



# Iraq's 2025 Budget: Is It Time to Rethink How the Federal Budget Is Prepared and Implemented?

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Series of publications of Al-Bayan Center for Studies and Planning  
/ Research Department / Economic Studies

**Publication** / Policy Paper

**Topic** / Economics and Development

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### About

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## **I. Executive Summary:**

1. The state's financial budget is the most important strategic document and reform tool in the hands of governments. It represents the cornerstone of economic and social reform efforts in all countries.
2. The principle of line-item budgeting conflicts with decentralized administration. Attempts to grant greater powers to sub-national administrative units (such as governorates) often result in sharp conflicts that slow the devolution of financial authority and create discrepancies between legislation and actual practice.
3. Iraq's current line-item budget focuses on accounting functions and expenditure oversight, rather than the quantity or quality of services provided by government units.
4. Line-item budgeting is primarily concerned with costs and inputs rather than outputs or the results of expenditures. Consequently, it is not linked to the return or performance of public spending and therefore does not serve as a true measure of governmental achievement.
5. The core idea of program and performance budgeting is to shift the focus from the means of budget implementation to the outcomes achieved. Its philosophy lies in aligning the functions of administrative units with the government's broader economic and developmental goals.
6. Iraq's reliance on the line-item and oversight-based budgeting method had its practical justifications, particularly as it aligned with the centralized administrative model that prevailed until the end of 2003. However, with the country's transition to decentralized governance following the adoption of the Constitution in 2005, and given the numerous shortcomings exposed in the line-item budget in practice, it is necessary to move away from this approach and adopt a new method suited to the current phase.





7. Program and performance budgeting is the most effective method for monitoring the financial budget. It also offers a realistic picture of government spending by scientifically defining the costs and timeframes required for all programs and activities in advance.
8. Transitioning to program and performance budgeting requires a shift from a cash-based accounting system to an accrual-based one. It also demands the development of performance metrics, standards, and the presence of an efficient legal and institutional framework.
9. The transition from line-item budgeting to program and performance budgeting should be gradual and partial, given that Iraq's institutional structure remains traditional and underdeveloped, and because a poorly executed transition could pose serious risks to public finances.
10. Line-item budgeting focuses primarily on costs and inputs, rather than outputs or results of expenditure. As such, it is not linked to the return or performance of public spending.

## **II. Introduction:**

The general budget is the most critical component of economic and social reform efforts in all countries. For this reason, nations have placed great importance on how the state's financial budget is managed and the proper methodology for preparing it. Consequently, governments have sought budgetary systems that can help them achieve their diverse objectives. With the advancement of economic analysis methods and technological tools for data and information gathering, the approach to preparing, managing, and executing the general budget has evolved significantly. Budgeting has moved beyond merely monitoring expenditures to include planning, programming, and active management.



As a result, various types of budgets have emerged, differing in terms of their sophistication and methods of preparation and management. Among these, international experience has shown that program and performance budgeting is the most successful approach for preparing and implementing financial budgets—especially in countries undergoing transitional phases of economic transformation.

In Iraq's case, however, the country still relies on the oldest method of preparing, executing, and monitoring the state's financial budget: the line-item budget. The Iraqi budget remains governed by the principles of this traditional model, which has been in use since the first budget was prepared. While Iraq's adoption of this conventional approach had its justifications in the past—such as achieving a degree of political acceptance—circumstances have changed. With the development of economic and financial sciences, and as most countries move away from outdated budgeting methods toward more modern systems, Iraq must reconsider its approach.

The continued reliance on the line-item budget has produced numerous negative consequences, including the squandering of public funds, a lack of tangible achievements, and stifling administrative bureaucracy. Thus, the time has come for Iraq to adopt a new methodology for preparing and managing its general budget. This policy paper advocates for the adoption of program and performance budgeting as the most suitable method for Iraq's current context, and as one of the most effective fiscal reform tools to support good governance in the country.

However, before addressing the importance and methodology of transitioning from line-item budgeting to program and performance budgeting in Iraq, it is essential to examine the philosophy behind both approaches, their respective advantages and disadvantages, and to present a comprehensive overview of the current methodology used in preparing Iraq's budget.



### III. Analysis of the Philosophy Behind the Line-Item Budgeting System

#### 1. The Concept of the Traditional Budget (Line-Item Budget)

This budgeting method is considered the oldest approach to preparing and managing the state's general budget. It is known by several names, including the appropriations budget, control budget, and line-item budget. Despite the emergence of alternative budgeting approaches, this method remains dominant in many countries around the world, particularly in developing nations and rentier economies.<sup>1</sup>

Line-item budgeting can be defined in various ways, the most prominent of which is: "a budgeting approach based on data from the previous fiscal year and the estimated increase therein, which is then used to forecast public expenditures and revenues and to allocate and monitor appropriations accordingly."<sup>2</sup> It is also defined as: "a budget that is structured around specific line items, with allocations tied to each item, requiring strict adherence to these allocations during expenditure."<sup>3</sup>

The core idea and philosophy behind line-item budgeting is to provide funding for the goods and services required by government units in order to conduct their general operations and activities. In return, these units are expected to comply with the funding limits allocated to them under each line item, without exceeding them. This method focuses solely on the inputs -that is, the allocated funds- while disregarding the outputs, namely, the goods and services delivered by the government units and the manner in which they are provided.<sup>4</sup>

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1. Younis Aliyan Al-Shoubaki and Ahmad Muhammad Abu Shamala, *Governmental Accounting*, (Amman: Dar Al-Thaqafa for Publishing and Distribution, 2012), p. 96.

2. Imad Al-Harsh, *Public Finance*, (Republic of Iraq: Ministry of Higher Education and Scientific Research, 2014), p. 180.

3. Jamal Laamara, *Fundamentals of the State General Budget: Concepts, Rules, Stages, and Modern Trends*, (Cairo: Dar Al-Fajr for Publishing and Distribution, 2004), p. 175.

4. Qasim Jihad Ubaid, "A Proposed Model for a Mixed Traditional Budget in Government Service Units: An Applied Study at Al-Mustansiriyah University and its Colleges," *The Iraqi Journal of Economic Sciences*, Vol. 10, No. 34, 2012, p. 97.



