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Redesigning Financial Mechanics and Constructive Political Finance in Iraq: A Serious Vision for the Future

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Abstract

Fiscal policy in oil-dependent economies tends to follow oil price trends at the expense of efficiency and effectiveness, weakening the flexibility of fiscal policy tools to respond to the requirements of economic development and to achieve goals of stability, justice, and well-being. The decline in crude oil prices in 2014 provided an opportunity for most oil-producing countries, including Iraq, to address and mitigate the effects of an unjustified reliance on oil to finance the budget and sectors of the national economy. Similarly, the events of the COVID-19 pandemic in 2019 prompted the world to reconsider its economic strategies. This research aims to clarify the issues within Iraq's financial policy and propose solutions by developing a new fiscal policy design based on an ambitious, adaptable future vision.

Keywords: Fiscal Policy, National Economy, Oil Producing, Political Finance.

1. Introduction

The dominance of oil resources continues to pose a major threat to development efforts and economic stability in Iraq due to the continuous fluctuations in oil prices and the significant exposure of the budget and economy to oil rent revenues. However, the situation does not stop here; it becomes even more dangerous with the exacerbation of financial and administrative corruption, as well as the increasing costs and requirements necessary for the remaining years of wars and the security situation in Iraq. The presence of some financial and economic problems is a new and golden opportunity to reconsider the current financial approach, allowing for a shift in financial policy to enable the private sector to lead production and growth, create job opportunities, and diversify the state's sources of income by encouraging exports. This can be achieved by designing new financial policies that align with the requirements of the rentier model and are consistent with the financial situation of the world and Iraq in particular.

2. Problem Statement

Iraq's financial policy suffers from major problems in all aspects of spending and revenue, leading to its ineffectiveness. Therefore, it requires a thorough reassessment and discussion to identify the problems and obstacles and explore the possibility of resolving them to activate a more effective financial policy.

3. Research Hypothesis

Without implementing a financial strategy to reform fiscal policy and diversify public revenue sources, Iraq will not achieve economic and social prosperity and will remain reliant on a single-resource economy that is vulnerable to depletion under various circumstances.

4. The Objective

The main objective of this research is to establish methods and mechanisms to develop a quick and efficient strategy for the optimal exploitation of Iraq's rentier resources.

5. Literature Review

This paper reviews several significant works related to the main problem addressed in this research:

- In (Al-Dahlaki, 2022), this research focuses on analyzing Iraq's fiscal policy and its shift toward expansionary consumer-oriented paths, transforming government institutions into a social security system. The research utilized the Autoregressive Distributed Lag (ARDL) model and concluded that the effect of fiscal policy variables on exports, both in the short and long term, is not significant.
- In (Taha, 2021), this study discusses Iraq as a renter state, leading to structural imbalances in both the overall economy and fiscal policy. It highlights a surplus in total demand for imported consumer goods and services, exacerbating Iraq's general budget imbalance.
- In (Kazem, 2019) Abstract: The research examines Iraq's financial policy trends, particularly following 2014 and the government's austerity measures to address the deficit. It found that the official deficit figure of 26 trillion dinars is misleading, with actual figures closer to 75 trillion dinars.
- In (Al-Dhahabawi, 2017), this study discusses the financial policy issues in Iraq, specifically the economic structural problems and the imbalances between the public and private sectors. It explores potential developments in financial policy to address these issues.
- In (Al-Mamouri,, 2017), The study focuses on the influence of oil prices on fiscal policy in oil economies and how it undermines the efficiency and effectiveness of fiscal policy tools in meeting economic development goals. It suggests restructuring public finances in Iraq in line with economic reform programs and maximizing alternative resources.

6. Methodology

6.1.Financial policy problems in Iraq

Since its inception, and until now, fiscal policy in Iraq has faced many problems, the majority of which do not fall outside the scope of the problems experienced by the majority of renter countries, especially those that have not actively sought to diversify their economies. Some of these can be reviewed as simple examples but are not limited to them. As follows:

6.1.1. The problem of financial uncertainty

Oil rents in Iraq contribute to supplying the national economy with financial returns, as Iraq relies on them almost comprehensively to finance its financial and development needs. Thus, oil rents are considered the backbone and main artery that provides it with life. However, despite this, several problems are associated with this resource, the most notable of which is the difficulty of controlling or predicting the size of rentier revenues generated from it. Providing correct and acceptable predictions of potential developments in the quantities of oil produced and exported, international oil prices, and the amount of its revenues during a certain period of time is extremely difficult. Despite the availability of a number of predictions about the size of the potential demand and supply of oil, the reason behind this is that the oil resource is linked to multiple intertwined factors. On the demand side, the demand for oil is affected by potential economic developments at the level of all countries of the world, as economic recovery or recession and developments in the structure of production and industrial structure in them play an important role in determining the future demand for oil. The state of certainty that the financial resource will be achieved is a necessity for building spending plans. Otherwise, the state of achieving a deficit in the general budget will be possible. The problem of financial lack of certainty has found the appropriate environment for it in the Iraqi economy as a rentier state that is absolutely dependent on the rentier resource, and its cause is the

