



مركز البيان للدراسات والتخطيط  
Al-Bayan Center for Planning and Studies

# Diversifying the Iraqi General Budget Revenues as Part of the Transition Towards Sustainable Development

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Al-Bayan Center Studies Series

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Al-Bayan Center pursues its vision by conducting independent analysis, as well as proposing workable solutions for complex issues that concern policymakers and academics.

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# Diversifying the Iraqi General Budget Revenues as Part of the Transition Towards Sustainable Development

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## Summary:

- The Iraqi government, among the practical steps that contribute to public revenues, should take urgent actions in the manufacturing sector in Iraq, followed by the agricultural sector.
- Structural imbalances in public budget revenues can lead to the deterioration of the Iraqi economy and negatively affect the state's ability to achieve sustainable development and provide employment opportunities for individuals.
- The imbalance in the structure of budget revenues in Iraq may increase the class disparity gap among societal groups.
- Iraq needs to take smart steps towards utilizing the building of the budget and the Iraqi economy in responding and adapting to prevailing changes in international economic directions.
- The Iraqi government needs to program and manage financial revenues, and overcome opportunities for illicit profit and corruption in the budget.

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- Diversifying budget revenues will stimulate the ability to respond to the needs of private businesses and people through improving technology, social organization, and diversification of economic activity areas, as well as establishing an economy based on abundance and securing justice.

### **Introduction:**

Economic diversification is a strategy aimed at achieving sustainable development by enhancing the economy's resilience and reducing dependence on a single economic sector. Economic diversification is essential for ensuring economic stability and improving future growth opportunities. It involves developing different economic sectors, increasing exports, and improving the structure of economic transformation.

On the other hand, sustainable development is an approach to development that aims to meet the needs of the current generations without compromising the ability of future generations. Sustainable development includes environmental, social, and economic dimensions, aiming to improve the quality of life for everyone without negatively impacting the environment or unsustainably depleting resources.

The integration of economic diversification and sustainable development contributes to building a strong and sustainable economy in the long term, ensuring economic stability, and providing sustainable employment opportunities through increasing financial revenues reflecting human capital and diverse economic activities, while ensuring efficient resource use and maintaining a balance between environmental, social, and economic dimensions.

The Iraqi economy is considered a rentier economy as it relies on oil revenues to finance its economic activities, making it vulnerable to

global oil price fluctuations. The dominance of natural resources in its economy in production and trade has made it heavily dependent on them for its financial resource needs. From this perspective, we will shed light on an important and vital issue, namely, economic diversification as a means to achieve sustainable economic development.

### **The First Axis: Structural Imbalances in the Iraqi Economy**

Structural imbalances refer to the imbalance in elements of the economic structure, such as imbalances in public revenue sources, export structure imbalances, and imbalances in the sectors forming the gross domestic product (GDP), which can occur due to internal or external economic factors, leading to the deterioration of economic performance.

#### **First: Imbalance in the Structure of Public Revenues for Iraq's General Budget:**

The imbalance in diversifying government income sources is one of the main challenges faced by the Iraqi economy, as it heavily relies on oil exports as a major source of revenues. This one-directional approach makes the Iraqi economy vulnerable to global fluctuations, considering that oil prices are determined in global markets, leading to budget deficits and financial pressures on the government. Table (1) illustrates the structural imbalance in public revenues in Iraq.