In reality, the line-item budgeting approach aligns well with centralized administrative systems, where financial decision-making authority and responsibility are concentrated at the top of the organizational hierarchy. This method begins by defining authorized expenditure line items, classifying spending in terms of the quantities required to meet the objectives of government units, and ultimately fulfilling the overarching policy goals of the state. Consequently, each expenditure line is clearly specified with its respective financial allocation, making this definition essential for the functioning of a line-item budget. Since spending must occur within these boundaries, control and accountability are two fundamental elements of this approach.<sup>5</sup>

The line-item budgeting and control system was first implemented in the United States in 1921 as a comprehensive executive budget. It adopted an economic classification system to distinguish between current and capital expenditures, organizing expenditures according to their nature rather than their purpose. In other words, similar types of expenses are grouped into homogeneous major and sub-categories.<sup>6</sup>

Once financial allocations are made to government units based on their assessed needs, these appropriations are subject to legal and financial constraints, and are supervised by the state's administrative and financial authority—typically the Ministry of Finance or the Treasury Department, depending on each country's institutional terminology.<sup>7</sup>

## 2. Foundations of Line-Item Budget Classification

Line-item budgeting is organized around the classification and presentation of data at two primary levels: administrative classification and qualitative classification. Each of these levels includes specific sub-items, and every item is further broken down into its corresponding sub-categories or types.

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5. Mohammed Al-Fateh Mahmoud, *Budget Management: Theory and Practice*, (Amman: Dar Al-Jinan for Publishing and Distribution, 2014), p. 118.

6. Qasim Jihad Ubaid, *ibid.*, p. 97.

7. Zahra Hassan Aloui and Mohammed Adel Mohammed, "The Use of Cost Accounting in the Government Accounting System," *Journal of Al-Turath University College*, No. 20, 2016, p. 232.



- a. **Administrative Classification:** is a fundamental budgeting method adopted by all countries in their general budgets. Under this system, appropriations are structured according to the administrative framework of the state. This involves dividing government activities into several administrative units -such as ministries, authorities, departments, and directorates. Within each unit, expenditures are categorized into chapters and sections using a horizontal classification system. This enables a clear allocation of public expenditures and revenues to each administrative entity.<sup>8</sup>

For example, the general budget of a specific ministry might be divided into chapters, with each chapter corresponding to one of the ministry's key branches or sectors. These chapters are then subdivided into sections, each representing the budget of a main department within that branch or sector. This hierarchical breakdown continues in alignment with the government's organizational structure and levels.<sup>9</sup> (See Table 1.)

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8. Mohammed Al-Fateh Mahmoud, *ibid.*, p. 121.

9. *Ibid.*, p. 122.



**Table 1. An Illustrative Model of Administrative Classification in the Line-Item Budget** (Figures are for illustrative purposes only and do not reflect actual data.)

|   | Entity Name                 | Expenditure and Expense Chapters for the Fiscal Year 2019-2020 |                    |   |   |                 |           |                      | Total Expenditures |
|---|-----------------------------|--|--------------------|---|---|-----------------|-----------|----------------------|--------------------|
|   |                             | Current Expenditures   |                    |   |   |                 |           |                      |                    |
|   |                             | Employee Compensation  | Goods and Services |   |   | Social Benefits | Transfers | Capital Expenditures |                    |
| 1 | Head of State Allocations   | 0  | 0                  | 0 | 0 | 0               | 50,000    | 0                    | 50,000             |
| 2 | Council of Ministers        | 99,500   | 30,131             | 0 | 0 | 0               | 7,026     | 11,121               | 147,778            |
| 3 | Bureau of Audit             | 50,013   | 3,193              | 0 | 0 | 21,000          | 424       | 2,455                | 77,085             |
| 4 | Civil Service Bureau        | 50,514   | 4,329              | 0 | 0 | 0               | 25,560    | 918                  | 81,321             |
| 5 | Ministry of Foreign Affairs | 111,720  | 75,256             | 0 | 0 | 16,670          | 5,010     | 29,523               | 238,179            |
| 6 | Ministry of Finance         | 67,633   | 36,470             | 0 | 0 | 6,000           | 20,060    | 106,619              | 230,782            |
| 7 | Ministry of Trade           | 50,000   | 7,000              |   | 0 | 62,000          | 1,230     | 2,700                | 352,930            |

|    |                      |           |         |   |   |        |        |         |           |
|----|----------------------|-----------|---------|---|---|--------|--------|---------|-----------|
| 8  | Ministry of Justice  | 20,439    | 926     | 0 | 0 | 0      | 290    | 4,768   | 26,423    |
| 9  | Ministry of Interior | 1,001,900 | 97,194  | 0 | 0 | 25,800 | 11,430 | 42,242  | 1,178,566 |
| 10 | Ministry of Defense  | 967,970   | 391,050 | 0 | 0 | 40,273 | 29,678 | 502,621 | 1,931,592 |

**Source:** Ministry of Finance, State of Kuwait. General Budget for Fiscal Year 2019–2020, p. 9.

It is evident from the illustrative table, as shown in the General Budget of the State of Kuwait, that expenditures are classified based on a primary administrative structure (by ministries and government agencies). Each row represents the total share of an administrative unit in the overall expenditures, whereas each column represents the total amount allocated to a specific type of expenditure across all administrative units. These are further subdivided into subcategories. For example, the budget of the Ministry of Defense is divided into appropriations such as (military defense, civil defense, foreign military aid, research and development, defense affairs, etc.).<sup>10</sup>

- b. **Qualitative Classification:** Each functional classification should be preceded by an administrative classification. Under this system, expenditures and revenues are categorized based on their type. Each is then broken down into main, sub, and analytical sections according to their specific characteristics. Under this classification, public expenditures are divided into major categories such as (compensation of employees, goods and supplies, service requirements, etc.), with each of these categories further divided into subcategories known as “items,” and items are further subdivided into “types.” The same applies to the classification of public revenues.<sup>11</sup> See Table 2 for a demonstration.

10. Ministry of Finance – Kuwait, General Budget of the State of Kuwait 2019–2020, Chapter Four, p. 52.

11. Fawzi Atwi, Public Finance, (Beirut: Al-Halabi Legal Publications, 2003), p. 383.



**Table 2. Illustrative Model of the Functional Classification in Line-Item Budgeting**

| Chapter .No | Chapter Title                     | Allocation (in million (KD | Percentage (%) |
|-------------|-----------------------------------|----------------------------|----------------|
| 21          | Compensation of Employees         | 7,692.104                  | 34.19          |
| 22          | Goods and Services                | 3,386.285                  | 15.05          |
| 25          | Subsidies                         | 639.461                    | 2.84           |
| 26          | (Grants (Expenditures             | 5,252.221                  | 23.34          |
| 27          | Social Benefits                   | 994.722                    | 4.42           |
| 28          | Other Expenses and Transfers      | 1,263.520                  | 5.62           |
|             | <b>Total Current Expenditures</b> | <b>19,228.313</b>          | <b>85.46</b>   |
| 32          | Purchase of Non-Current Assets    | 3,271.687                  | 14.54          |
|             | <b>Total Capital Expenditures</b> | <b>3,271.687</b>           | <b>14.54</b>   |
|             | <b>Total Expenditures</b>         | <b>22,500.000</b>          | <b>100.00</b>  |

**Source:** Ministry of Finance, General Budget of the State of Kuwait 2019-2020, p. 15.

Table 2 presents the functional classification used in line-item budgeting. It includes the main types of expenditures, which are then subdivided. For example, the “Compensation of Employees” category is further broken down into (salaries and wages, cash bonuses, cost of living allowances, housing allowances, etc.).<sup>12</sup> It is important to note that the budget classification is carried out simultaneously on both the administrative and functional levels, and both levels include current and capital expenditures and revenues. See also Table 1 as previously referenced.

