



2024

Policy Report

**Developing the private  
sector and maximizing  
non-oil revenues: Between  
the curriculum and the  
budget**

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# Introduction:

The Iraqi economy's heavy reliance on oil revenues poses a significant challenge, necessitating serious consideration by the Iraqi government about diversifying revenue sources. Therefore, it needs a vital strategic direction to maximize the utilization of the private sector and its development to enhance its role as an engine of the national economy and reduce reliance on oil.

The strategic shift towards maximizing the utilization and development of the private sector is based on several key pillars. It begins with improving the investment environment by reforming the investment climate, which should be clearly evident in this context. The government must aim to streamline procedures and reduce bureaucracy to make investment in non-oil sectors more attractive. Additionally, infrastructure development and enhancing the private sector's capabilities are essential to effectively contribute to sustainable development.

Coordination between the public and private sectors is crucial. Effective coordination between the public and private sectors is vital and requires active encouragement from the government. Strategic partnerships should be strengthened, and more support should be provided for public-private partnership projects, promoting innovation and contributing to sustainable economic growth.

The final pillar of the transformation starts with researching and focusing on potential sectors. Economic diversification also requires a focus on developing specific non-oil sectors. Therefore, promising sectors with high growth potential, such as manufacturing, technology, and agriculture, should be identified and supported. The government must strategically direct investments and efforts towards these sectors.

The Ministerial Program of the Sudanese Government outlined several axes aimed at developing the private sector and achieving non-oil revenues as one of the top priorities of the Iraqi government for the year 2023. These axes include:

- The ninth axis (Commerce):
  - Encouraging investment and shifting away from complete reliance on the oil sector.
  - Incentivizing the attraction of capital and projects in non-oil sectors.
  - Providing financial and tax incentives for investors.
- The tenth axis (Industry): Supporting and developing small, medium, and micro-industrial projects and benefiting from successful local and international experiences, and cooperating with relevant organizations to improve the performance of small industries.

- The twelfth axis (Financial and Banking Sector):
  - Resolving the issue of industrial cities and facilitating their establishment and development.
  - Simplifying procedures and reducing costs associated with establishing industrial cities.
  - Developing its structures to align with the needs of the industrial sector.
- The fifteenth axis (Investment):
  - The government intends to encourage investments in diversified sectors.
  - Launching promotional campaigns to attract investors.
  - Providing a conducive and encouraging investment environment.

This report aims to review the governmental agenda and the general budget, focusing on stimulating private sector growth and maximizing non-oil revenues. The Iraqi government must adopt active policies to provide an investment environment that encourages private initiatives and enhances competitiveness. Accordingly, the government should be an effective partner with the private sector in achieving economic and social goals.

## Background:

Iraq faces significant economic challenges due to its excessive reliance on oil revenues, making it vulnerable to fluctuations in global oil prices. This heavy reliance poses a significant threat to the stability of the Iraqi economy and the diversification of revenue sources.

The heavy reliance on oil in the Iraqi economy, prone to oil price fluctuations, negatively affects the state's general budget and its ability to finance essential services. Budgets generally rely on a context that is usually increasingly tight. Thus, oil price fluctuations lead to austerity measures or borrowing to bridge the deficit, as happened in previous years, where Iraq resorted to domestic borrowing to finance public sector salaries.

Moreover, excessive reliance on oil leads to slowed development, as the significant focus on oil hampers economic diversification, making the Iraqi economy less resilient and more susceptible to shocks.

Oil price forecasts are characterized by volatility, but there are some general trends: Global impacts: Factors such as global demand and supply, and geopolitical events, play a significant role in shaping oil prices. Transition to renewable energy: The ongoing transition to renewable energy could impact future oil demand.

