

2024

POLICY

PAPER

NO. 48

مركز المنصة للتنمية المستدامة
Platform Center for Sustainable Development



THE PROBLEM OF THE DEVELOPMENTAL VIABILITY OF SMALL PROJECTS AND THE DEVELOPMENTAL ALTERNATIVE

DR. HAMED RAHEEM JANABI
ECONOMIC DEVELOPMENT AND REFORM SPECIALIST



Strategic Goals

- Preparing a youth elite that rises to its social responsibilities through studying problems, proposing policy alternatives, and working towards their implementation.
- Utilizing knowledge outputs and encouraging youth to work towards achieving the Sustainable Development Goals
- Presenting statistics and issues that occupy the political arenas and societal circles to reflect a deeper understanding of the Iraqi reality.
- Creating a network of active, informed, and committed citizens dedicated to the project of building the Iraqi government.

About the Center

The Platform for Sustainable Development is a registered center with the Non-Governmental Organizations Department at the General Secretariat of the Council of Ministers under the number (1S2106012). It serves as a space for thought, dialogue, and action towards positive change.

Vision

We seek to establish a platform for dialogue and policies that contribute to achieving the Sustainable Development Goals in Iraq.

Mission

Filling the gap between the state and society to ensure the essence of democracy by engaging citizens in the decision-making process through training, monitoring, analysis, research, awareness, and advocacy.



EXECUTIVE SUMMARY

Despite the significant financial resources allocated by various entities in Iraq under different administrative procedures, small projects have not had a substantial developmental impact. This calls for a different approach to addressing the twin challenges of unemployment and economic diversification in Iraq, a developing country in terms of these issues.

According to development economics, Iraq requires a shift in thinking to tackle these challenges. This shift involves implementing distinct policies that prioritize financing large projects with a significant impact on employment generation and economic diversification. Examples of such projects include agricultural production companies, tourism activities, transportation, and others.

This approach aims to ensure optimal utilization of financial resources and achieve the desired developmental impact. A substantial portion of the financial initiatives launched by government institutions should be allocated to these large projects instead of small ones. Additionally, alternative financing initiatives can be explored, such as long-term government bonds, sovereign investment funds, and leveraging the capabilities of the Industrial and Agricultural Bank, among others.

This paper highlights the issue of the relatively large financial resources directed towards supporting small economic projects without achieving the desired impact commensurate with the scale of these financial resources. This, in turn, contributes to the high unemployment rates and the lack of diversification in Iraq's national income sources.

The paper aims to clarify the size of the financial resources directed to the policy of supporting small economic projects after the year of political change, and to clarify the outputs of those financial resources. It also proposed policy alternative in light of development economic theory that is consistent with the prevailing objective factors, which is to direct financial resources towards large projects to achieve the developmental impact.



INTRODUCTION

Unemployment and a lack of economic diversification remain two central concerns in Iraq, mirroring the challenges faced by many developing economies. In response to these issues, various policies have been implemented, ranging from mere declarations, such as activating sovereign funds and revitalizing the national private sector, to on-the-ground initiatives like the small-scale projects discussed in this paper. However, the outcomes to date have been largely disappointing, particularly when considering key indicators such as GDP, where crude oil continues to dominate while contributions from other productive sectors have significantly declined.

The support for small-scale projects has been plagued by a number of inherent challenges due to their characteristics: they are numerous, small, and scattered. This, coupled with the weakness of the regulatory apparatus, as highlighted by the American magazine Foreign Policy in its 2012 issue, which stated that "the volume of financial flows in the Iraqi economy for reconstruction exceeds the capacity of the regulatory bodies," has further hampered their effectiveness. Additionally, corruption indices consistently place Iraq at the top of the world, further undermining the effectiveness of these economic policies as part of the overall situation. Moreover, the complex business environment, including administrative, legal, and stability factors, poses significant challenges that hinder small and micro-enterprises from achieving their expected developmental goals.

Development economists have raised concerns about certain economic policies implemented in developing countries that rely on the concept of "mimicking" the practices of economically advanced nations without considering the significant differences in objective factors between these countries. Economist Michel Todaro aptly describes this phenomenon as "following the false example model."

In the realm of small-scale projects, the impact in developed countries is substantial in terms of employment and production, as evidenced by the experiences of Japan and Malaysia. These countries, along with other developed nations, exhibit remarkable stability and robust economic growth, with indicators of fragility and corruption largely absent. Therefore, policies supporting small-scale projects in these environments yield positive outcomes.

However, in developing countries characterized by fragility and corruption, objective factors do not contribute to and will not provide fertile ground for such policies that promote small-scale enterprises. Moreover, the presence of large-scale and giant projects creates an environment and market for the growth of small projects, whose outputs serve as inputs for the larger projects, stimulating these smaller ventures and ensuring their success.