### 3. Evaluation of the Line-Item Budgeting Approach

Before proceeding to evaluate the line-item budgeting approach -by identifying its strengths and weaknesses- it is essential to first summarize its key features. This budgeting method is characterized by the following aspects:<sup>13</sup>

12. Ministry of Finance - Kuwait, *ibid.*, p. 34.

13. Ghazi Othman Mahmoud and Jabbar Ahmed Abdullah, “A Study of the Reality of the General Budget of Administrative Units in the Kurdistan Region of Iraq and Ways to Develop It,” *The Iraqi Journal of Administrative Sciences*, Vol. 9, No. 35, 2013, p. 315.



- a) The line-item budget focuses on the accounting function and control over spending items, rather than on the quantity or quality of services delivered by government units.
- b) It adopts a standardized classification system that applies uniformly to all government departments, regardless of the specific functional nature of their activities.
- c) Budget estimates for the upcoming fiscal year are based on indicators from previous years.
- d) It follows a cash-based accounting system rather than an accrual-based one.

The evaluation of the line-item budgeting system can be illustrated in **Table 3**, which outlines the advantages and disadvantages of this approach in preparing and managing the state budget.

**Table 3. Advantages and Disadvantages of the Line-Item Budgeting Approach in Preparing and Managing the State Budget**

| Advantages of Line-Item Budgeting   | Disadvantages of Line-Item Budgeting   |
|---|--|
| Facilitates the classification of expenditures for each unit within a project or institution, making it easy to prepare, categorize, understand, and compare spending | Lacks objective criteria for determining allocations, making it difficult to assess alternative courses of action. This encourages institutions to compete for increased funding without aligning with national priorities and often leads to uncoordinated, isolated planning |
| The absence of rigid rules or constraints in budget classification allows for ease in preparation   | Emphasizes expenditure details over strategic goals, hindering sound decision-making by preventing meaningful comparisons between costs and outcomes   |
| Enables the aggregation and comparison of traditional budget data across years, helping identify trends in expenditure and revenue                                    | Offers limited flexibility during implementation, as funds are tied to specific items, and reallocation requires legislative approval, which can be time-consuming   |



|   |   |
|---|---|
| Helps reduce embezzlement and – misuse of funds by restricting spending to approved purposes. It is also .cost-effective to prepare and monitor | As an annual budget format, it diverts govern- – .ment focus from long-term investment planning   |
| Provides a straightforward tool for – legislative bodies to oversee executive .actions  | Reinforces centralized control in administrative – and political processes, making officials hesitant to delegate financial authority due to accountabil- .ity concerns |
| Simplifies the resolution of bud- – get disputes, which often center on financial amounts rather than specific .policies or programs            |   |

**Source:** Compiled by the researcher based on:

- Husni Kharboush and Hussein Al-Yahya, Public Finance, (United Arab Company for Marketing and Supply, 2013), p. 172.
- Mushtaq Talib Mohammed et al., The Importance of Shifting from Line-Item Budgeting to Program and Performance Budgeting to Address the Deficit in Iraq’s General Budget, (Iraq: Anbar University Journal of Economic and Administrative Sciences, Vol. 11, No. 24, 2019), pp. 3–4.
- Jamal Laamara, Fundamentals of the General State Budget: Concepts, Rules, Stages, and Modern Trends, (Cairo: Dar Al-Fajr for Publishing and Distribution, 2004), p. 175.

It is clear from the above that line-item budgeting primarily focuses on the costs or inputs of the budget, rather than on the outputs or results of expenditures. Therefore, it is not linked to the returns or performance of public spending.



#### IV. Analysis of the Philosophy of the Program and Performance Budgeting System

##### 1. Concept of Program and Performance Budgeting

Due to the numerous shortcomings and weaknesses inherent in line-item budgeting, the most important of which include its failure to provide information on the actual performance of the government, and its focus on inputs while neglecting outputs, the approach known as Program and Performance Budgeting emerged to address the weaknesses of traditional budgeting. This system aims to provide clearer and more significant insights from economic, financial, and political perspectives.

The first seed of Program and Performance Budgeting was planted in 1921, and the call for this approach emerged in the United States in 1949. A Hoover Commission (established by the U.S. president at the time to study government organization and administration) issued a report on budgeting, and the system was implemented in 1951. It was subsequently adopted in many countries around the world.<sup>14</sup>

The main definitions of Program and Performance Budgeting can be summarized as follows: "A set of goals that government agencies and units must achieve within a certain time frame, after breaking them down into programs, activities, and necessary efforts, along with the estimation of costs for each program and activity."<sup>15</sup> The U.S. Budget Office also defines it as: "A budget that outlines the objectives for which financial allocations are requested, the costs of open programs to reach these objectives, and the quantitative data and information to measure achievements and the work completed under each program."<sup>16</sup>

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14. David C. Warner, A brief history and analysis of budgeting as a tool of allocation, (U.S: Wayne State University Detroit, Michigan, 1970). p.14. look at the link: <https://files.eric.ed.gov/fulltext/ED050481.pdf>

15. Marc Robinson, Performance-based Budgeting, (CLEAR: Regional Centers for Learning on Evaluation and Results, 2007). P. 13. look at the link: [https://www.theclearinitiative.org/sites/default/files/2016-04/CLEAR\\_PB\\_Manual.pdf](https://www.theclearinitiative.org/sites/default/files/2016-04/CLEAR_PB_Manual.pdf)

16. Qasim Jihad Ubaid, *ibid.*, p. 99.



The fundamental idea behind Program and Performance Budgeting is to shift focus from the means of executing the budget to the results achieved. Its philosophy connects the tasks of administrative units with the government's economic and developmental goals. This is achieved by breaking down the budget into major and minor programs, distributed across main and sub-units. These programs are linked to the administrative activities, and the performance of these units is monitored according to the outputs, ensuring that the costs are tied to benefits. This approach ensures that there is no expenditure without a corresponding return, measured through standard performance metrics.<sup>17</sup>

Accordingly, the objectives of Program and Performance Budgeting are as follows:<sup>18</sup>

- Linking expenditure estimates to the goals of the agency through planned programs to achieve them.
- Connecting actual expenditure to the administrative levels responsible for expenditure centers based on their authority.
- Improving the accuracy of budget estimates by breaking down expenditure components and program needs, rather than making general estimates, which makes it more closely aligned with actual requirements.
- Creating awareness within administrative levels of the importance of public spending, encouraging efficient use of allocated resources, and providing mechanisms for monitoring and evaluating expenditure. This includes the availability of performance metrics to assess the effectiveness and efficiency of performance.