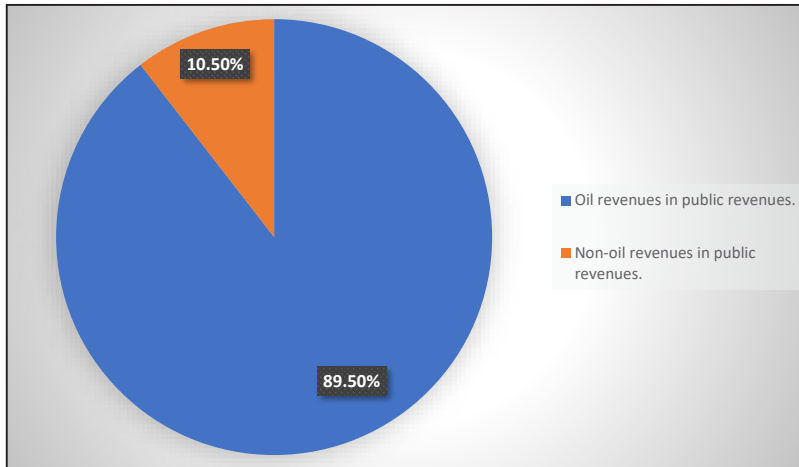
*Table (1). Structure of Public Revenues in Iraq (billion dollars)*

Years	Public Revenues	Oil Revenues	Contribution of Oil Revenues to Public Revenues (%)	Non-Oil Revenues	Contribution of Oil Revenues to Public Revenues (%)
2018	90.16	80.84	89.6	9.93	10.4
2019	91.01	83.95	92.2	7.06	7.8
2020	52.30	45.20	86.4	7.10	13.6
2021	75.24	65.71	87.3	9.53	12.7
2022	72.51	64.95	89.5	7.56	10.5

*Source: Arab Monetary Fund, Economic Statistical Bulletin for Arab Countries for various years.*

Table (1) shows the structural imbalance in public revenues and its concentration in the oil sector, where the percentage exceeded 86.4% for the period 2018-2022. This indicates a fundamental problem that requires comprehensive solutions to diversify income sources and improve financial resource management in the country, especially since Iraq possesses other sectors that could contribute to public revenues, if necessary support is provided, especially for the agricultural, industrial, and service sectors. To give a clearer picture of the contribution of oil and non-oil revenues to public revenues, see figure (1).

*Figure (1) Contribution of Oil and Non-Oil Revenues to Public Revenues for the Year 2022.*



*Source: Data from Table (1)*

### **Second: Imbalance in the Export Structure:**

Foreign trade plays an important role in the Iraqi economy, as the revenues from foreign trade, specifically exports, contribute more than 86% to the public revenues. Looking at the structure of Iraqi exports, it's evident that oil exports constitute more than 99% of the total exports, and the trade balance suffers from a perpetual deficit when excluding oil exports. This indicates a weak competitive capability of Iraqi non-oil products, such as industrial and agricultural products, which lack competitiveness on a “wide price level” with the world.

Tracking the structure of Iraqi exports according to the Standard International Trade Classification (S.I.T.C) in Table (2) reveals a clear imbalance due to the dominance of the oil sector over the total exports. For instance, in 2018, exports of mineral fuels, lubricants, and related materials amounted to \$86,259 million, making up 99% of the total exports, which amounted to \$86,360 million. The

remaining 1% included other types of goods such as foodstuffs, non-food raw materials excluding fuel, animal and vegetable oils and fats, chemicals, manufactured goods, machinery and transport equipment, and miscellaneous manufactured articles. The situation remained unchanged until 2022, indicating an unbalanced distribution of exported products from Iraq, both in terms of types and targeted markets. This shows the Iraqi economy’s inability to adapt to external challenges and increase dependence on the external world.

*Table (2) Structure of Iraqi Exports According to the Standard International Trade Classification (S.I.T.C) for the Period (2018-2022) (million dollars)*

Years	Foodstuffs and Living Animals	Beverages and Tobacco	Non-food Raw Materials Except Fuels	Mineral Fuels and Lubricants	Animal and Vegetable Oils and Fats	Chemicals	Manufactured Goods	Machinery and Transport Equipment	Miscellaneous Manufactured Articles	Goods not Classified Elsewhere	Total Exports	Percentage of Exports from Mineral Fuels and Lubricants to Total Exports
2018	6	0	16	86,259	0	0	74	5	0	0	86,360	99
2019	16	0	29	81,412	0	0	128	0	0	0	81,585	99
2020	12	0	33	46,692	0	0	92	0	0	0	46,829	99



