment.

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(10) In the government performance report. May 2020– May 2021. P. 135. Annual Government Performance Report.pdf – Google Drive

(11) International Labor Organization, Labor Force Survey. 2022 <https://2u.pw/RATX4>

(12) The semi-annual report on the follow-up to the implementation of the government program 2018\_2022.

(13) International Labor Organization. Anticipating the future of keeping education in line with the requirements of the labor market in Iraq 2050. 2022.

**Policy alternative (dual vocational education and training):**

It appears that there is an urgent need to solve the problem of a lack of skills, which is due to the low quality of vocational education and training and the fact that it doesn't meet the needs of the Iraqi labor market. This is so that decent, long-term jobs can be created that can keep up with how the labor market is changing and how new jobs are being created. This can be done with the help of the German dual VET.<sup>(14)</sup>

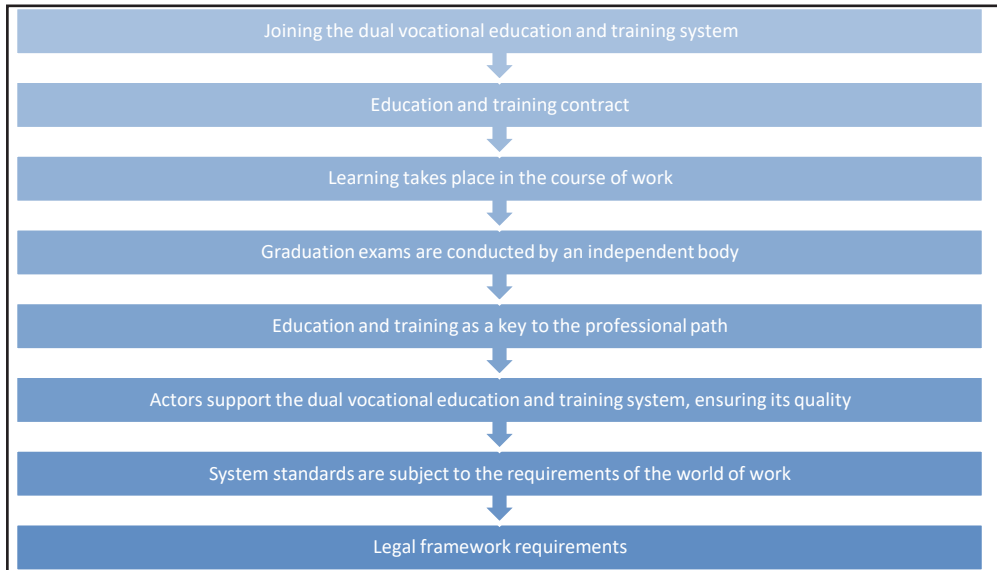
The dual education system takes between two and three and a half years. It is a mix of theory (30%) in the school, where students go to class and use general study materials and profession-specific materials, and practice (70%) in the production sectors within the country. The institution, company, workshop, or factory where students get organized vocational training under real-world working conditions, do specific jobs, and get paid for it all follows modern international standards for education and vocational training. Dual VET gives people skills that are in demand on the job market and help them get jobs that are long-lasting. Figure No. 4 shows dual vocational education and training.

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(14) The German Dual System <https://www.govet.international/languages/ar/138355.php>



**Figure (4): Explanation of the dual vocational education and training system**



Iraq can apply dual VET, and this is done through the following:

1. The State: The aforementioned ministries (labor and social affairs, finance, education, and education) and in cooperation with the Iraqi Parliament and the Central Bank of Iraq, ensure the provision of the legal and financial framework requirements through the legislation of the dual education and training law that regulates the implementation of this project, and the activation of laws and regulations for the protection of human rights. Individuals from juveniles and adults at work, activating the compulsory education law. The concerned authorities also finance part of the training reward in cooperation

with employers, provide loans to small and medium enterprises, and encourage sustainable projects.

It is accountable for ensuring that the theoretical aspect of the project is put into practice as a result of the fact that it provides funding for the government vocational school system, monitors the operation of the system, and participates in the discussion and drafting of a training list with partners from labor unions, chambers of commerce and industry, and businesses. Through the educational plan, it establishes the parameters for vocational training that takes place in vocational schools, provides funding for the general vocational education system, and organizes its work in accordance with the requirements of the labor market. These ministries, along with their partners, are responsible for monitoring the implementation of dual education and providing assistance and encouragement to unemployed individuals who are pursuing dual vocational education and training.

2. The Chamber of Commerce, trade unions, and employers: execute the practical side and professional practice of this project in the enterprise, factory, or institution, where vocational training is determined and the best ways to implement it according to labor market needs. The Chamber of Commerce oversees enterprises and private institutions that provide vocational training and supplies.

A qualified team is also identified to supervise the training work, organize exams, exam committees, and all events, and provide

consultations. This can be done in cooperation between the chambers, employers, the Ministry of Labor, and the Ministries of Education to supervise and follow up on training in the applied aspect of the project.

As for unions and employers, they determine the standards for training and the contents of training, fund part of the training reward, and supervise training in the participating company, factory, and private institution. While the employers in their companies or factories determine the new fields, tasks, and qualifications, and define modern training standards in the companies in cooperation with the concerned government educational and training institutions.

The main challenges that could hinder the implementation and success of this project in Iraq:

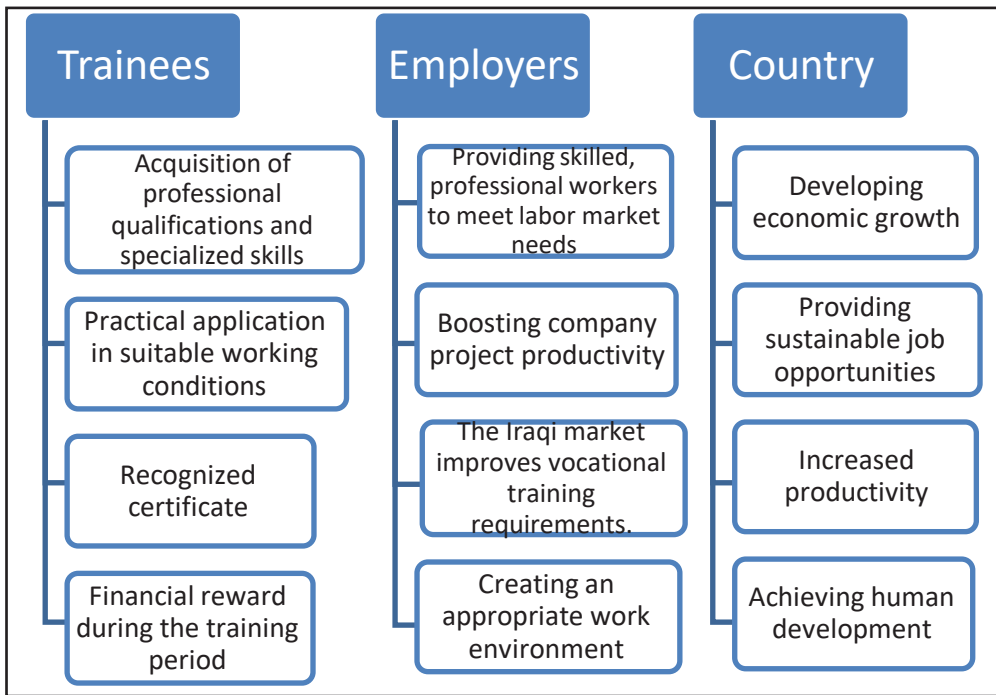
1. Difficulty in providing qualified vocational training staff.
2. Insufficient number and distribution of centers; Which may lead to difficulties for individuals entering dual vocational training.
3. The low number of trainees; As a result of the discrepancy between the required and available vocational training opportunities.
4. Organizational and technical difficulties that may face cooperation between the state and business partners and professional and technical unions.
5. The absence of modern national standards that regulate the work

of dual vocational education and training.