## 2. **Classification of the Program and Performance Budget**

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17. Mohammed Awad Radwan, *The Philosophy of Program and Performance Budgeting in Addressing Deficits and Public Debt in the General Budget of the State*, (Cairo: Dar Al-Nahda Al-Arabia, 2009), pp. 150–151.

18. David C. Warner, *ibid.*, pp. 21–22.



The issue of classification in any type of budget holds great importance, as it facilitates the distribution of public funds in a structured and deliberate manner. It also aids oversight authorities in monitoring how the executive branch spends public money. The structure of classification in a program and performance budget is divided into three main types: functional classification, program-based classification, and activity-based classification.

- A. **Functional Classification:** Under this type of classification, the revenues and expenditures of the general budget are divided in a way that highlights the primary functions of the government. Each function encompasses a broad range of programs and activities, the implementation of which contributes to achieving a main objective of the government.<sup>19</sup>

This classification is useful in identifying the purposes served by government spending, regardless of the specific entity making the expenditure. It does this by collecting and grouping all programs and activities undertaken by government departments under the core functions of the state. It thus differs from line-item budgeting, which is based on the types of expenditures—that is, the items to be purchased—whereas functional classification is based on the projects and tasks required from government administrative units.<sup>20</sup>

Many countries currently adopt this method. For instance, the Arab Republic of Egypt uses the program and performance budgeting approach, employing a functional classification system in its general budget. The government's responsibilities are grouped into ten primary functions, including: general services, defense and security, public order and safety affairs, economic affairs, health, education, among others. Similar programs are then grouped under each of these functions.<sup>21</sup>

19 Ibid., p. 14.

20 Mohammed Awad Radwan, *ibid.*, p. 153.

21 Arab Republic of Egypt, Analytical Statement of the Draft General Budget of the State for Fiscal Year 2019–2020, (Ministry of Finance, 2020), pp. 87–91.



- B. **Program-Based Classification:** The second level of classification pertains to major programs or tasks, which are then broken down into more detailed sub-programs according to geographic regions, the nature of the required activities, or the beneficiaries of the service, and so forth. The program is considered the highest level within the program and performance budget, as it reflects the responsibilities of government units and includes a group of activities.<sup>22</sup>

In this approach, each government function is divided into a set of service programs or project implementations, aligned with the state's general service framework and the pre-set objectives. The budget is then classified and organized according to the government programs that the executive branch plans to implement during the year. These programs are divided into two categories—current and investment—depending on the nature of the programs. Subsequently, all programs are further broken down into a group of projects and activities, which serve as the cornerstone of the budget. These form the basis for appropriation estimates, accounting, and reporting,<sup>23</sup> as illustrated in Table 4.

**Table 4. Illustrative Model of the Egyptian Ministry of Health's Programs for the Fiscal Year 2019–2020**

| (Budget Items (Activities |       | Program-Based Budget                           |      |
|---------------------------|-------|--|------|
| Total salaries and wages  | 6,000 | General Administration                         | 462  |
| Overtime                  | 150   |  |      |
| Facility-related expenses | 800   | Primary Healthcare and Public Health Promotion | 4326 |
| Transportation            | 750   |  |      |

22. Basheer Abdul Hafidh Al-Banna, *Scientific and Practical Foundations in Government Accounting*, (Amman: Dar Al-Yazouri Scientific for Publishing and Distribution, 2011), pp. 182, 104.

23. Al-Sadiq Mohammed Ahmed Mohammed, *The Role of Program and Performance Budgeting in Evaluating the Financial Performance of Government Units: University of...*, Master's Thesis, (Sudan: University of Nilein, College of Graduate Studies, 2019), p. 37.

|                       |              |                               |             |
|-----------------------|--------------|-------------------------------|-------------|
| Equipment             | 400          | Hospital Services             | 2817        |
| Shipping              | 125          |                               |             |
| Water and electricity | 15           |                               |             |
| Telephones            | 25           | Medical Training and Research | 692         |
| Printing              | 20           |                               |             |
| Consumables           | 12           |                               |             |
| <b>Total</b>          | <b>8,297</b> | <b>Total</b>                  | <b>8297</b> |

**Source:** UNICEF Report, *Budgeting with Transparency: Guide to the Egyptian Budget*, No. 1, p. 6.

As shown in Table 4, the health function within the Egyptian budget has been divided into four main programs: **General Administration**, **Primary Health-care**, **Hospital Services**, and **Medical Training and Research**. These programs are then broken down into specific activities and sub-tasks (e.g., transportation, equipment, shipping, etc.).

- C. **Activity- and Performance Unit-Based Classification:** At this stage, similar tasks falling under a specific program are grouped together, as they contribute to the final output of that program. An activity refers to a group of similar operations or duties performed by individuals at the primary levels of work. This classification is useful for work oversight and is often linked with other types of classification—particularly functional and economic classifications.<sup>24</sup>

Following this, each government unit divides its share of projects and activities into performance units, which represent the services or goods to be provided to the public. This stage is considered one of the most challenging, as defining performance units requires each government unit to specify the tasks it will perform—in other words, to break down the services it intends to deliver. This necessitates the existence of activity and project performance standards, which must be developed using technical methodologies.<sup>25</sup>

24. Younis Aliyan Al-Shoubaki and Ahmad Muhammad Abu Shamala, *ibid.*, p. 93.

25. Al-Sadiq Mohammed Ahmed Mohammed, *ibid.*, p. 37.



### 3. Evaluating the Program and Performance Budgeting System

Before delving into an evaluation of the program and performance budgeting system—by identifying its strengths and weaknesses—it is important to outline its key principles and foundational rules, which can be summarized as follows:<sup>26</sup>

- a) **Existence of a Plan and a Defined Objective:** All undertaken work should be based on a specific plan with a clear objective.
- b) **Unit of Measurement:** All efforts directed toward achieving a specific task must be measurable, either through defined units or via professional judgment.
- c) **Cost-Benefit Consideration:** Every action incurs a cost. Hence, program and performance budgeting entails financial costs that must be measured and compared against the anticipated benefits.
- d) **Work Programming:** All tasks can be pre-programmed, allowing for prediction of their scope, timing, and cost.