Years	Foodstuffs and Living Animals	Beverages and Tobacco	Non-food Raw Materials Except Fuels	Mineral Fuels and Lubricants	Animal and Vegetable Oils and Fats	Chemicals	Manufactured Goods	Machinery and Transport Equipment	Miscellaneous Manufactured Articles	Goods not Classified Elsewhere	Total Exports	Percentage of Exports from Mineral Fuels and Lubricants to Total Exports
											72,822	99
2021	22	0	51	72,603	0	0	146	0	0	0	72,822	99
2022	23	0	52	74,520	0	0	151	0	0	0	74,694	99

*Source: Central Bank of Iraq, General Directorate of Statistics and Research, various bulletins.*

### **Third: Imbalance in the Structure of Gross Domestic Product (GDP):**

The Iraqi economy suffers from structural imbalances in all its economic aspects, despite possessing vast resources of water, agricultural land, and natural wealth including crude oil, natural gas, and sulfur, as well as human resources. However, it is considered a uni-dimensional economy due to its reliance on a single source, the oil sector, which has linked economic development processes to this sector. The conditions Iraq has gone through, starting from the

economic sanctions, followed by the American occupation in 2003, ISIS in 2014, and ending with the COVID-19 pandemic, have caused distortions in the structure of the GDP and the sectors comprising it, which can be illustrated through the following Table (3).

*Table (3) Structure of the Gross Domestic Product in Iraq (billion dollars)*

Years	Gross Domestic Product (1)	Extractive Sector (2)	Relative Importance of the Extractive Sector 2/1	Manufacturing Sector (3)	Relative Importance of the Manufacturing Sector 3/1	Fishing, Agriculture, and Forestry Sector (4)	Relative Importance of the Fishing, Agriculture, and Forestry Sector 4/1
2018	212.40	100.00	47	3.83	2	5.45	3
2019	215.28	96.50	45	4.53	2	5.93	3
2020	175.10	53.40	30	4.91	3	11.10	6
2021	209.10	92.10	44	4.10	2	10.51	5
2022	200.12	80.90	40	4.50	2	9.15	5

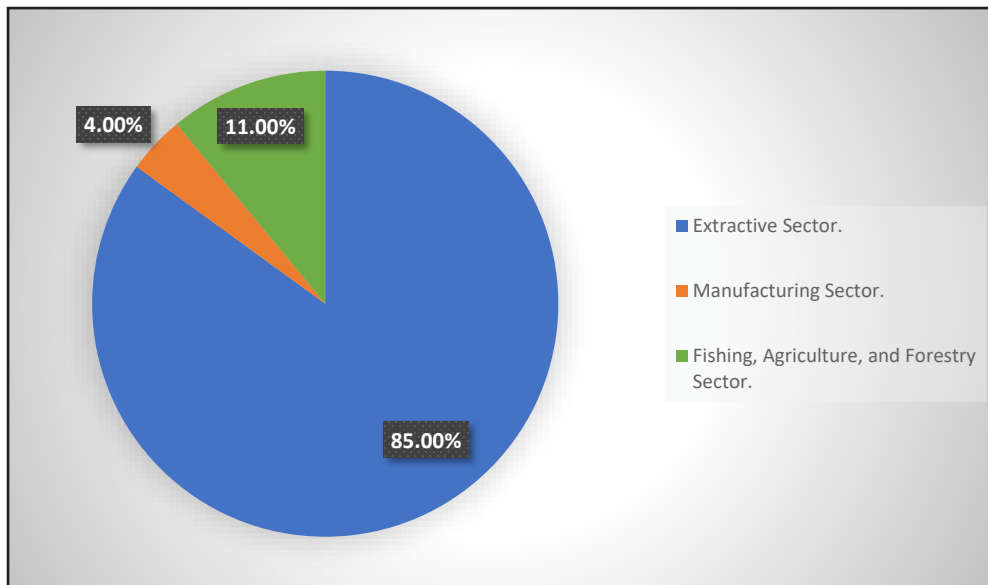
*Source: Arab Monetary Fund, Economic Statistical Bulletin for Arab Countries for various years.*