BACKGROUND: THE SCOPE OF SMALL PROJECT FINANCING

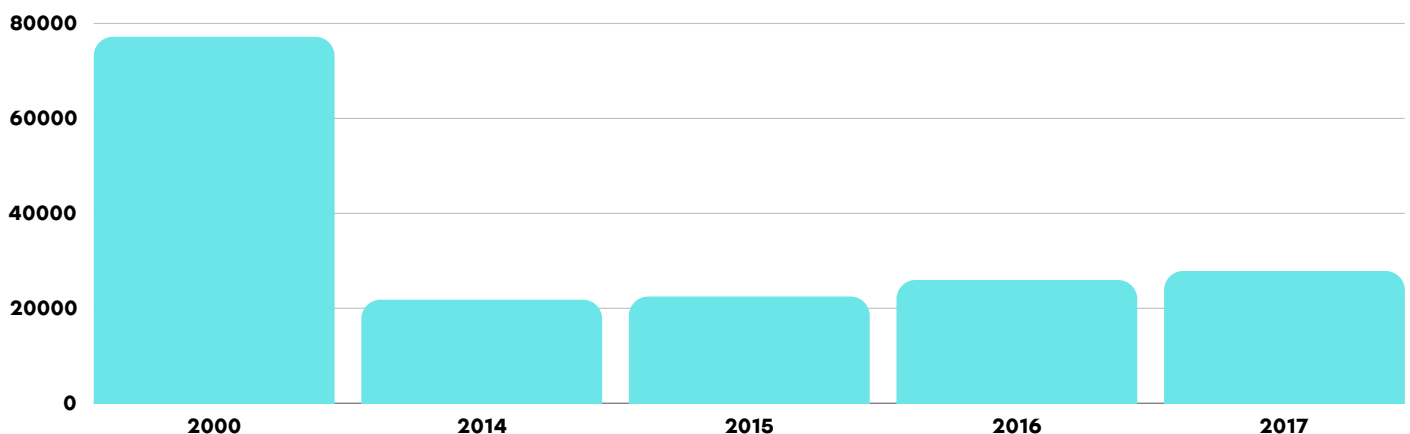
Multiple Sources of Financial Funding for Small Projects in Iraq. The landscape of financial funding for small projects in Iraq is characterized by the involvement of multiple entities, each adopting distinct administrative procedures. These entities include the Ministry of Labor and Social Affairs, the Central Bank of Iraq, and the Council of Ministers. The Council of Ministers allocated a substantial amount of 73 billion Iraqi dinars for the period 2015-2018. The Central Bank of Iraq initially allocated 1 trillion Iraqi dinars in 2020, subsequently increasing the allocation to 2 trillion dinars in 2022. In 2023, the allocation reached a staggering 4 trillion dinars. The Ministry of Labor and Social Affairs, guided by Law No. 10 of 2012 for the Support of Income-Generating Small Projects Fund, also allocated significant funds. In 2014, the ministry provided 33 billion Iraqi dinars in funding, followed by 5632 projects in 2016 and 1739 projects in 2017, with a financial ceiling of 5 million dinars per project.

THE NUMBER OF SMALL PROJECTS OPERATING IN THE ECONOMY

Despite all the financial flows that have been mentioned, which revealed a portion of the allocations for small projects after 2003, the number of small projects decreased to less than a third between 2000 and 2021, as shown in Figure 1.

We notice that the number of small projects in 2000 is the highest and by a large margin compared to all other years. Despite the conditions of the Iraqi economy at that time, the difference between that year and the year 2021 (50425 projects) was significant, a very large difference, despite the large funding witnessed in the years after 2003. This raises many questions about the reasons. Corruption and the economic environment, with its legal and administrative elements, may be factors behind this decline. The years 2017 and 2018 also saw another decrease of (2109) projects. There may be other reasons behind these results, including the loss of incentive to establish productive projects due to the trade policy that flooded the domestic market with cheap goods, causing those projects to lose their economic viability. Additionally, the energy crisis and the backwardness of the economic infrastructure, among other factors, increase the costs of establishing projects

Figure 1 illustrates the number of small projects for selected years



Source: Ministry of Planning, Central Statistical Organization.



One of the significant root causes of the failure of small projects is the employment in the public sector, which has become one of the state's most important policies to address unemployment and contain social and economic crises through direct distribution of wealth via employment or inclusion in government subsidies through the social protection network. This has led to a lack of interest in these projects by job seekers. Additionally, the absence of large industrial projects that could serve as a market for the products of small projects exacerbates the situation.

THE ALTERNATIVE POLICY: FINANCING LARGE PROJECTS AS A STRATEGIC ALTERNATIVE.

The theory of unbalanced growth, as criticized by economist Hirshman, challenges the idea of directing financial resources towards small projects in underdeveloped countries aspiring for development. This is because it disperses the already limited financial resources among projects that do not achieve a qualitative developmental leap in the economy, which is a logical perspective, especially in countries suffering from weaknesses in the productive environment and industrial sectors capable of absorbing the outputs of small projects. This applies to Iraq in its current circumstances. Small projects, defined based on the criterion of the number of employees ranging from 1 to 10 workers, are diverse and scattered, making it difficult for regulatory bodies to monitor and track them under current conditions. This necessitates considering an alternative that achieves optimal investment of financial resources in a manner that contributes to achieving the desired economic development.