In fact, many experts and researchers have called on developing and rentier states to adopt the program and performance budgeting system, owing to its advantages and strengths in managing public finances and the broader economy. However, there are also drawbacks and limitations that hinder its implementation in some countries. These are summarized in the following table:

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26. Imad Al-Harsh, *ibid.*, p. 181.

**Table 5. Advantages and Disadvantages of Program and Performance Budgeting**

| Advantages  | Disadvantages  |
|---|--|
| Enables more effective allocation of the state's – financial resources compared to traditional budgeting by providing detailed data for distributing appropriations among ministries and agencies based on the programs and projects to be implemented and their associated costs | Difficulty in accurately defining objectives for all government agencies, particularly for smaller units   |
| Offers a precise picture of government spending by pre-determining the costs of planned activities  | Challenges in identifying performance – units for administrative activities, especially in sectors such as security, justice, and defense, which constitute a significant portion of the public budget and often lack clear, measurable performance indicators |
| Expands the authority of department managers – in planning and self-monitoring, while holding them accountable for performance inefficiencies   | Limited capacity of administrative and – accounting staff in government units to meet the technical demands of implementing this budgeting system  |
| Allows for flexible resource allocation based on – the relative importance of tasks and activities, promoting more efficient use of funds   | High cost of implementing the program – and performance budgeting system, particularly for smaller government entities   |
| Enhances the efficiency of the accounting – system and increases reliance on cost-performance data, improving the credibility of financial reporting  | Requires large volumes of financial and – accounting data, which can delay the budget preparation process  |
| Strengthens the link between short-, medium-, – and long-term planning  | Existing administrative structures in – many government units are not well-suited to implement this system, as programs and activities often overlap across multiple departments   |
| Builds a scientific and reliable database for – evaluating both current and past government performance   |  |
| Improves the capacity of government units – to manage and implement public programs and projects  |  |
| Provides logical justification for both current – and future spending levels and structures   |  |

|  |  |
|--|--|
| Translates general government policies and - objectives into clear, simplified programs that .address priority issues  |  |
| Offers citizens transparent information on - government services, including program descriptions, objectives, implementation costs, and .expected performance outcomes |  |

**Sources:** Compiled by the researcher, based on:

1. Ismail Hussein Ahmaro, *Government Accounting: From Tradition to Modernity* (Amman: Dar Al-Maseera for Publishing and Distribution, 2003), p. 113.
2. Abdel-Muttalib Abdel-Hamid, *Economics of Public Finance* (Alexandria: University House, 2005), pp. 149–150.

### **Summary of Key Differences Between Line-Item Budgeting and Program and Performance Budgeting:<sup>27</sup>**

- Program and performance budgeting emphasizes the results of programs and activities, prioritizing outcomes over expenditure amounts.
- It allows for the evaluation of subordinate activities by comparing performance against specific benchmarks, offering more effective oversight than merely monitoring expenditures.
- Under program and performance budgeting, expense estimates are based on the work required by each responsibility center, rather than on the type or purpose of the expenditure, as is the case in traditional line-item budgeting.

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27. Majid Abdul Jaafar Al-Karkhi, *The General Budget of the State: Its Concept, Preparation Methods, and Modern Trends*, (Iraq: Ministry of Higher Education and Scientific Research, Al-Mustansiriyah University, 1999), pp. 629–630.

## V. The Public Budget System in Iraq

**1. Type and Approach of the Budget Used:** There are several types of budgets, each with its own method of preparation and classification, as discussed in the introductory section of this paper. Here, the focus shifts to identifying the type and methodology adopted in Iraq's general budget. Since the launch of Iraq's first budget project in 1921, the methodology of the Iraqi public budget—covering both revenues and expenditures—has been based on the Line-Item Budgeting approach. Accordingly, the Iraqi budget system applies the principles of line-item budgeting, while adhering to the general principles of budget preparation,<sup>28</sup> as outlined below:

- a) **Estimation of Revenues and Expenditures:** Generally, there are three methods used for estimating revenues and expenditures in the budget: the standard estimation method, the averaging method, and the direct estimation method. The Iraqi general budget currently relies on the standard estimation method, which aligns with the philosophy of line-item budgeting. This approach involves preparing the revenue and expenditure estimates based on the actual data of the previous year, with minor adjustments to account for new developments.<sup>29</sup>
- b) **Accounting System Used:** Iraq follows a unified accounting system, defined as: "A set of terms, concepts, principles, rules, and procedures required for the classification, recording, and processing of financial transactions in a unified set of accounting records within economic units, based on the double-entry accounting theory, in order to determine the results of these units' operations and their financial position over a specified period."<sup>30</sup> Currently, countries around the world apply-

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28. Nabil Jaafar Al-Marsoumi, *Iraq's Federal Budget for 2021: The Government-Parliament Controversy*, (Baghdad: Bayan Center for Planning and Studies Publications Series, 2021), p. 4.

29. Effective Federal Financial Management Law No. (6) of 2019 as Amended, (Iraqi Official Gazette, No. 4550, 2019), Article 30, pp. 14-15.

30. Saud Jaed Mashkoor, *The Unified Accounting System*, (Baghdad: Dar Al-Kutub wal Watha'iq, 2013), p. 11.



one of three accounting bases:<sup>31</sup>

- **Cash Basis:** This means that the fiscal year accounts for expenditures and revenues that were actually received or paid, regardless of when they were earned or incurred. This method has been followed in Iraq since 2003.
  - **Accrual Basis:** Under this method, all revenues and expenditures are recorded when they are earned or incurred, regardless of whether they were actually received or paid during the current fiscal year.
  - **Modified Basis (Hybrid):** This is a mixed approach that combines elements of both the cash basis and the accrual basis. It is divided into two types: Modified Cash Basis and Modified Accrual Basis. The Modified Cash Basis applies the original cash basis rules to general revenue transactions, while applying accrual rules to public expenditure transactions. The Modified Accrual Basis recognizes expenditures once the use of current financial resources is requested, but does not recognize revenues until they are actually realized and available to meet obligations.<sup>32</sup> Although these two methods differ in name, they are similar in substance. Simply put, the modified basis uses the cash method for short-term and periodic revenues and expenditures, and the accrual method for long-term revenues and expenditures.
- c) **Budget Classifications:** The Iraqi public budget is divided into two main sections: operating (current) and investment. This classification is standard across national budgets worldwide. Each of these two sections is further divided into: Budgets for the central public sector, which include service-oriented, non-profit units, and Budgets for self-financed public sector units, which are profit-generating public

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31. Ministry of Finance, Unified Accounting and Financial Manual, (Republic of Iraq: 2013), pp. 17-18.