6. The lack and delay of financial allocations by the federal budget.

### The alternative feasibility

**Figure (5): What can dual vocational education and training implementation achieve in Iraq**



## Conclusion

It seems that there is an urgent need to solve the problem of lack of skills, which came as a result of the low quality of education and vocational training, and its lack of connection with the requirements of the labor market in Iraq. To create decent and sustainable job opportunities that keep pace with the nature of future transformations in the labor market and the emergence of modern jobs; This can be achieved through the application of German vocational qualification or what is called (dual vocational education and training). Dual VET is expected to contribute to improving the quality of vocational education and training in Iraq and thus developing the required skills. This is because dual education takes from two to three and a half years, and it is a mixture of the theoretical side, (30%) in the school, where students attend the semester, and study profession-specific materials, and (70%) practical practice in the production sectors within the institution or company. Where students receive organized vocational training under real working conditions, participate in specific operations, and receive material rewards. All this is done following modern international standards in VET, and thus the beneficiaries of dual education will acquire skills that suit the requirements of the labor market and provide sustainable jobs.

1. Improving the quality of education and training systems, taking into account the needs of the market in the education system, providing training in the technical and vocational fields, and encouraging the application of systems following international standards. All sectors and at different levels, of which will create productive human resources that contribute to the development of the local economy. Thus, the unemployed will be able to obtain work, and the local worker will be able to acquire the required skills to move more freely between jobs and choose the jobs that suit him, and this will contribute to raising or improving the wages granted to him.
2. The concerned institutions must provide financial support by providing and increasing financial allocations for vocational training projects, and financing emerging projects, especially in the industrial and agricultural fields. Because the development of skills will lead to human development and diversification in the financial resources of the state in addition to the oil sector. Which contributes to creating a diversified investment environment.
3. The legislative and executive authorities in Iraq must legislate and enforce the implementation of some laws. For example, a new retirement and social security law guarantee an improvement in the conditions of workers in all commercial, industrial, and professional sectors. And obtaining a retirement pension at the end of their service, similar to what is applied in the public sector. This will

contribute to increasing the youth’s ability to work in the private sector. And a new law for vocational training that guarantees the establishment of centers and the application of modern education and training systems that conform to international standards.

4. The concerned authorities such as the Ministry of Labor and Social Affairs, in cooperation with the private sector, must address the challenges that hinder the work and development of centers and training. As the number of training centers and their distribution in the Iraqi governorates and the vocational training human resources provide low training and are not commensurate with the needs of the labor market. As well as interest in providing data on the number of graduates from training programs and the number of participants who obtained jobs after graduating from those programs; this can affect the young people’s desire to develop their skills and the feasibility of that.

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# Bridging the Gap Between Higher Education Outputs and the Iraqi Labor Market

**Lama Karim Khudair\***

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## **Executive Summary:**

Education plays a central role in promoting human capital via providing individuals with the knowledge and skills required to integrate into the labor market. Iraqi universities graduate around 180 thousand students annually, but most face difficulties in finding job opportunities, mainly due to lacking knowledge and skills required in the labor market. The root cause of this problem is the legal framework, as the Ministry of Education is still working under Law No. 40 of 1988, which is unsuitable for current times, as the curricula and plans require ongoing updates to keep pace with the rapid developments of the labor market. The most apparent impact of this problem is the thousands of graduates that demand job opportunities only to be hired in an already over-bloated public sector, further burdening the federal budget and doubling its recurring spending.

Even worse, postgraduates are increasing, widening the gap between the educational system’s outputs and the labor market’s requirements. Universities focus on accumulating knowledge rather than acquiring skills. Hence, graduates need ‘rehabilitation’ before joining the labor market.

This paper recommends that the gap should be addressed by structuring the educational system by abolishing/establishing fields of study based on market needs, activating the vocational training sector, and integrating advanced programming and artificial intelligence technologies to ensure a sustainable education.

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## Introduction

Higher education's outputs are the common denominator in human resource development, built on two central pillars: education and economy. Whereas the first sector's duty is preparation and rehabilitation, the second sector's task is providing job and employment opportunities. The level of compatibility between the higher education outputs and labor market inputs requires concentrated efforts, cooperation, and mutual support between these two poles.

As a result, it is critical to coordinate and link the outputs of higher education with the labor market's needs both in quantity and quality. The lack of this link leads to an imbalance in the labor structure and a waste of human capital.

Concerning the problem of higher education in Iraq, the relationship between education and economic growth is fragile, and the gap between education and employment remains unbridged. Many indications corroborate the degradation of Iraqi higher education in terms of the quality of its outputs and the level of its graduates, as the survey of Shanghai Global Ranking in (2018) shows the absence of any Iraqi university on the list of the best (500) universities in the world.

This paper aims to provide potential solutions for bridging the gap between higher education outputs and labor market demands in Iraq and identify international and Arab trends that link higher education outputs to labor market needs. The paper also aims to assess the internal environment of Iraqi society's conditions following the year (2003), which resulted in a significant imbalance in education and a failure to match its outputs to labor-market needs.

## Background

### **The legal, political, and security roots of higher education problem:**

The law governing the duties of the Ministry of Higher Education and Scientific Research, which does not keep pace with today's developments, is one of the critical elements that hinder the development of Higher Education in Iraq. It is still functioning under the Law of Higher Education and Scientific Research No. (40) of (1988). Graduates are estimated to be nearly (177,000) individuals. This resulted in an imbalance in the country's public policies, prompting a significant number of graduates to demonstrate their rights to employment, which began in (2019) and has continued to the present, creating security confusion.<sup>(1)</sup> The number of students expanded substantially due to the demographic increase, and public universities were unprepared for the rising demand. As a result, the number of private universities has grown, as shown in the table of the increased enrollment at public and private universities:

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(1) Luma Karim Khudair: Higher Education Policy in Iraq after 2003 / Private Education as a Model, Master Thesis (unpublished), Al-Mustansiriya University, College of Political Science, 2020.

**Table (1): Number of students in public and private universities**

No.	Academic Year	Number	%
1	2011/2012	98673	11.75
2	2012/2013	99738	12%
3	2013/2014	112469	13.40
4	2014/2015	101061	12%
5	2015/2016	130488	15.60
6	2016/2017	144367	17.25
7	2017/2018	152467	18%
<b>Total</b>		<b>839,263</b>	<b>100%</b>

Surce: Dakhel Hasan Jerio: Contemporary Higher Education, Its Trends and Orientations, Baghdad, Scientific Assembly Press,

From a political standpoint, there needs to be more strategies and coordination between parliamentary committees, notably the Higher Education Committee and the Ministry of Higher Education. Such coordination is important to restructure higher education by establishing/abolishing departments in light of markets' demands.<sup>(2)</sup>

The high rate of unemployment, combined with the lack of a policy to absorb graduates in the labor market, has security repercussions, enabling terrorist and armed groups to recruit youth. It also contributed to the spread of drugs because of the graduates' sense of emptiness. There are no policies in place yet to remedy this imbalance through serious educational strategies.<sup>(3)</sup>

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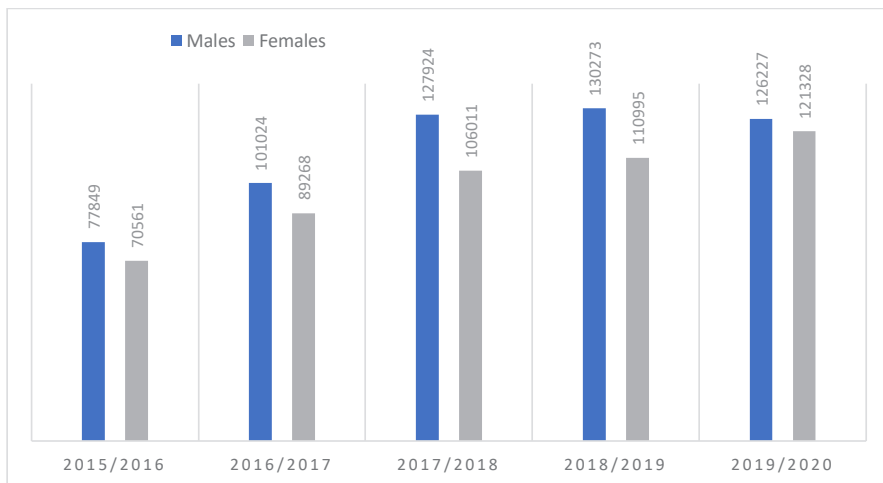
(3) Luma Karim Khudair, Idb.

## Economic and Social Problems of Education

The lack of cooperation and integration between educational institutions and the commercial sector represents education’s economic and social challenges. Whereby the involved authorities are expected to step up their efforts to absorb the growing number of unemployed graduates in a way that aids in the growth of agriculture, industry, health, and other sectors.