Given the concept of directing resources towards establishing pioneering projects with both backward and forward linkages that have a stimulating impact on economic activity indirectly, we find that the success of a large project would provide economic viability for other projects associated with it, whether in inputs or outputs. In this perspective, we observe a multiplier effect of the single large project. This dynamic aligns with developmental orientation, as the latter is an interactive dynamic movement between various economic activities.

Building on this developmental theory, we propose a shift in the compass of financial expenditure previously allocated to small projects towards larger projects. Especially since the environmental and geographical characteristics of Iraq qualify it for such projects, which can be as follows, according to the qualifications of each region:

1. Due to the presence of the historical and heritage environment and the value of the southern region of Iraq, especially the marshes area, among foreign tourists, as well as the significant historical status of the Ur region, especially after the visit of the Pope, which contributed to drawing the world's attention to it, one of the most important projects in this region is a large tourist project in the marshes area in southern Iraq.
2. The Nineveh Plain region is characterized by its fertile soil and abundant rainfall, making it strategically important for grain production. Therefore, it is appropriate to establish a large agricultural production company project in the Nineveh Plain region to produce wheat and flour in all its varieties.



3. Diyala province is known for its production of citrus fruits and other fruits. Its geographic location in the center of Iraq and its connection to provinces in the south and north of Iraq facilitate the marketing of these products. Moreover, it is easy to export these products outside Iraq, making it suitable for a large agricultural production company project to manufacture its products in all varieties in Diyala province.

4. Karbala province is one of the most welcoming provinces for both internal and external visitors due to its religious shrines, which attract religious tourism. Therefore, besides hotel and tourism projects, a large transportation company project in Karbala province would be suitable.

5. Anbar province and the western regions of Iraq possess significant reserves of raw materials and natural resources such as sulfur and glass, making it suitable for a diversified glass production company project in Anbar province.

6. Baghdad province is distinguished as the largest population center in Iraq, placing it at the forefront of provinces qualified for production and consumption simultaneously. It is possible to consider establishing a project for a company producing various types of clothing on the outskirts of Baghdad, where there are vast areas and suitable land for growing cotton and other raw materials used in this industry.

7. Muthanna province has qualifications in terms of vast agricultural areas as well as grazing and sheep farming areas, making it suitable for a large company project to produce various types of animal feed in Muthanna province.

THE VIABILITY OF THE ALTERNATIVE POLICY: GROWTH AND DEVELOPMENT

While this package of projects may appear simple to the reader, it will contribute to creating a productive chain and economic integration, especially in the way they are distributed throughout Iraq, making them effective in natural distribution and resettlement. Establishing these projects and their success will lead to positive outcomes as follows:

1. Stimulating secondary supporting projects directly and indirectly linked to these projects.
2. Providing significant job opportunities to attract the unemployed.
3. Reducing reliance on imports and decreasing the outflow of dollars.
4. Revitalizing the Iraqi stock market, provided they are listed on this market.
5. Achieving important aspects of food security for the country.
6. Achieving comprehensive developmental impacts by creating factors for diversifying economic activity and reducing reliance on oil in the national economy.

Such projects have been tested for their developmental impact, as seen in the case of the Union Company for Food Industries, which has significantly contributed to solving many economic problems, such as providing employment opportunities, reducing dependence on imports, and creating opportunities for supporting industries and sectors.

CONCLUSION:

Over the past years, financial resources directed towards small projects have not shown developmental viability, as evidenced by the decrease in the number of projects despite relatively large funding. Small projects have not been given significant importance in diversifying revenue-generating economic activities. This is reflected in the dominance of oil over economic activity and the heavy reliance on trade policy to meet demand for goods in the domestic market. This is a natural outcome due to the characteristics of small projects, which are unable to fulfill those roles.

Since financial resources are limited, they need to be directed towards projects with developmental impact. This means finding alternative opportunities for financial resources directed towards small projects to achieve widespread employment and diversification of economic activity. This is achieved by large projects due to their high productivity and the stimulating nature of their forward and backward linkages to parallel economic projects.

The objective governing factors of economic activity create differences in the impact of small projects on reality. What is achieved by such projects in advanced countries does not necessarily mean the same impact will be achieved in the Iraqi economy. Therefore, the principles of developmental economics must be respected as the foundation for addressing problems of economic backwardness and avoiding misguided policies that prioritize political gains over economic activity.

Resources:

1. The Federal Bank of Iraq
2. Ministry of Planning / Central Statistical System
3. Ministry of Labor and Social Affairs
4. www.meemapps.com

مركز المنصة للتنمية المستدامة
Platform Center for Sustainable Development



Your journey in policy work starts with us

Contact

Platform Center for Sustainable
Development
929, 25, 10 Karada, Baghdad, Iraq
+9647731551117

www.psdiraq.org
info@psdiraq.org
[@psdiraq](https://www.instagram.com/psdiraq)