32. Shallal Zuhair, Prospects for Reforming the Algerian Public Accounting System Related to State Financial Operations Execution, PhD Dissertation, (Algeria: University of Ahmed Bougara, Faculty of Economic, Commercial and Management Sciences, 2014), pp. 39-40.



entities with financial independence.<sup>33</sup>

2. **Method of Budget Classification in the Iraqi Financial Budget:** The Iraqi federal budget generally consists of two main tables: one covering total public expenditures and the other total public revenues. As Iraq follows a line-item budgeting approach in preparing and managing the state's general budget, it adopts a traditional method of budget classification. In this method, both expenditures and revenues are categorized into sections, chapters, and items. The classification is based on three dimensions: administrative classification (according to ministries and public agencies), functional classification (based on the type and nature of revenues and expenditures), and economic classification (which divides expenditures into current and investment expenditures), as illustrated in hypothetical Tables 6 and 7.

**Table 6. Illustrative Model of Administrative Classification in the Iraqi Budget (in billion IQD)**

| Section | Chapter | Ministry or Institution        | Operating Expenditure | Investment Expenditure | Total Expenditure |
|---------|---------|--------------------------------|-----------------------|------------------------|-------------------|
| 1       | 1       | Council of Representatives     | 9,000                 | 2,000                  | 11,000            |
| 1       | 2       | Accountability and Justice     | 4,000                 |                        | 4,000             |
| 1       | 3       | Federal Board of Supreme Audit | 5,000                 | 1,000                  | 6,000             |
| 1       | 4       | Integrity Commission           | 6,000                 | 1,000                  | 7,000             |
| 2       | 1       | Presidency of the Republic     | 3,000                 |                        | 3,000             |
| 2       | 2       | Scientific Complex             | 1,000                 | 2,000                  | 3,000             |
| 3       | 1       | General Secretariat of Cabinet | 2,000                 | 3,000                  | 5,000             |
| 3       | 2       | Office of the Prime Minister   | 2,000                 |                        | 2,000             |

33 Ibid., pp. 10, 17.



|              |  |                                  |                |               |                |
|--------------|--|----------------------------------|----------------|---------------|----------------|
| 4            |  | Ministry of Foreign Affairs      | 8,000          | 3,000         | 11,000         |
| 5            |  | Ministry of Finance              | 12,000         | 5,000         | 17,000         |
| 6            |  | Ministry of Interior             | 13,000         | 3,000         | 16,000         |
| 9            |  | Ministry of Health & Environment | 15,000         | 5,000         | 20,000         |
| 10           |  | Ministry of Defense              | 14,000         | 3,000         | 17,000         |
| 11           |  | Ministry of Justice              | 1,000          | 2,000         | 3,000          |
| 12           |  | Ministry of Education            | 3,000          | 2,000         | 5,000          |
| 13           |  | Ministry of Youth and Sports     | 2,000          | 1,000         | 3,000          |
| &            |  | ...                              | ...            | ...           | ...            |
| <b>Total</b> |  |                                  | <b>100,000</b> | <b>33,000</b> | <b>133,000</b> |

**Source:** Compiled by the researcher based on the Federal Budget Law of the Republic of Iraq for the Fiscal Year 2019, Iraqi Official Gazette, Issue 4625 (2021), Table (B).

**Note:** All figures and data in Tables 6, 7, and 8 are hypothetical and provided for illustrative and simplification purposes only.

As shown in Table 6, the Iraqi budget follows both administrative and economic classifications simultaneously. Expenditures are divided into current and investment types and are allocated top-down to major units—namely ministries and public administrations—according to the services or goods they provide, without necessarily assessing the effectiveness of those services.

**Table 7. Illustrative Model of Functional Classification in the Iraqi Budget (in billion IQD)**

| No                                | 1                             | 2                                   | 3                       | 4                           | 5                           | 6                           | 7                          |
|-----------------------------------|-------------------------------|-------------------------------------|-------------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|
| Ministry/<br>Entity               | Council of<br>Representatives | President-<br>cy of the<br>Republic | Ministry<br>of Interior | Ministry<br>of De-<br>fense | Ministry<br>of Jus-<br>tice | Minis-<br>try of<br>Finance | Minis-<br>try of<br>Health |
| Employee<br>Compensa-<br>tion (1) | 200,000                       | 100,000                             | 300,000                 | 300,000                     | 150,000                     | 250,000                     | 400,000                    |
| Service Re-<br>quirements         | 40,000                        | 30,000                              | 20,000                  | 30,000                      | 10,000                      | 10,000                      | 40,000                     |
| Commodity<br>Require-<br>ments    | 9,000                         | 3,000                               | 7,000                   | 2,000                       | 1,000                       | 4,000                       | 5,000                      |
| Asset Main-<br>tenance            |                               |                                     | 7,000                   | 8,000                       | 2,000                       |                             | 5,000                      |
| Grants &<br>Subsidies             | 2,000                         | 3,000                               | 2,000                   | 4,000                       | 6,000                       | 9,000                       | 5,000                      |
| Foreign<br>Committ-<br>ments      | 3,000                         | 1,000                               | 9,000                   | 8,000                       |                             | 6,000                       | 4,000                      |
| Social Wel-<br>fare               |                               |                                     |                         |                             |                             |                             |                            |
| Special Pro-<br>grams             |                               |                                     | 3,000                   | 5,000                       | 3,000                       | 6,000                       | 4,000                      |
| Operating<br>(Total excl. 1)      | 54,000                        | 37,000                              | 48,000                  | 57,000                      | 22,000                      | 35,000                      | 63,000                     |
| Total Current<br>Expenditure      | 254,000                       | 137,000                             | 348,000                 | 357,000                     | 172,000                     | 285,000                     | 463,000                    |
| Investment<br>Expenditure         | 2,000                         |                                     | 3,000                   | 3,000                       | 2,000                       | 5,000                       | 5,000                      |
| Total Budget                      | 256,000                       | 137,000                             | 351,000                 | 360,000                     | 174,000                     | 290,000                     | 468,000                    |