Table (3) demonstrates the unbalanced distribution of economic production, showing the significant imbalance in the economic sectors comprising the GDP, with the greatest share belonging to the Extractive sector, which exceeded 40% except in 2020, where it reached 30%

due to the COVID-19 pandemic and the associated decline in global oil prices. This imbalance requires the Iraqi government to take real actions to increase the contribution of other sectors to the Gross Domestic Product, such as the manufacturing sector, which has not exceeded 3%, and the agriculture sector, which has not surpassed 6%.

Given these imbalances, there could be a detrimental impact on the Iraqi economy, potentially affecting the state's ability to achieve sustainable development and provide employment opportunities for individuals. Additionally, the imbalance in the GDP structure may increase the gap between social and economic classes within society, as illustrated in figure (2), which shows the relative importance of the sectors constituting the GDP.

*Figure (2) The Relative Importance of the Sectors Constituting the Gross Domestic Product for the Year 2022.*



*Source: Data derived from Table (3)*

The heavy reliance and central focus on natural resources (oil) have marginalized the contribution of other sectors to economic development, focusing on how to maximize the revenue from this depleting resource without considering the future of the Iraqi economy, which has become characterized by rentier economy traits. These include:

1. The oil resource being the sole source of financing for economic activities and the public budget.
2. Weakness or absence of flexibility in the production apparatus due to complete reliance on oil revenues for funding development programs and government investments over decades, making the Iraqi economy vulnerable to external shocks and crises resulting from oil price fluctuations.
3. Economic decision-making being overshadowed by political decisions is among the main reasons for the structural imbalances the Iraqi economy suffers from, despite having material and human resources.
4. Centralization in decision-making regarding economic policies has weakened the role of the private sector in economic activity.
5. The significant decrease in growth rates of the non-oil real Gross Domestic Product has had a clear impact on the inability to uplift the country's developmental infrastructure.
6. The decrease in the contribution of other sectors (agriculture, industry, and services) to the Gross Domestic Product.
7. The outflow of local capital for investment abroad.

## **The Second Axis: Diversification as a Means to Achieve Sustainable Development**

### **First: Economic Diversification**

Economic diversification refers to efforts to enhance and develop a variety of economic sectors in the country to achieve sustainable development and reduce dependence on one or a few sectors. Economic diversification is a vital strategy for countries to mitigate economic fluctuations, improve growth opportunities, and ensure economic stability. In the case of Iraq, economic diversification presents a significant challenge due to its heavy dependence on oil exports as a primary source of revenue.

Efforts toward economic diversification in Iraq include promoting non-oil industries such as agriculture, tourism, and manufacturing, in addition to supporting entrepreneurship and encouraging local and foreign investments. Improving infrastructure and increasing employment opportunities are crucial for achieving economic diversification. These efforts are part of long-term strategic plans aimed at improving the Iraqi economy's adaptability to global changes, ensuring sustainable growth, and improving citizens' living standards.

### **Second: Reasons for the Lack of Economic Diversification**

The main reason behind the lack of economic diversification primarily lies in the government sector's dominance over most aspects of the Iraqi economy, evidenced by the modest contribution of the private sector to the Gross Domestic Product. Additionally, the failure to invest oil revenues, especially during oil boom years when crude oil prices are high in the global market, and to diversify and develop its economic structure for the benefit when oil prices fall globally, has led to increased public spending and total consumption rates. The

focus has shifted towards developing the service sector, particularly financial and banking services, at the expense of productive sectors, whether agricultural or manufacturing.