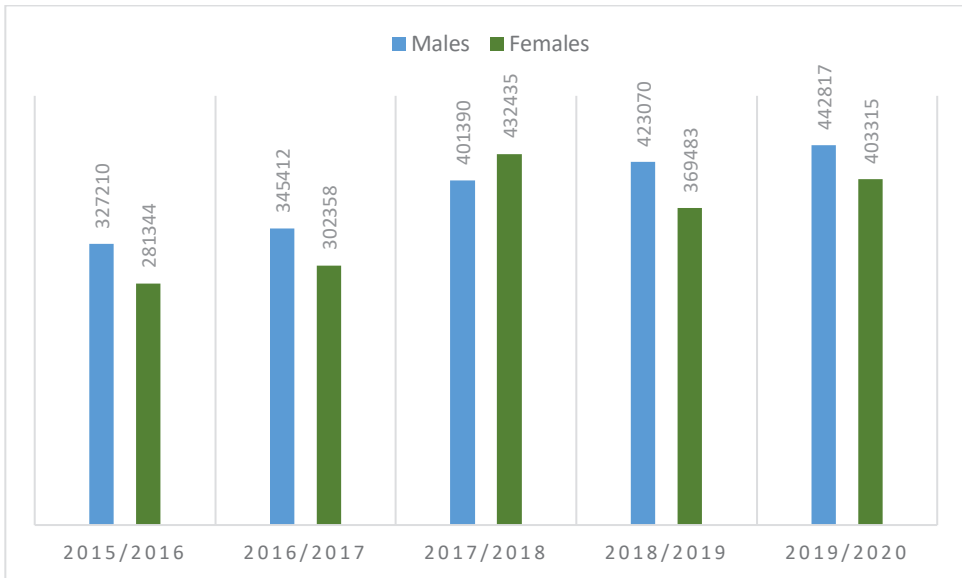
Due to a lack of monitoring of the private sector, employers have subjugated their employees and forced them to labor for low compensation compared to their efforts. In addition to the rejection of foreign companies to hire local graduates and instead attracts foreign workers due to graduates’ lack of expertise. The graph below compares the percentage of students accepted into private education to the total number of admissions to public universities.

**Figure (1) shows the percentage of students accepted in private education compared to the size of admission in public universities**



The following figure shows the number of students in higher education (public and private) and technical education by gender for the period (2015–2016/2019–2020):

**Figure (2) shows the number of students in higher education (public and private) and technical education**



Failure to adopt an objective balance between higher education’s inputs and outputs has resulted in a surplus of graduates in many scientific and humanitarian specialties, causing many of them to be pushed into work opportunities that have little relevance to their specialty. This resulted in decreased efficiency, a lack of creativity, and lack of incentive to develop necessary skills for the job.<sup>(4)</sup>

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(4) For more details, see Dakhel Hasan Jerio: Contemporary Higher Education, Its Trends and Orientations, Baghdad, Scientific Assembly Press, 2004. p. 114. And also: Elaf Hassan Jaafar: Educational policies and political upbringing in Iraq after 2003, master’s thesis (unpublished) Al-Nahrain University / College of Political Science, 2016, p. 106.



The cumulative number of unemployed graduates from universities and institutes – according to the database of the Ministry of Labor and Social Affairs, is (16.25%), as shown in the following table:

**Table (2): the unemployed graduates**

Year	Diploma	Bachelors degree	Higher Diploma	Masters degree	Ph.D.	Total	number of the unemployed	Percentage of unemployed graduates
2012	8032	8685	30	88	0	16835	126090	13.35%
2013	6243	8984	62	261	0	15550	118045	13.17%
2014	3592	6186	44	96	2	9918	59731	16.60%
2015	6541	19224	42	463	9	26270	114532	23%
2016	3685	9096	45	717	32	13575	70803	19%
2017	4120	9048	24	198	4	13394	53541	25%
2018	15538	40030	150	936	44	56698	393923	14.40%
<b>Total</b> 47751		<b>101253</b>	<b>397</b>	<b>2759</b>	<b>91</b>	<b>152251</b>	<b>936665</b>	<b>16.25%</b>

The above table indicates the following:

1. The percentage of the unemployed who hold university degrees registered with the Ministry of Labor is limited, as it reached (16.25%), compared to (83.75%) of secondary school graduates.

2. The variation in the percentages of the unemployed in accordance with the degree. About (98%) of them were those who hold a bachelor’s degree, followed by diploma holders, respectively, and a percentage of approximately (2%) of those who hold a master’s degree, followed by a higher diploma, then a doctorate, respectively.

3. The table shows the convergence of the percentages between (2012 and 2013), then an increase between (2014) and (2015), and after that a decline in 2016, and an increase again in (2017), then its decline to half in 2018. Such fluctuation indicates the weakness of job creation policy.

4. The Poverty Monitoring Survey conducted by the Iraqi Ministry of Planning in (2017) showed that the number of unemployed persons with a diploma and higher degrees reached (483,864) out of the total number of unemployed persons, which is (1,384,968), constituting a percentage of (35%).

The number of students admitted to postgraduate studies at various stages (higher diploma, master's, doctorate) is increasing annually, as their number for the academic year (2014–2015) reached (24948) male and female students in various levels, their percentage rose to (30.7%) between (2009) and (2014), necessitating the search for rapid and precise strategies to utilize their energies in the labor market.

However, the accumulation of the number of unemployed graduates will cause the waste of these energies and human resources that can contribute to achieving development.

### **Current and Future Labor Market Requirements of Educational Skills:**

#### **Skills gap**

The skills gap stems from a mismatch between existing and future skills required for labor market stability, profession ownership, and professional success. In our present culture, the dominance of technology has caused changes in human life and conduct, as well as the creation and disappearance of different professions. It has become vital to develop an educational system that provides lifelong education and imparts skills to individuals to adjust quickly to change.<sup>(5)</sup>

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(5) Sami Muhammad Abdel-Maqsoud Nassar: Continuing Education in Society, the Tenth Annual Conference entitled Adult Education and Sustainable Development in the Arab World, Adult Education Center, Ain Al-Shams University, in partnership with the Arab Organization for Education, Culture and Science, Cairo, April 2012.

Among the main factors to ensure a future that satisfies all parties: increasing cooperation at the regional and international levels, exchanging knowledge between future workforce development initiatives and entities that enjoy the same degree of flexibility, speed and commitment. It also necessary to utilize new technology, its dissemination, and adoption throughout the world.

Information and communication technology influences employment as a sector that provides numerous work opportunities. Information and communication technology–based job opportunities are of critical importance. As a result of the fact that countries all over the world are seeking to increase the number of decent employment possibilities that have a significant economic and social impact on workers and society.

Because technological advancement and the need for highly skilled labor are strongly associated, the required skills for employment will inevitably evolve. Technological advancement raises the economic need for and investment in skills. This results in substantial shifts in the distribution of profits and employment throughout the developed economies.<sup>(6)</sup>

Students will be required to adjust to the shifting work market in light of the present changes. Ongoing training will be one of the most important fundamental values, thereby improving professional maturity and addressing students’ current and future needs.<sup>(7)</sup>

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(6) Bakshi,H. et al: The future of skills: Employment in 2030, London: pearson and nesta,2017.

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## Policy alternatives

The most important mechanisms and alternatives for bridging the gap between higher education and the future labor market can be summarized as follows:

1. The need for universities to continuously study the current and future market needs using the gap analysis method. This is to identify the labor market's needs and provide advanced study programs to bridge the expected deficit in some fields.<sup>(8)</sup>

2. The reform should focus on the student as an output of education by enhancing skills in accordance with the needs of the new labor market and providing programs to improve students' level of critical thinking. In addition, supporting the exceptional and creative, equipping them with the professional and technical skills necessary to join the workforce with ease. As well as, keep up with students after they graduate and evaluate them in order to develop higher education courses.<sup>(9)</sup>

3. The changing nature of work helps to increase the attractiveness of higher education, through:

- Technology increases the demand for general cognitive skill, such as problem-solving, critical thinking, and advanced communication skills that can be transferred across jobs and cannot be acquired through schooling alone. The demand for these skills has increased the wages of

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(8) Mahmoud Omar Issa: Projects for Bridging the Gap between Higher Education and the Labor Market (Partnerships between Education and the Labor Market: Institutional Partnerships) The Experience of the Private College of Business Administration ABC in Jeddah, Conference on Higher Education Strategies and Human Resource Planning, The Hashemite University, Jordan, April 2012.