Analysis of the Problem with Numbers Through analyzing the budget structure and the distribution of revenues and expenditures in the 2023 budget, we can reach some key points:

- Heavy reliance on oil revenues:

Table No. (1) Total Revenues and Expenditures in the 2023 Budget

Account Name	Total amount
The total revenues	134,552,919,063,000
The total expenditure	198,910,343,590,000
Deficit	64,357,424,527,000

Table Number (2): Oil and Non-Oil Revenues in the 2023 Budget

Account Name	Total amount
Total revenue	134,552,919,063,000
Oil revenue	117,252,500,000,000
Non-oil revenue	17,300,419,063,000
The percentage of oil revenues to total revenues	87%
The percentage of non-oil revenues to total revenues	13%

Source: General State Budget (2023-2025)

From Table (1) above, it is evident that total expenditures exceed total revenues by an amount of (64) trillion dinars, which represents the planned deficit. Table (2) shows that 87% of the budget revenues rely on oil, indicating Iraq's continued significant dependence on oil as a primary source of revenue. Meanwhile, the percentage of non-oil revenues amounted to only (13%), indicating ongoing challenges related to diversifying revenue sources to finance the continuously expanding state expenses.

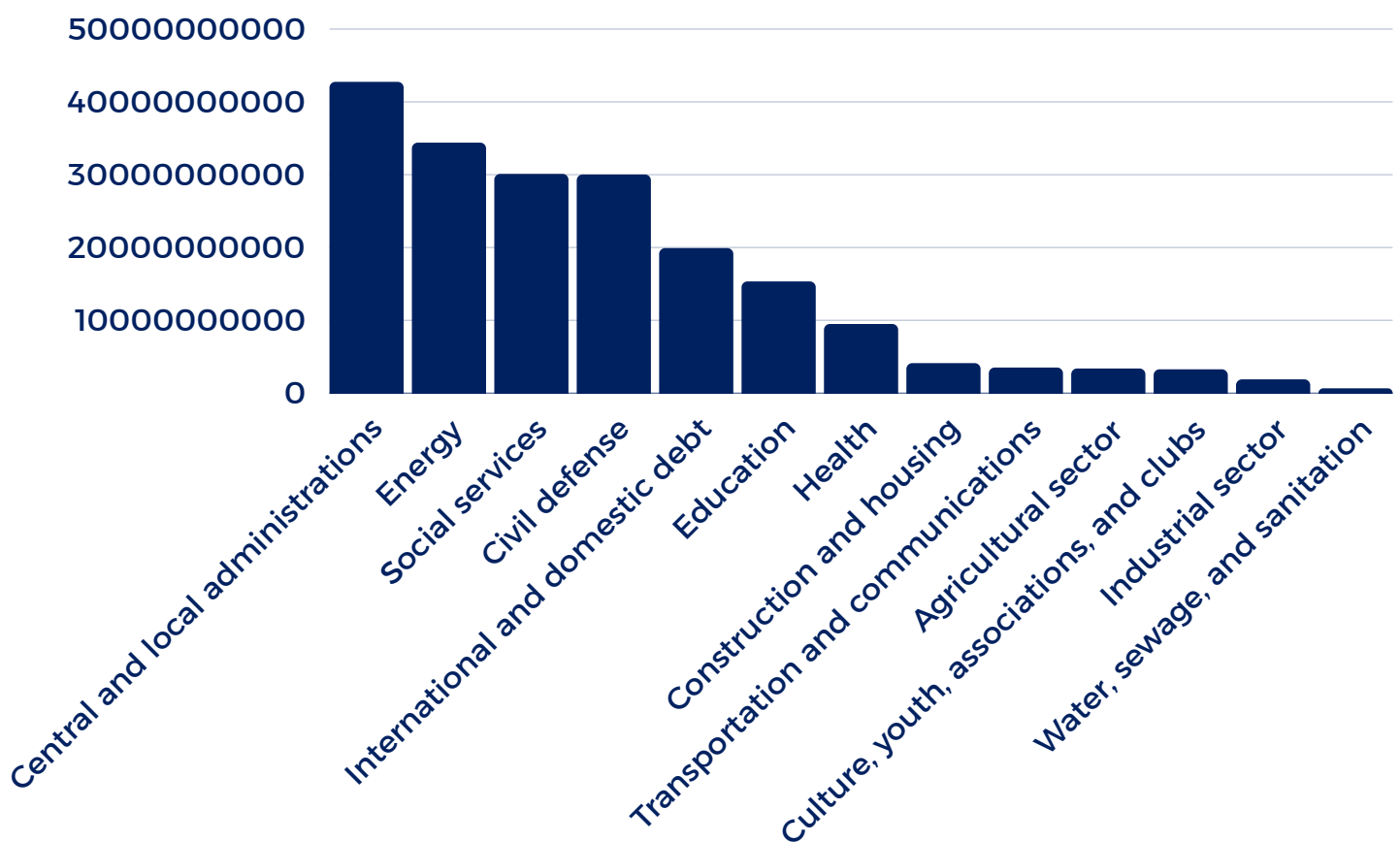
- Distribution of Expenditures Total expenditures amounted to (198) trillion dinars, with 72% of expenditures allocated to current expenditures, indicating ongoing challenges **in achieving budget balance and controlling current expenditures to maximize spending on capital investment.**