**Table 8: Model of Expenditure Distribution Across Key Items in the Iraqi Budget**

| .No                                  | Item Description                 | Amount (Trillion IQD) | of Current % of Expenditure | of Total % of Budget |
|--------------------------------------|----------------------------------|-----------------------|-----------------------------|----------------------|
| <b>Current Expenditures</b>          |                                  |                       |                             |                      |
| I                                    | Employee Compensation            | 54.448                | 65%                         | 50%                  |
| 1                                    | Salaries                         | 36.076                | 73                          | 70                   |
| 2                                    | Pensions                         | 10.842                | 20                          | 20                   |
| 3                                    | Public Sector Salaries           | 1.842                 | 7                           | 10                   |
| II                                   | Goods and Services               | 1.724                 | 15%                         | 10%                  |
| III                                  | Subsidies                        | 11.017                | 9%                          | 5%                   |
| 1                                    | Farmer Support                   | 0.494                 | 45                          | 50                   |
| 2                                    | Food Ration Program              | 1.500                 | 55                          | 50                   |
| IV                                   | Interest Payments                | 4.086                 | 3%                          | 2%                   |
| V                                    | Debt Repayments                  | 8.247                 | 7%                          | 7%                   |
| VI                                   | Grants                           | 0.130                 | 1%                          | 1%                   |
| <b>Total Current Expenditures</b>    |                                  | 83.061                | 100                         | 75%                  |
| <b>Investment Projects</b>           |                                  |                       |                             |                      |
| A                                    | Oil Projects                     | 12.747                | 51%                         | 13%                  |
| 1                                    | Contract and Licensing Projects  | 11.607                | 46                          | 11                   |
| 2                                    | Local Projects                   | 1.140                 | 5                           | 2                    |
| B                                    | Non-Oil Projects                 | 12.455                | 49%                         | 12%                  |
| 1                                    | Electricity Projects             | 3.111                 | 13                          | 3                    |
| 2                                    | Armament and Capacity Building   | 4.120                 | 16                          | 5                    |
| 2                                    | Reconstruction Projects          | 3.124                 | 14                          | 3                    |
| 3                                    | Regional and Provincial Projects | 2.100                 | 6                           | 1                    |
| <b>Total Investment Expenditures</b> |                                  | 25.202                | 100                         | 24%                  |
| <b>Total State Expenditure</b>       |                                  | 108.263               |                             | 100%                 |

**Source:** Compiled by the researcher based on data from the Ministry of Finance, Distribution of Expenditure on Key Budget Items (Republic of Iraq:



Budget Department, Open Budget Data, 2018). Available at: <http://www.mof.gov.iq/obs/ar/pages/otherreports.aspx>

## VI. Transition from Line-Item Budgeting to Program and Performance-Based Budgeting in Iraq

Iraq's adherence to the line-item budgeting and control approach in preparing and executing the state's general budget was originally justified, especially as this type of budgeting aligned with the country's centralized administrative structure that prevailed until the end of 2003. However, with the shift toward decentralized governance following the adoption of the Constitution in 2005—and in light of the many shortcomings that have become evident in the line-item budget model—it has become imperative to move away from this approach and adopt program and performance-based budgeting.

**1. The Importance of Transitioning to Program and Performance-Based Budgeting:** The proposal to implement a program and performance-based budgeting (PPB) approach in Iraq stems from its perceived effectiveness in curbing financial corruption, addressing the lack of expenditure productivity, limiting the growth of consumption-based spending, and improving oversight mechanisms for public funds. The importance of adopting this budgeting model in Iraq lies in the following considerations:<sup>34</sup>

- a) PPB enables oversight authorities—particularly the Parliament—to evaluate government performance by comparing set objectives estab-

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34. See: Ibrahim Fahmi Mohammed Kurdia, A Proposed Framework for Applying Program and Performance Budgeting to the Activities of the Ministry of Transport and Communications in Gaza Strip, Master's Thesis, (Gaza: Islamic University, Faculty of Commerce, Department of Accounting and Finance, 2014), p. 33.

Also see: Arab Republic of Egypt, Program and Performance Budgeting Guide, (Ministry of Finance, 2020), p. 9.

See also: Majid Abdul Jaafar Al-Karkhi, The General Budget of the State: Its Concept, Preparation Methods, and Modern Trends, (Iraq: Ministry of Higher Education and Scientific Research, Al-Mustansiriyah University, 1999), p. 630.

lished by government units against the actual degree of achievement.

- b) Unlike the line-item budget, which focuses solely on the legal correctness of expenditures, PPB emphasizes both the quantity and quality of outputs achieved. This focus strengthens the work of Iraqi oversight bodies and upholds the principle of optimal use of financial resources.
- c) It grants broader authority to the managers of government units in planning, goal-setting, and internal oversight. In return, they are held accountable for their performance levels, fostering a spirit of participation and self-regulation. Effectively, each minister becomes a de facto Minister of Finance after their ministry's budget allocation, with the discretion to reallocate funds among programs and activities based on relative importance.
- d) PPB provides a realistic representation of public expenditure by requiring the prior scientific determination of the cost and duration of each program and activity.
- e) Allocations are distributed to public administrations based on the programs they present and their relative importance to national priorities.
- f) This budgeting method links and coordinates short-, medium-, and long-term planning, given its reliance on accrual accounting and cost accounting principles. It thus allows for the development of an annual operating budget and a multi-year capital budget.
- g) PPB obliges government units (ministries and public administrations) to submit detailed explanations of their programs and activities. At the same time, it enables the Ministry of Finance to set minimum and maximum thresholds for budgetary allocations.