(9) Mansouri Al-Zein: The basic stakes for activating the Algerian university reform in bridging the gap between education and the labor market, Conference on Higher Education Strategies and Human Resources Planning, The Hashemite University, The Hashemite Kingdom of Jordan, April, 2012.

university graduates and reduced the demand for less educated workers.

–Higher education stimulates the demand for lifelong learning. It is also expected that workers will have multiple professions during their lifetime. Higher education meets this growing demand through its various courses and training models, such as the Internet and Open Universities. Higher education, particularly universities, is becoming more attractive in the changing world of work through its role as a platform for innovation.<sup>(10)</sup>

4. Introducing new programs and modern majors in university education, reviewing and formulating current programs, and abolishing programs that do not keep pace with the requirements of this era.<sup>(11)</sup>

5. higher education should provide its students with specializations that suit the actual needs of the current and future labor market, and take into account the skills necessary to succeed in the labor market. This can be achieved by developing the courses and curricula offered to students throughout their study.<sup>(12)</sup>

### **Feasibility of the alternative**

One of the most important alternatives is to link admission to higher education institutions to the needs of the labor market as much as possible. This is accomplished through effective career planning, which gives indicators of the economic condition and labor market conditions. The project No. (54) presented by (The White Paper) in cooperation with the Iraqi Ministry of Youth and Sports was to

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(10) World Bank: World Development Report 2019, The Changing Nature of Work, 2019.

(11) Mohsen Ali Attia: Comprehensive and New Quality in Teaching, Dar Al-Safaa for Publishing and Distribution, Amman, 2009.

(12) Muhammad Ghoneim. Et al. : Economic Crises in Egypt «The Way Out and Available Solutions» Some Special Proposals for Developing the Institutional Form of the Education System in Egypt, Egyptian Center for Economic Studies.

encourage young people to choose educational and training paths that are compatible with the labor market.

This alternative will reduce the gap by bringing the higher education sector and its governmental and private institutions closer on one hand, and the industry and business sector on the other. The ongoing and systematic communication contributes to the proper diagnosis of the issues that plague both sectors. As the relationship is mutual and the advantage is shared, and all we need is communication and genuine desire to participate in the solution.

## **Conclusion**

Current and future occupations and professions depend less on physical exertion than on skills. The information and communication revolution contributed to the rise in productivity, resulting in the disappearance of positions in heavy industries that did not require specialized training. The new nature of work also increases the demand for talented individuals who are familiar with contemporary technologies. Improving the outputs of technology-based education, particularly in advanced sciences such as artificial intelligence and nanotechnology, has also become essential for training the next generation of people. No matter how advanced robots get, they will be incapable of establishing social relations, in addition to developing creativity and stimulating interactive entrepreneurship like people. It may also be beneficial to undertake a study of the opinions of private employers regarding their need for trained personnel, and to conduct applied training courses utilizing new global technologies and means during or after students graduate. The following are among the most crucial factors that the relevant authorities may do to develop and correct their path at the lowest possible cost and with the quickest possible execution on the ground:

1. Periodic analysis of the viability of study materials and mechanisms of their application, utilizing their topics on the ground, making continuous adjustments to them as needed in light of the evolution of labor market needs, and attempting to develop methods to measure the lack of competencies and analyze gaps in order to adapt education policies and strategies to anticipate needs over the medium and long term; To strengthen the link between higher education and the labor market.

2. Examining the regulatory frameworks and norms that regulate the Ministry of Higher Education and Scientific Research’s operations and continuously enhancing them to stay up with the rapid global changes. This is done in an effort to address the existing structural imbalance, and sets the stage for complementary work, whether between state departments or between universities and their affiliated entities and the private sector, as well as securing the private sector’s needs and governmental support.

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# Private Higher Education Sector: Opportunities to Reduce Unemployment

**Ali Adnan Mohammed \***

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## **Executive summary**

Having an over-bloated public sector in Iraq led to an unemployment policy focused on private sector development. As it has become exceedingly difficult for any government to reduce unemployment rates by relying solely on public hiring.

Reforming private sector requires gradual and segmental reforms, aiming to target a particular sector and group of beneficiaries. Therefore, this paper aims to address the educational sector to mitigate the unemployment of postgraduates, where we highlight the need to implement Article (45) of the Private Education Law No. (25) of (2016) stipulates the establishment of a social security fund for workers in private universities.

The paper addresses the obstacles that prevent the implementation of the Labor and Social Security Law in the private education sector. In addition to the difficulties facing the Ministry of Labor and Social Affairs on the executive side. The paper reviews the mechanisms for implementing Article (45) of the Private Education Law, which provides an opportunity to work on allocating (social security). The development of these policies helps greatly to overcome the issue of amending the Labor and Social Security Law, which is marred by much complexity, as the file of amending this law has become one of the thorny files in the Iraqi parliament.

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The paper also stresses the importance of political will in achieving economic reform initiatives. It refers to the issue of the overlap of administrative authorities which requires a political will to settle it. This issue is not tied to the policies of reforming the private education sector; rather, it is a wide topic pertaining to private sector in general.

## **Introduction**

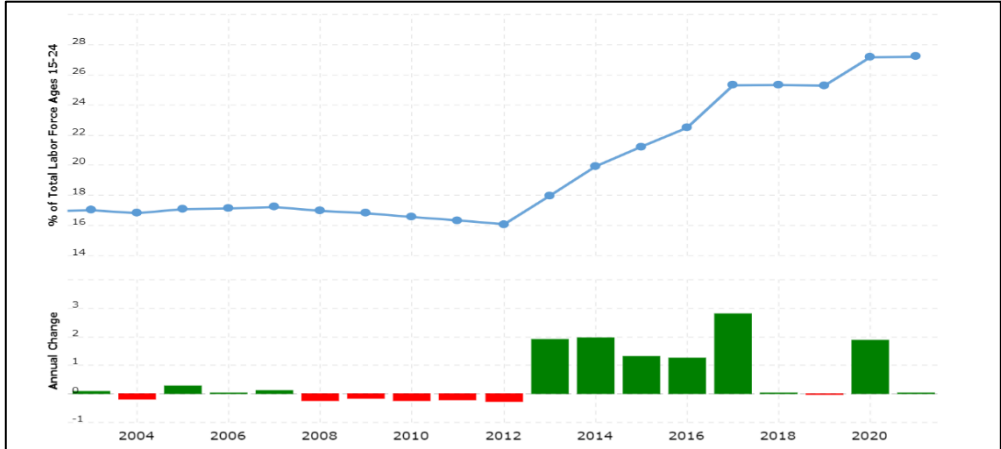
Unemployment is a problem that has plagued all Iraqi governments since 2003, and according to data from the World Bank, the unemployment rate among Iraqi youth climbed 10 points to roughly (12.7 %) in (2021) (1). The problem of unemployment cannot be limited to its economic aspect alone; it also has a social aspect that merits investigation and remedy.

And since unemployment among holders of postgraduate degrees is one of the catalysts for the massive uprisings against the Iraqi government in October (2019), failing to address the issue of unemployment, especially among graduates, could expose future governments to similar scenarios. The treatment strategies must vary based on the target population and take into account the prevalent social understanding of the unemployment dilemma.

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(1) <https://www.albankaldawli.org/ar/country/iraq/overview>

**Chart (1): Unemployment rate for the ages of (15–24) years**



**Background:**

One of the primary causes of the unemployment crisis is the social conception of (work) and (the unemployed). Academic literature refers to this phenomenon as (behavioral unemployment), which refers to society’s aversion toward certain professions and employment prospects notwithstanding their availability. In the event of investigating the problem of unemployment according to educational level, we will discover that a significant proportion of unemployment among the educated is, to some extent, behavioral unemployment.

Dr. Adnan Abd al-Amir Mahdi states that there is a decrease in the unemployment rate among the unemployed who hold an (elementary) qualification or less, from (55%) to (15%) between (2003) and (2008). According to Dr. Saleh Al-Kafri, the higher level of education, the higher the likelihood of unemployment. At the same time, Dr. Saleh states that the higher level of education the higher possibility of obtaining a government job. While the level of education is inversely

proportional to the possibility of embarking on a private project. This is because most of the highly educated young people aspire towards a decent government job.

While this aspiration is not comparable with the reality of the Iraqi labor market, as the reformist agenda (white paper) made it clear the impossibility of absorbing the vast number of graduates in government posts. It suggests that the public sector is now overstuffed and cannot accommodate additional job seekers. Moreover, the informal status of the private sector does not provide secure employment opportunities.