### Distribution of Expenditures by Economic Sectors

Overall, the allocations in the 2023 budget indicate continued challenges associated with heavy reliance on oil and financial challenges as they are, without a real vision for change as indicated by the ministerial program. The proportion of expenditure on central and local government administrations was the highest, indicating the large spending volume for state management institutions compared to those institutions concerned with service delivery.

The percentage of expenditure on the energy sector (17%) indicates the importance of this sector in the national economy, while the percentage of expenditure on security and defense (15%) underscores the importance of the security aspect and the government's focus on the security file despite its orientation towards reconstruction. Additionally, expenditure on domestic and international debt accounted for (10%), indicating ongoing challenges in debt management and its volume.

Figure (1): Distribution of Expenditures by Economic Sectors in the Budget (2023-2025)



Based on the data above from the General Budget 2023, it is evident that there is still a significant reliance on oil, posing immense challenges for the current government in achieving diversification and economic stability, as outlined in its ministerial agenda.

The Iraqi budget for the years 2023-2025 reflects the continuation of the rentier system, with operational expenditures dominating a large portion of the budget, and even capital expenditures primarily allocated for asset maintenance and institutional development.

## Previous government measures

The problem of Iraq's rentier economy and its excessive reliance on oil, along with the risks associated with this dependence, have been well-recognized by experts and researchers. The government, in collaboration with international organizations such as the United Nations Development Program, the International Labour Organization, the United Nations Industrial Development Organization, the Food and Agriculture Organization, and others, took on the task in 2013 of developing a strategy to develop the private sector (2014-2030) with the vision of "developing a vital, thriving national private sector, locally initiated, regionally competitive, globally integrated, aiming at achieving economic diversification, sustainable development, and job creation." The executive summary of the strategy acknowledged the magnitude of the problem, stating that direct government control over all aspects of the Iraqi economy for decades has weakened the private sector, leading to its closure. Many businesses have closed, and job opportunities provided by the private sector have shrunk. Despite the financial capacity provided by oil revenues to state budgets, the continuous reliance on these revenues as a source of income to sustain the economy is undesirable and unsustainable in the long run. This reliance on oil revenues has contributed to excessive dependence on cheap imported goods and equipment, often at the expense of local producers and service providers who cannot compete successfully within the current investment environment and regulatory framework.

The strategy outlined that the government would achieve its goals through a three-pillar approach, or what it termed as developmental pillars:

1. Understanding the private sector.
2. Improving the business environment.
3. Small and medium-sized enterprise (SME) development program.
4. Implementation Framework

Despite this accurate diagnosis of the problem and nearly ten years since the approval of the strategy by the Cabinet, there has been no seriousness in addressing this issue through the implementation and monitoring of the strategy by the relevant authorities.