Tracking the Iraqi economy's indicators shows that successive governments have not utilized oil wealth over the past decades to generate sustainable funding that could achieve sustainable development. This necessitates embarking on real actions to diversify the national production base and explore various stimulants for economic growth through maximizing the added value of oil and its revenues as a catalyst for economic diversification. This requires decoupling the growth of the Gross Domestic Product from the oil sector, reducing reliance on it as the sole income source, restructuring the economy at both the macro and sectoral levels to align with global competitiveness, and considering global changes by activating the private sector's role and expanding its contribution to capital formation and the real non-oil Gross Domestic Product. The private sector is considered the backbone of the market economy, playing a significant role in resource allocation and directing them towards more efficient use. Finally, the main reasons for the lack of economic diversification can be summarized as follows:

- 1. Heavy reliance on oil exports:** Oil is the primary source of revenue in Iraq, making the country's economy highly dependent on this single resource, leading to sector inflation and reduced diversification.
- 2. Corruption and weak infrastructure:** The Iraqi government faces significant challenges in resource management and corruption, alongside weak infrastructure that hinders the development of other economic sectors.

**3. Conflicts and political disturbances:** The long history of wars and ongoing conflicts in Iraq has negatively affected the country's stability and economic development.

**4. Lack of organization and management:** Some analysts point to a lack of organization and management in certain government sectors and companies in Iraq as a key reason for economic diversification's weakness.

**5. Low levels of education and innovation:** Lower education and innovation levels in certain areas may also hinder achieving diversification in sectors other than oil exports.

### **Third: Economic Diversification as a Path Towards Sustainable Development**

Sustainable development is a process that meets the needs of the current generation without compromising the ability of future generations to meet theirs. It aims to achieve a balance between economic, environmental, and social dimensions to ensure the sustainability of resources and environmental protection for future generations. Sustainable development is fundamental in environmental, economic, and social planning, seeking to achieve progress and prosperity sustainably without harming the environment.

From the perspective of sustainable development, economic diversification is seen as a guarantee for long-term economic stability, expanding the range of economic activities through the production and distribution of goods and services. Diversification not only means increasing outputs but also enhances economic stability by diversifying its economic base. Seen from this angle, it has the potential to improve the economy's adaptability and ensure its prospects in the long term, especially in facing the depletion of basic natural resources and economic fluctuations under the pressure of global

competition, particularly in the era of contemporary globalization. Economic diversification tends to meet the basic needs of sustainable development, such as providing for the basic needs of the poor, which revolve around offering jobs, food, health, clothing, and shelter, and opening varied economic activity fields to accommodate broad segments of the population. It also works to expand the environment's capacity to meet people's needs through improving technology, social organization, and diversifying economic activity fields, instead of exploiting one side of natural resources threatened with extinction and environmental degradation. Diversification establishes an economy based on abundance and securing justice. Finally, the most important requirements for achieving sustainable development in Iraq can be summarized as follows:

- 1. Economic Diversification:** It's crucial to enhance diversification in the economy's sectors to improve employment opportunities and increase revenues for financing the public budget and investments, contributing to sustainable economic growth. This ensures no single sector dominates the added value of the gross domestic product.
- 2. Political and Security Stability:** Political and security stability is critical for the continuity of sustainable development efforts in Iraq. Achieving political stability and enhancing security are essential to ensure that developmental efforts are not dispersed.
- 3. Private Sector Role:** Granting a strategic role to the private sector in operating activities, whether local or foreign, is essential.
- 4. Effective Government and Management:** The government plays a critical role in achieving sustainable development; hence, it must be capable of providing basic services to citizens effectively and transparently.



**5. Conservation of Natural Resources:** Protecting and sustainably managing natural resources is necessary to ensure the sustainability of development, including water, soil, and forests.

**6. Improving Education and Health Quality:** Improving the quality of education and health services means ensuring the development of skills and increasing knowledge levels, contributing to building a society capable of advancing development.

**7. Workforce:** Ensuring the workforce is distributed between the public and private sectors and working to not concentrate it in one sector over the other.