Hence, the white paper, in the third part of its fourth axis, proposed the establishment of a unified retirement system that covers all work sectors. This initiative necessitates the approval of a unified law for retirement and social security, however, this law has not been enacted since (2016) due to the considerable political challenges it faces. In the absence of this law, behavioral unemployment will persist. There will inevitably be resistance to working in the private sector, as a result of its exploitation and substantial lack of protection, in contrast to the public sector.

Simultaneously, the government has the possibility to proceed with the partial implementation of this project without resorting to legislative changes. Article (45) of the Private Education Law No. (25) of 2016 mandates the establishment of a retirement fund for lecturers and workers in private universities, colleges, and institutes with a moral personality, financial and administrative independence, represented by the President of the Council of Private Higher Education, and funded and distributed in accordance with the Unified Retirement Law No. (9) of (2014) and the Retirement and Social Security Law for Workers (1971).

The private education sector in Iraq includes universities, colleges, and private institutes that include teaching staff and employees, whom the Iraqi government plans to include in the aforementioned initiative. This study highlights the reform effects of this fund regarding reducing the unemployment rate among young people with higher degrees and developing the private sector in this regard.

#### Social security in the private education sector

The number of private universities, colleges, and institutes has reached seventy-two (72) institutions, notwithstanding the lack of accurate data on the number of private education industry employees. According to the Labor and Social Security Law, these institutions are committed to providing social security for their employees; nevertheless, the majority of these institutions do not adhere to this policy. This is due to a number of challenges, including the ineffectiveness of regulatory authorities and the inconsistency between laws and realities.

The Ministry of Labor and Social Affairs (MoLSA) is responsible for monitoring the implementation of social security in the private education sector. Nonetheless, these institutions' administrative affiliations are with the Department of Private University Education at the Ministry of Higher Education and Scientific Research (MOHESR). The diversity of supervisory authorities impedes the effectiveness of oversight. MoLSA has considerably less control over private educational institutions than the direct supervisory authority represented by MOHESR. Therefore, if MoHESR get the authority to enforce the law, the oversight will be direct and the measures will be applied strictly.

Also, the Social Security Law is not compatible with realities of the labor market, and this is one of the most important reasons that prompted those in charge of the white paper to legislate a new law

instead, and the comprehensiveness of the law for all work sectors is not consistent with the competencies of MoLSA, as it is the case of higher education sector.

The initiative of the social fund for workers in the private education sector represents an overcoming of the aforementioned obstacles, as it targets a specific category of employees and is not a comprehensive initiative. It is also considered a preliminary experience for the unified retirement system that the white paper aims to establish, in which MoLSA takes the role of supervising the implementation of the law, where the MoHESR is given the responsibility of direct implementation and ensuring the commitment of private institutions.

### **The policy Alternative**

Opportunities to reduce unemployment:

In fact, the launch of the Retirement and Social Security Fund for private education personnel will encourage young people who hold postgraduate degrees to work in private education sector, as the statistics of the MoLSA indicates that the number of unemployed people in Iraq has reached (2,500,000), including those with post-graduate degrees. The idea of the fund will first eliminate the fears of young people about working within the private sector.

Social security means that employment contracts will be subject to two levels of oversight (MoLSA & MOHESR), which will protect the contractors and increase the reassurance of young people towards contracting with private educational institutions by protecting the contractor from investors' exploitation. The existence of two levels of control over the contract will prevent the contractor from adhering to the prevalent notion exemplified by the difficulties of terminating the contract in public government institutions and the simplicity with



which it can be terminated in the private sector.

This fund will serve as an alternative to government retirement, since the Social Security Fund will pay a salary comparable to that of a government retiree, as retirement is seen as the central nerve of the social misconception towards unemployment. Typically, young people view government retirement as a form of future security. As a result of its absence, people are unemployed even though they were productive workers in another position. When the MLSA initiates efforts to support the unemployed, many of those registered are private-sector employees. The creation of this fund will help eliminate this misconception and encourage young people to seek employment. The white paper predicts that around (500,000) persons will enter the labor market annually, the majority of whom will possess higher degrees and can be accommodated by the private education sector.

The reform effects of this fund extend to a wider range than what was mentioned because the establishment of this fund requires the use of modern mechanisms for managing funds and disbursing salaries. Private institutions will be obligated to pay the salaries of their employees through the use of modern banking systems. This is to facilitate financial audit procedures. As a result, employees will have bank accounts linked to their work departments, and this will provide an opportunity to benefit from bank loans provided by private banks without the need to seek the assistance of a government employee’s sponsorship. Rather, the guarantee of their work institutions will suffice.

## **The Feasibility of Alternative Policy**

Investing this fund's earnings will generate exceptional revenue for the private education sector, separating it from reliance on MoHESR subsidies. Therefore, the Department of Private Education can use the earnings from this fund to support young people who hold postgraduate degrees to conduct scientific research or similar initiatives to minimize unemployment rates among this vital youth population sector.

### **Encouraging Mechanisms**

The MoHESR, as the body supervising the performance of private universities and institutes, can set up encouraging mechanisms that are in the interest of reform policies in this sector in terms of (providing job opportunities and job security), by relying on data.

The Ministry compiles annual statistics data that includes the number of students by specialization and level at private universities. Additionally, the Ministry keeps information on the number of faculty at each university, college, and institute. These numbers decide the number of seats offered by each institute; therefore, the ministry could grant more academics if a more significant number of lecturers were recruited.

The MoHESR can also provide the opportunity to grant a scientific title without requiring work among the teaching staff in universities, allowing holders of postgraduate degrees who did not have the opportunity to work to obtain a scientific title through more research output or a high percentage of the researcher's scholarly impact (h-index). This will reduce the reliance on retired faculty at universities, institutes, and colleges.

## **Political will**

In order to activate this project, political will is crucial, as the fund project would encounter numerous administrative challenges. To overcome these obstacles, there must be genuine political will to proceed with the project. For instance, the project may encounter opposition from the Ministry of Labor and Social Affairs, which may be unwilling to grant its authority to the Ministry of Higher Education and Scientific Research. In this case, it is the political will that will help overcome the challenges on the executive level.

The largest and most significant role of political will be to support the encouraging mechanisms decided by the Ministry of Higher Education and Scientific Research to pursue the creation of employment opportunities in the private education sector and to provide job security through the Social Security Fund. The role of political will must be strongly present to support government institutions in the event that their policies are opposed by investment parties in this sector, whose financial returns may inevitably be affected.

## **Conclusion**

The initiatives to deal with the youth unemployment crisis must take into account the misconception of unemployment along with the targeted segment. In the case of young people with postgraduates degrees. The researcher recommends that the procedures of this initiative should be accompanied by relying on modern banking mechanisms for maximum benefit.

Eventually, the success of this initiative will greatly contribute to expanding the scope of the project to target other segments of youth with similar support funds, as it can target workers in the private health sector, especially secondary and technical personnel (such as medical

equipment engineers), as these segments can be accommodated within private health institutions, providing them with job security, under the supervision of the Ministry of Health.

Thus, efforts are being made to gradually restructure the private sector in terms of job security to gradually eliminate behavioral unemployment and the desire for government employment through segmental and gradual targeting, i.e., targeting a specific economic sector and the interests of a specific group. This ensures the rights of workers in different sectors without the need to amend the Labor and Social Security Law and the challenges it faces.

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# Mechanisms of reforming Iraqi health sector post-Covid

Mohammed Tarek Lafta \*

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## Executive Summary

The Iraqi constitution of (2005) mandated that the state must ensure a good healthy environment for the members of society, while providing health care for Iraqis from the moment they were born till death in order for the Iraqi to live a decent and good life. Achieving this goal requires the state to adopt programs and policies through which it seeks to secure all health services, and reduce the rates of deprivation from obtaining the necessary services, health care and medicine. The Iraqi individuals have suffered severe conditions due to wars and sanctions and the repercussions of those wars on the level and quality of health care, and even its absence. A lack of access to health care exposes the individual to the risk of disease and death. Due of their weakened resistance to disease, especially for children under the age of five. The health system’s failure results in cases of health impairments in children, such as dwarfism and skeletal deformities. After the Covid pandemic ravaged the Iraqi health system, this paper seeks alternatives and proposes recommendations that would develop the sector and enhance the quality of services that can be offered.