## Current Government Measures

Transitioning the Iraqi economy from total reliance on oil to diversifying other sectors requires comprehensive efforts and effective strategic plans. Let's take a look at the analysis and evaluation to understand the effectiveness of the government's measures and whether the financial allocations are sufficient. The current government has taken a significant step by establishing the Iraqi Development Fund. The fund represents the only clear and significant difference in the budget towards developing the private sector and non-oil sectors. Article (45) of the 2023 budget indicated the establishment of the Iraqi Development Fund to improve the attractive investment environment and launch sustainable economic and social development with a capital of 1 trillion Iraqi dinars. It is linked to the Cabinet and enjoys legal personality, financial and administrative independence, regulated by regulations issued by the Cabinet. However, its capital is considered very low when compared to the total expenditures in the budget, representing only 0.005% of total expenditures.

## Analysis

Implications of the Ministerial Agenda on the General Budget for the Years 2023-2025  
Despite the significant increase in the budget, 87% of the revenues are derived from oil revenues, and current expenditures constitute 72% of the total expenditures. This indicates challenges in directing investment towards operational capital projects as well. Additionally, the sectoral distribution of the budget shows a concentration on specific sectors rather than diversifying spending across more critical sectors.

If the government does not take additional measures to achieve economic diversification, structural and economic challenges may persist. The government must focus on deep structural reforms and ensure the efficient use of financial allocations to support non-oil sectors and achieve economic transformation.

To avoid the consequences of heavy reliance on oil, Iraq must work on diversifying revenue sources and enhancing other sectors such as agriculture, industry, and technology. This requires addressing current challenges and taking effective measures to promote sustainable development.

# Policy Strategies for Achieving Development

After reviewing the economic challenges facing Iraq, it is clear that effective policies are needed to achieve sustainable development and diversify revenue sources away from total reliance on oil. This policy framework requires focusing on several key aspects:

- **Strengthening the Economic Infrastructure:** The fundamental pillar of economic diversification is improving the economic infrastructure by supporting local industries and enhancing value-added sectors.
- **Stimulating Investment:** There is a need to create a conducive investment environment that attracts domestic and foreign investments, with a focus on investment projects and non-oil sectors. This can be achieved through:
  - **Legislation:** Enacting laws that support and incentivize foreign investment.
  - **Supporting small, medium, and micro-enterprises.**
  - **Expanding and supporting entrepreneurship centers and startup projects.**
- **Directing Financial Allocations:** Priorities must be identified, and financial allocations should be directed towards projects that support sustainable development, with a focus on enhancing infrastructure and supporting key sectors.
  - **Cost-recovery state projects:** Allocating funds that contribute to building roads, bridges, and other infrastructure projects, where their use is cost-recovered for the purpose of reinvesting the expended amounts into other projects.
  - **Reducing capital allocation and focusing it solely on building new centers that rely on solutions that reduce operating expenses, such as green buildings and others.**
- **Enhancing the Private Sector:** Efficiently supporting and encouraging the private sector, with incentives provided for the development of small and medium-sized enterprises and the promotion of entrepreneurship.
- **Supporting Innovation and Technology:** Allocations should be invested in supporting research and innovation, and adopting technology to enhance productivity and develop new industries.



- **Legislative Reform and Improving the Business Environment:** Legislative reforms should be undertaken to improve the business environment and reduce obstacles facing investors.
- **Achieving Balance Between Current, Capital, and Investment Expenditures:** Efficient balance between current and capital expenditures is necessary to ensure effective investments in improving infrastructure.
- **Utilizing Financial Analysis:** The government should use financial analysis to ensure effective allocation of resources towards projects with the most impact and feasibility.

## Conclusion

By adopting these strategies, the Iraqi government can achieve a real transformation towards sustainable development and diversification of revenue sources. It requires joint efforts from all stakeholders to succeed in this vital path, contributing to the enhancement of Iraq's economy and achieving long-term financial stability.

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