- 2. Requirements for Transitioning from Line-Item Budgeting to Program and Performance-Based Budgeting:** The significance of adopting the program and performance-based budgeting approach in Iraq lies in moving away from the traditional accounting-based expenditure evaluation system used under the line-item budget model. This outdated method has contributed to widespread corruption and the squandering of public funds. In contrast, the performance-based approach emphasizes expenditure and results (costs and actual outputs), aligning government spending with national goals and priorities to ensure optimal use of financial resources. The transition from line-item to program and performance-based budgeting entails the following key steps:
- a) **Transition from Administrative-Qualitative Classification to Functional-Programmatic Classification:** Implementing performance-based budgeting requires a shift from the traditional classification used in line-item budgets to one based on functions, programs, and activities. This new structure enables the measurement of performance at the level of each governmental unit or public administration.<sup>35</sup>
  - b) **Shift from Cash Basis to Accrual Basis:** The adoption of program- and performance-based budget classification makes accounting reform essential. Shifting from input-based budgeting to output-based budgeting requires clearly identifying the outputs that will serve as the basis for resource allocations. A central element of program and performance budgeting is determining the cost of outputs delivered, as it aims to link available resources to achieved results. However, accounting under the cash basis does not support the measurement of output costs or the evaluation of performance levels. This limitation necessitates a transition to the accrual or modified accrual basis, along

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35. Al-Sadiq Mohammed Ahmed Mohammed, *The Role of Program and Performance Budgeting in Evaluating the Financial Performance of Government Units*, previously cited source, pp. 38–39.



with the adoption of cost accounting.<sup>36</sup> Such a transition is aligned with the principles of program and performance budgeting and brings the following key benefits:<sup>37</sup>

- Enhances internal controls and transparency over assets and liabilities.
  - Aligns with international accounting standards and best practices.
  - Provides comprehensive cost information to support results-based management.
  - Improves consistency and comparability between targets and achievements.
  - Strengthens legal and financial accountability in public fund management.
  - Assesses the effectiveness and value of allocations for public projects and services.
- c) Establishing Performance Standards and Metrics:** Adopting a program-based budget without setting clear performance measures would essentially reproduce the same limitations of the line-item budget. Therefore, defining performance metrics is central to the transition. While it may be easier to apply such standards in the capital expenditure portion of the budget—using economic criteria like cost, output, and opportunity cost—it becomes more complex for current expenditures, which are often service-oriented and difficult to quan-

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36. Hawraa Ihsan Khalil Al-Saadi, The Possibility of Developing Program and Performance Budgeting in Government Administrative Units According to a Proposed Framework, (Iraq: Kufa Studies Center Journal, No. 54, 2019), p. 679.

37. Alaa Shams Allah and Donia Mohsen Khalaf, The Government Finance Statistics (GFS) System and Its Role in Developing the Government Accounting System and Enhancing Oversight Effectiveness in Centrally Funded Units, (Iraq: Journal of Administration and Economics, No. 118, 2019), p. 216.



tify. Nevertheless, countries that have adopted performance-based budgeting rely on four main metrics:<sup>38</sup>

- ❖ **Effectiveness Indicator:** Measures the degree to which government objectives are achieved. It is particularly suitable for administrative and service sectors by setting minimum and maximum performance thresholds.
- ❖ **Efficiency Indicator:** Evaluates how effectively a ministry or administrative unit utilizes its resources without corruption or waste.
- ❖ **Productivity Indicator:** A quantitative economic measure that assesses the ratio of outputs to inputs used.
- ❖ **Quality Indicator:** Assesses the standard of services or goods provided, using tools like public surveys, standardized evaluation forms, or reviews by a specialized department or management board.

These indicators feed into two types of reports: financial reports and performance evaluation reports. Each program-responsible unit is required to submit monthly, semi-annual, and annual reports detailing activity levels, progress, and spending to external oversight bodies (e.g., Parliament, Audit Bureau, civil society organizations). This process ensures both internal monitoring by the administrative unit and external accountability by the relevant regulatory bodies.<sup>39</sup>

- h) **Legal Framework and Efficient Institutional Structure:** Transitioning to performance-based budgeting also requires updating laws and regulations to align with this approach. Every ministry or government unit must formulate its own vision, mission, and strategic objectives.<sup>40</sup>

38. Alaa Mustafa Abdul Qader, *The Method of Preparing the State General Budget According to the Financial Management and Public Debt Law: An Analytical Study*, Postgraduate Diploma Thesis, (Baghdad: University of Baghdad, Higher Institute for Accounting and Financial Studies, Accounting Studies Department, 2007), pp. 20–21.

39. Mona Hassan Hejazi et al., *A Proposed Framework for Preparing the Environmental Budget in Government Administrative Units to Achieve Financial Oversight and Rationalize Spending*, (Egypt: Journal of Environmental Sciences, Vol. 47, Part 1, No. 3, 2019), pp. 497–498.

40. Marc Robinson, *Program Classification for Performance-Based Budget: How to*



This requirement represents one of the most difficult challenges facing Iraq's move from the traditional budgeting model to a program and performance-based system.

3. **Transformation Methodology:** There are several approaches to transitioning from a line-item budget to a program and performance-based budgeting system:<sup>41</sup>
  - a) **Scope of Implementation:** The transformation may be comprehensive, encompassing the budgets of all government departments, or partial, excluding certain departments or institutions from the implementation process.
  - b) **Transformation Approach:** The shift may be abrupt, involving the immediate cessation of the traditional budgeting method in favor of the new program and performance-based system. Alternatively, it may be gradual, allowing both systems to operate concurrently during a transitional period. In the gradual approach, the traditional system—along with its rules and principles—remains in effect alongside the newly introduced program and performance budgeting framework.
  - c) **Direction of Modernization:** Modernization may follow a top-down approach, initiated by the central financial authority (e.g., the Ministry of Finance or Budget Department), or a bottom-up approach, beginning within individual government departments and agencies.

Given Iraq's current reliance on a traditional and underdeveloped institutional structure, the most effective strategy for transitioning to a program and per-

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Structure Budget to Enable the Use of Evidence, (Washington: World Bank, 2013). Available at: <https://openknowledge.worldbank.org/bitstream/handle>

41. See: Iyad Shakir Sultan and Riyadh Mohammed Hussein, The Possibility of Applying Program and Performance Budgeting and Its Role in Rationalizing Government Spending: A Field Study in a Sample of Government Departments in the Kurdistan Region, (Iraq: Al-Ghari Journal of Economic and Administrative Sciences, Vol. 15, No. 4, 2018), p. 378.



formance-based budgeting system is a gradual, phased approach rather than an abrupt and comprehensive overhaul. A poorly executed transition could seriously jeopardize the state's financial management. Therefore, it is recommended to initiate the transformation within the Ministry of Finance, then extend it to other ministries and public agencies engaged in capital projects, and ultimately implement it across all public units throughout the state.

## VII. Conclusion

The reliance of Iraq's fiscal policy on the line-item budgeting and control approach has had numerous negative consequences. This method has often prevented the government from accurately identifying shortcomings in the implementation of its programs. Moreover, it has facilitated manipulation of financial records, leading to significant waste in public spending.

We believe the time has come to abandon this outdated approach and adopt a more modern method for preparing and executing Iraq's financial budget. The **program and performance-based budgeting system** is the most suitable alternative to better regulate public spending and minimize financial waste. Additionally, this approach will significantly support the government in implementing its reform agendas and ensuring the sustainability of its financial revenues.

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