## Introduction

The white paper identified the fragility of the Iraqi health care system. The “Indigo Wellness” ranking put Iraq ninth among the twenty nations with the poorest health performance. This was attributed to causes such as inactivity, short life expectancy, and inadequate

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governmental spending on health, as well as a decrease in happiness rates and an increase in obesity levels.

The Covid pandemic has also revealed the worsening state of the Iraqi health care system. While the country has demonstrated a limited capacity to deploy its resources to prevent the spread of the virus, the country's health care system continues to suffer from chronic flaws and a lack of citizen confidence. The majority believes that the quality of health services offered could be much higher and fulfill the population's goals and ambitions.

The fact that there is a qualitative gap between the public and private health care systems, as well as significant disparities between the urban and rural populations, and that the majority of citizens lack health insurance, all of these factors together help to explain the low confidence of citizens in the health care system. In the public sector, the majority of Iraqis are dissatisfied with their country's health care system and lacked confidence in its ability to deal with the pandemic. This resulted in Iraq topping the list of Arab countries most affected by the Covid pandemic, as infections surpassed the threshold of one million amidst a terrible outbreak of the disease in various Iraqi regions, and despite the relative availability of vaccines in Iraq. The pace of popular demand for vaccination with anti-vaccines for "Covid-19" was very slow, as the health and medical reality in Iraq suffers from a delay, due to the deterioration of its infrastructure and its failure to keep pace with the tremendous development in the fields of medical and health sciences. All of these factors were mirrored in the Iraqi health care system.

This policy paper will shed light on essential steps to be taken to reform the health sector and improve the quality of its services in the post-Covid era, as this crisis should be utilized to launch a comprehensive overhaul of the health care system. The paper attempt to answer the



following question: How can the Iraqi health industry be reformed to increase the quality of its services?

## **Background**

Data overview and current policy summary:

There are a number of metrics by which the health care delivery system can be evaluated, all members of society covered, or different types of health services delivered, with the following being the most important:

The health expenditure ratio, which is the expenditure ratio on hospitals and health centers.

Access to services by the community and ease of access to those services (infrastructure).

The infant mortality rate less than a year old.

Children under five-years mortality rate.

Maternal mortality rate.

Researchers and specialists believe that the aforementioned metrics are indicative of evaluating health services in a country, and they can be interrelated, such as the lack of justice in the distribution of income, which leads to an increase in infant mortality and a rise in the maternal death index as a result of corruption. Similarly, if health services are distant and difficult to access, this is a bad indication for the remaining indicators(1). The following sections assess the health sector in Iraq based on the abovementioned criteria.

### **First:** Government Expenditure on Health

Government expenditure is a sum of funds spent by the government to provide citizens with services. In Iraq's budgets, there is no classification for the word "health service". The total expenditures of the Ministry of Health and Environment in its various classifications can be used to estimate the volume of governmental spending on the health sector. The estimated amount of public spending in Iraq's budget for 2019 was more than (133) trillion dinars, according to the Iraqi Al-Waqa'iyah newspaper. The Ministry of Health and Environment's share of that spending is (6.068) IQD trillion, or about 5% of overall public spending. In comparison to the budget for the year (2021), which was more than (129) IQD trillion, the Ministry of Health and Environment's share was (7.306) IQD trillion, approximately 6% of the total budget, representing a (20%) increase in spending volume between (2019) and (2021).

The employee's compensation accounted for (58%) of total spending in (2019), and increased by seven percent in (2021) to account for (65%) of total spending. On the other hand, the allocations for the (commodity requirements) decreased by (-5%), and grants and subsidies by (-35%).

Many issues hamper the federal budget in its various years. This is due to its focus and interest in expenditure rather than the goals reached or to be achieved through spending. As well as monitor spending methods without checking whether the target aim has been met after spending. Most budgets were established on the basis of previous years' budgets, with estimates increased at random rates and without connecting inputs to outcomes, which resulted in numerous flaws, including:

-Paying attention to expenditure items and elements of expenditure, and exerting financial management without regard for the outcomes

of expenditure spent on government unit programs, activities, and policies.

- This method opposes modern ways that link the relationship between inputs and outputs, the quality of work done, results measurement, and their impact on the established goals. (2)

Because of these flaws, spending on health services became irrelevant to the ultimate purpose. From the state’s standpoint, once the payment is made, the aim has been met, but it has yet to be the case, as evident in the presence of several flaws. Hence, improvements are needed to increase the quality of healthcare services while reducing costs.

If the white paper reforms are not genuinely and significantly implemented, “indirect cash funding by the Central Bank of Iraq is the sole remaining source, which will lead to severe pressure on the Central Bank of Iraq’s reserves, and the resultant unsustainable future repercussions.”

### **Second:** Indicators of Community Access

#### 1- The number of hospitals by governorate index

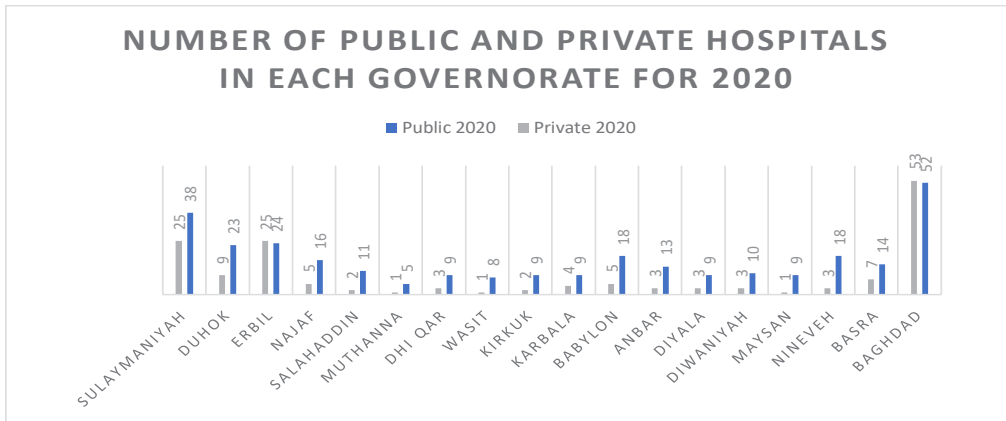
In (2020), the number of public and private hospitals in Iraq was (450), up from (429) in (2019), including Kurdistan region hospitals, with an increase of (9) public hospitals and (12) private ones, as seen in Table (1).

**Table (1): Number and ratio of hospitals**

Health Department	Public		Private		Total public and private hospitals		Public hospital per 100,000	
	2019	2020	2019	2020	2019	2020	2019	2020
(Total (Baghdad	49	52	50	53	99	105	0.6	0.6
(Total(Except KRI	201	210	91	96	292	306	0.6	0.6
(Total(with KRI	286	295	143	155	429	450	0.7	0.7

Al-Muthanna governorate had the least hospitals, with only six, followed by (9) hospitals in Wasit, and (10) in Maysan, as represented in Figure (1).

**Figure (1): Number of public and private hospitals by governorate in 2020**



## 2- Population index for each hospital

The nature of the relation between the number of hospitals and the population is explained by this criterion. This criterion varies by country, but in developing countries, the ration often ranges between (50,000–100,000) people per hospital. Whereas in developed countries such as Sweden, Norway, Japan, Germany, and Britain, the ratio reaches (60,000) people per hospital. The indicator of this criterion in Iraq was set at (50,000). (3)

In 2020, this rate reached (0.36) government hospitals for every (50,000), a very low indicator that puts strain on hospitals. As a result, the quality of health services offered to the huge population suffers, and no new hospitals have been founded due to the concentration of hospitals in urban centers.

## 3- Available beds to the population index.

The number of hospital beds is an indicator that reflects the size of medical services in the health institution, a variable that measures the quality of medical and health services, as well as the institution’s capacity to deliver adequate services to the community. The World Health Organization (WHO) specifies this standard as (1/100), meaning one bed for every 100 people, whereas the Iraqi Ministry of Health (IMH) sets the standard at one bed per (500) people (4), as the total number of public beds reached (49,836) beds in (2020) compared to (46,627) beds in (2019) and at a rate of (0.6) beds per (500) individuals. This indicates that there is a noticeable shortfall in the number of beds that serve as the primary treatment facility for the patient, which has a detrimental impact on their health and raises the percentage of extremely sick people, resulting in a disturbance of human energies that is ultimately a burden on society. This impedes development and has an impact on its low level.

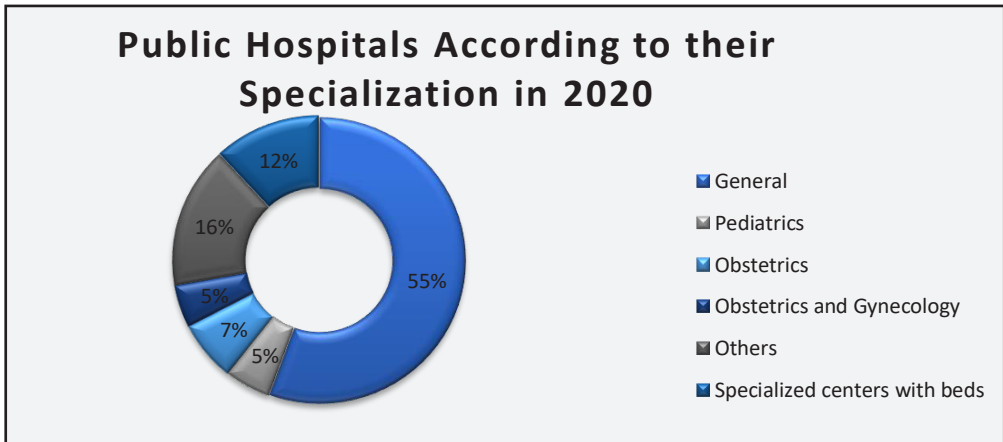
4- The number of public hospitals according to their specialization:

According to Table (2), specialist hospitals have the greatest number of beds, while obstetrics and gynecology, maternity, and children’s hospitals have the lowest (2). It should be noted that some hospitals do not have specialized departments for obstetrics and gynecology.

**Table (2): Hospitals by specialization (2019–2020)**

Medical specialty	General Medicine	Pediatrics	obstetrics and children	Obstetrics and Gynecology	Others	Specialized centers with beds	Tertiary Medical Care
2019	162	15	19	14	42	34	286
2020	164	15	20	14	47	35	295

**Figure (2): Public hospitals according to their specialization in 2020**



**Third:** Monitoring health indicators (2019–2020)

1- Maternal mortality rate (per 100,000 live births ).

According to Table (3), the maternal mortality rate in Iraq reached (31.5) deaths per 100,000 live births in (2019), and subsequently climbed to (34.2) deaths per (100,000) live births in (2020). And that these rates are considered large and critical, as the governorates (Muthanna, Basra, Diyala, Najaf, and Maysan) recorded the highest rates, which amounted to (55, 54, 51, 53, 46) deaths per (100,000) live births , respectively, as shown in the table above, and the reason is a lack of health awareness among mothers, a lack of specialized maternity and gynecological hospitals. In addition to the lack of experience among the nursing and medical staff who work in the maternity hall, and the widespread phenomenon of illiteracy among mothers who live in rural areas.

2- Newborn mortality rate (the number of deaths per 1,000 live births ).

Newborn deaths are among the most important indicators that reflect the health status of countries and the level of health services, in addition to economic and social factors and the standard of living. It is meant by the number of newborn deaths, which is the number of infant deaths during the first month or the first four weeks of birth in a year for every (1000) live birth during that year, which differs from the average number of infant deaths under one year of age per (1000) live births during the same year.

Newborn mortality statistics show that Iraq recorded (13.9) deaths per (1,000) live births in the year (2019), and then (13.7) deaths per (1,000) live births in the year (2020).

In (2020), Najaf governorate recorded the largest percentage of newborn mortality among the governorates of Iraq, which amounted to (20.2) cases per (1000) live births, followed by Basra, Dhi Qar and Diwaniyah, with a rate of (18.6, 18.1, 17.9) deaths per (1000) live births respectively.

### 3- Children under-five mortality rate (deaths per 1,000 live births)

Vital events Indicators are necessary to indicate the health level of the individual and society. The lower the death rates, the better the health state, as it is clear from Table (3) that the mortality rate of children under the age of five reached (24.3) cases per (1000) live births in (2019) and reached (23.6) cases per (1000) live births in (2020).

Dohuk governorate recorded the largest proportion within this indicator in 2020, with a rate of (41.4) cases per (1000) live births, followed by the governorates of Babil, Najaf and Diyala, with a rate of (34.2, 29.8, 28) cases per (1000) live births, respectively. While the lowest rate was in Sulaymaniyah Governorate, which reached (5.4) cases per (1000) live births.

4- Adolescent birth rate (ages 10-12 and 14-17) for every (1000) woman of that age.

It refers to the birth of females under the age of (20), as pregnant adolescents face the same issues as other women, but in addition, females at those ages suffer from physical issues that prevent them from having a healthy pregnancy and safe delivery, and from the age of (15) until the age of (19). In general, the risks include not only biological hazards, but also social and economic concerns. Among the biological risks include exposure to low-weight infants, anemia, pre-eclampsia, and premature birth, and if those risks are handled, we find other risks represented by inadequate parental care.



Teenage pregnancy and childbirth are linked to socioeconomic concerns in poor nations, such as low levels of education, poverty, and other circumstances that indicate a negative atmosphere for children and teenage moms. Furthermore, when teenage pregnancy occurs outside of marriage in poor nations, it is stigmatized in many cultures and societies. Furthermore, the baby is not wanted or accepted by society or his family if it was born out of wedlock.

This indicator in Iraq reached (72) births for every (1,000) women aged (10–17) in (2020), Basra Governorate recorded the largest rate, which reached (70.2) births for every (1,000) women within the specified category, followed by Najaf Babel, Maysan, and Baghdad, respectively, with rates of (68.1 / 66.1 / 658 / 62.3) cases for every (1000) women in this category.

**Table (3): Health indicators in the sustainable development index**

Year	1		2		3		4	
	Maternal mortality rate (per 100,000 live births ), sustainable development index		Newborn mortality rate (deaths per 1,000 live births ) Sustainable Development Index		Children under-five mortality rate (deaths per 1,000 live births ). Sustainable Development Index		Adolescent birth rate (ages 10–12 and 14–17) per 1,000 women of that age	
	2019	2020	2019	2020	2019	2020		
2019								
2020								
Baghdad	35.8	42.2	17.4	15.8	29.5	26.8	63.4	62.3
Basra	39.3	54	17.7	18.6	29.5	27.8	71.4	70.2
Nineveh	39.6	40.4	11.6	12	23	20.5	35.2	38.3
Maysan	17.2	46.3	11.8	8.7	18.1	17.5	68	66.1

Year 2019  2020	1  Maternal mortality rate (per 100,000 live births ), sustainable development index		2  Newborn mortality rate (deaths per 1,000 live births ) Sustainable Development Index		3  Children under-five mortality rate (deaths per 1,000 live births ). Sustainable Development Index		4  Adolescent birth rate (ages 10–12 and 14–17) per 1,000 women of that age	
	2019	2020	2019	2020	2019	2020		
Diwaniya	31.7	34.1	19.3	17.9	30.2	27.3	36.1	35.4
Diyala	44.4	50.7	15.5	17	26.6	28	52.9	51.9
Anbar	12.9	4.4	5.4	7.3	8.7	10.8	55.2	55.1
Babylon	30.5	34.1	17	17.4	32.7	34.2	66.9	65.8
Karbala	36.1	19.1	12	13.1	23	22.1	48.6	49.5
Kirkuk	15.6	20.9	16	15.9	23.7	21.4	39.5	42.3
Wasit	22.4	27.6	15.3	13.5	25	23.4	55.1	54.2
Dhi Qar	59	33.2	18.9	18.1	28.8	26.6	54.3	53.1
Al-Muthanna	53.2	55.1	8.2	7.7	18.9	16.7	50	49.1
Salahaddin	18.1	13.3	4.5	4.5	11	10	54.2	52.6
Najaf	35.8	53.2	20.3	20.2	31.2	29.8	69.6	68.1
Total except KRG region	34.3	37.4	15	14.7	25.7	24.2	54.1	54.1
Erbil	3.5	12	8.6	8.5	17.6	18.7	NA	
Duhok	16.7	32.4	9.1	10.4	26.6	41.4	NA	
Sulaymaniyah	22.6	0	NA	3.7	NA	5.4	NA	
Total	31.5	34.2	13.9	13.7	24.3	23.6	72 *	72 *

Reference: Ministry of Health (Annual Statistical Report 2019 and 2020)

## Policy Alternatives

According to the white paper, Iraqi institutions are structurally weak as a result of damage to the country’s institutional infrastructure due to the politicization of the civil service during the last two decades. Iraqi institutions, particularly health institutions, have become unable to offer quality services. As a result, the Iraqi government must rely on six priorities in the future to improve the quality of health care and methods of providing health services to citizens, as listed below:

### 1. Budget allocation

The most significant part of every reform and a useful starting point for reforms is financial resources. In addition to seeking more external funding to invest in the field of health care and related services, the government must exercise good fiscal management and guarantee that every cent is spent wisely. Noting that government spending on health care is not trivial and that more international aid should be directed toward health care.

**Pros:** eliminating the sources of corruption, not covering up financial and administrative corruption in the Ministry of Health, and not relying on deceitful and unprofessional staff based on sectarian affiliation and quotas; as a result of the policy of exclusion and marginalization, and the provision of necessary funding.

**Cons:** The risk of this alternative is the government’s reliance on donors, and the donors’ inability to provide all health services from a narrow perspective that is not consistent with development needs. This alternative may face failure if it does not receive central protection and support.

## 2. Service provision quality

The white paper reforms referred to improving the quality of medical services and developing the performance of workers in health institutions in Iraq, which suffers from a lack of trust. Consequently, most Iraqis resort to the private sector, despite its high costs. In the statistical report of the Ministry of Health, for example, but not limited to, it is found that the highest percentage of cesarean section cases take place in private hospitals.

The quality of health services can be improved through the optimal use of resources such as human capital and the improvement of human resource management, especially by encouraging partnership and cooperation and not relying on financial resources only, as well as by halting the central appointment for medical college graduates in order to create competitiveness.

**Pros:** Enhancing competition between private institutions and attracting qualified graduates, as well as bringing medical, scientific, technical, and technological expertise and developing human resources. Public health sector employees are not often concerned with the quality of services in public hospitals, while the opposite is true in the private sector, this is due to accountability and the consequences that may lead to the dispensation of their services, while this procedure is not activated in the public sector.

**Cons:** It is believed that this option provokes the unions and individuals who are directly affected by it, which requires a firm political stance and legislative support, as well as legal and regulatory frameworks that prevent monopoly and protect citizens from high costs.

### 3. Expanding the scope of the health insurance system

The third priority is to broaden the scope of health coverage, and Iraq recently took an important step by enacting Health Insurance Law No. (22) of (2020) (a white paper solution), which established a health insurance body linked to the Ministry of Health, but it was not activated for political reasons, therefore the government must activate the law, broaden its umbrella, and not limit it to employees.

**Pros:** ensuring comprehensive health coverage, reducing financial burdens on citizens and poverty, multiple sources of funding for the health sector, creating an optimal environment for competition and developing the performance of employees and health institutions in the public and private sectors, and improving the quality of medical services provided by organizing work in the public and private sectors and competition in medical services.

**Cons:** To broaden coverage and include the greatest possible segment, it made the application mandatory for all employees while making it optional for groups that were supposed to be mandatory as well, such as associations, trade unions, companies, and employers. In addition to increasing funds for this essential function and ensuring that a specific group does not feel discriminated and accepts the issue without opposition when it applies to all workers in the public and private sectors,.

### 4. Encouraging foreign investment in the health sector

To improve the health process and expand the health system in Iraq, medical, scientific, technical, and technological competence, human resource development, and increased job prospects for the unemployed must be encouraged, and appropriate opportunities created. Foreign investments should be directed in specialized hospitals and health

facilities that offer value to the health industry.

**Pros:** Rising the efficiency of the health sector and improving the services provided, as well as attracting international companies, can help address problems related to youth unemployment by determining the percentage of local employment and in solving the problems of a shortage of doctors and nursing staff in Iraq's health care system, as well as bringing in medical, scientific, technical, and technological expertise.

**Cons:** Due to the deterioration of the security situation, foreign investors are hesitant to invest in Iraq. It is feasible to overcome this by providing benefits such as tax and customs exemptions, boosting the country's security and law enforcement, and the likelihood of Iraqi cadres and trade unions resisting competition.

#### 5. Investing in the manufacturing of medical equipment

The world's countries suffered greatly during the Covid pandemic due to medical equipment and biotechnology shortage, particularly those without medical industries, such as Iraq. This greatly hindered efforts to combat the pandemic, as many nations were unable to acquire the medical solutions required for polymerization testing to detect the virus. Due to the difficulty to conduct sufficient tests, this led several countries to limit examinations and withdraw from the epidemiological investigation, while the industrialized nations earned income levels they could not have imagined at the beginning of (2020).

The pandemic also called attention to the need of investing in this industry, whether the investment is public or private, and it is anticipated that this sector would experience a significant increase in participation in the subsequent phase. Iraq can be among the countries that reach self-sufficiency in numerous sectors if it has specialized personnel and intellect. Aspects of this sector, particularly the manufacture of medical

equipment and biotechnology, present an excellent chance for the sector to expand to very broad horizons and considerably contribute to the GDP.

**Pros:** Industrial manufacturing, especially medical manufacturing, is supposed to be an essential element for diversifying Iraq’s economy. With the aim of increasing exports and creating job opportunities by establishing the country’s position as a major manufacturing center. Public and private sectors used to invest in key sectors such as the electrical industry, agricultural industries and equipment, and the mining chain, where investment in the manufacture of health care equipment represents another potential area for diversification, such as manufacturing quantities of protective masks and respirators, but policymakers should seriously consider industrialization in the healthcare sector, not for export purposes but at least to fulfill the domestic need.

**Cons:** One of the most significant disadvantages of this method is the issue of financing in the event of the establishment of new factories or the expansion of existing ones, but this can be handled by recruiting foreign money and offering incentives.

## 6. Telemedicine

One of the feasible solutions to bridge the staffing and expertise gap is the use of information and communication technology through telemedicine technology, which means medical services from long distances. This includes immediate audio-visual exchange. In a study in Somalia conducted in (2011) showed an improvement in the ability of clinicians to manage complex cases and diagnose diseases that pose a threat to life. Where (25%) of the study sample represents (88) children who were not detected in the initial diagnosis, due to the decrease in

cases of meningitis and convulsions (from 92% to 29%). As well as, infection of the lower respiratory tract system (from 75% to 45%), acute malnutrition (from 86% to 40%), and the infant mortality rate decreased by (30%) between 2010 and 2011(6).

**Pros:** Telemedicine is a way to bring medical expertise to remote health services centers without the need to transport the experts themselves, which is useful in cities that are not attractive and encouraging for investment, or the costs of establishing centers and hospitals in them are not commensurate with the size of the population.

**Cons:** It is limited to certain cases, in addition to the existence of cases that require a physical diagnosis. Costs of communication as well as the availability of the Internet may hinder that.

### **Conclusion**

When developing a healthcare delivery system, each country faces a unique set of challenges. No healthcare system is completely optimal, nor is any system entirely devoid of challenges. It is implausible that a method employed in one country can be replicated in another. Despite its complexity, the development of these systems is crucial to the implementation of a healthcare system that is fair to all citizens due to the different interests, priorities, mentalities, and health cultures. Policy experts, health service providers, politicians, and other stakeholders must collaborate on its development. In order to attempt to address the market's numerous complicated aspects.

And based on the challenges associated with the poor possibility of adopting the first alternative, which necessitates a strong political stance and the support of the legislative authorities, which may be difficult to agree upon. And the fragility of the seventh alternative's continuity and sustainability. It is suggested that efforts be made to implement



different alternatives to improve the quality of health services for Iraqis, the following are suggested:

1. Adopting a reasonable financial policy that aims to maximize the effectiveness of government health spending and the health return by reducing waste in financial and health resources in order to diversify financing sources; to enhance the healthy supply in order to satisfy the rising healthy demand.
2. Giving special attention to the issue of audit over the execution of expenditures, whether it be oversight by the House of Representatives or independent financial audit authority, with its emphasis on spending process efficiency.
3. Build a national health policy in accordance with the classification of the (WHO) using real orders. In order to enhance the acceptable economic indicators for government health spending and to remain current with global events. Consequently, this will lead to establishing a health-conscious society by fostering a healthy environment in order to boost productivity and achieve sustainable growth.
4. Applying the social health insurance system according to controls aimed at activating economic efficiency and social justice at the same time.
5. Adoption of the budget programs to address the disparity between actual and anticipated spending in a manner that improves the effectiveness of government health spending.

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