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state of uncertainty associated with it. With the fluctuations of the global oil market, whether in terms of prices or global demand and supply for oil, building the future plan for any economic policy requires the availability of actual financial resources to monitor the necessary allocations to implement the directions of this policy and to ensure that the desired effect is achieved, whether in the short or long term. This is one of the necessities for success. Building the future plan on the basis of the likely availability of financial resources is a matter that involves a lot of risk, especially if we know that the availability of financial resources is linked to a rentier resource whose rise and fall depend on several circumstances and factors: local and global, political, economic, security, etc.

Considerations of uncertainty associated with the flow of the rentier resource into the economy, and the resulting inability to predict the volume of revenues generated from the export of Iraqi oil, make fiscal policy based on a financial resource whose associated changes cannot be predicted due to the reasons we mentioned above. In addition to the above, the size of rentier revenues is affected by internal factors, including, but not limited to: Due to unfavorable security conditions, a large portion of oil revenues has been diverted to unproductive activities. The high cost of security services has resulted in the transfer of a large portion of the budget allocated for the reconstruction of the aforementioned services, where an estimated amount of $4.953 billion was allocated for it in the year 2005 with a growth rate exceeding 30 over the year 2004. This was at the expense of reducing allocations for other sectors. For example, allocations to the electricity sector decreased from $5.56 billion in 2004 to $4.26 billion in 2005, and in a similar way, the budget of each of the water, sewage, and health services sectors was exposed to a significant decrease in their allocations. Allocations for security services increased to $7.399 billion in 2007, then to $9.000 billion in 2008 (Al-Basri, 2007, 8). Oil revenues occupy the forefront of the Iraqi public revenue structure, and they are revenues that is, oil revenues are not independent, but rather dependent on other internal and external conditions that control their size. This makes the financial policy lacking in strength, and therefore it does not have the efficiency and effectiveness required to influence overall economic activity.

Since its inception, and until now, fiscal policy in Iraq has faced many problems, the majority of which do not fall outside the scope of the problems experienced by the majority of rentier countries, especially those that have not actively sought to diversify their economies, some of which can be reviewed as simple examples but not limited to them. And as follows:

6.1.2. Density of the external variable

Oil revenues constitute more than 90% of this total public revenue. This means that the rest of the revenues have a contribution rate of less than 10%, and this case embodies the reality of this almost complete dependence on rentier revenues, as they constitute the largest portion of the state's general revenues, making the financial policy in Iraq dependent on its general performance and effectiveness with changes associated with rentier revenue flows into the economy. For the financial policy to be flexible and effective, this situation requires an abundant flow of rentier revenues, while this policy is in a critical situation when rentier flows decrease. The critical situation is always reinforced by the continuous decline in the relative importance of non-rentier revenues in the general budget, which, even if it improves, its growth is very small and cannot take the place of rentier revenues, nor can it play the role they do. The intensity of the external variable, represented by oil revenues, and its occupying the forefront in the structure of public revenues, had its negative effects on the effectiveness and performance of financial policy, whether in times of economic recovery or in times of economic crises. This situation meant the complete dependency of financial policy on the circumstances and external conditions far from the core of the Iraqi economy. These circumstances and conditions were sometimes represented by fluctuations in oil prices on the global market, or by the wars that Iraq fought that depleted its oil resources in a way that was unprecedented in the majority of rentier countries, or because of the international sanctions that came to take revenge on the Iraqi regime for its irresponsible actions or as a result of the unfavorable security conditions that were a result of the harsh political conditions that the country experienced. All of these conditions, together or individually, have revealed a serious problem that the financial policy was and is still facing: it has not been able to diversify its revenue sources to mitigate the severity of the stifling and negative effects that it may be exposed to in the event of a scarcity of the rentier resource, which in itself constitutes an intense external element in the revenue structure. Therefore, the latter was in constant need of diversification emanating from within the economy. This diversification could come from tax resources, public sector revenues, or returns on direct or indirect local or foreign investments to reduce the risks of the intensity of external change in the Iraqi general budget. Additionally, the intensity of this variable has continuously fueled the state of dependency on the outside, which has increased and is increasing the risk of dependency that erodes its strength and independence.

6.1.3. Abundance versus scarcity

The revenues from oil exports were and still are of great importance related to the sustainability and continuity of the Iraqi economy. These revenues have contributed, for many years, to alleviating the effects of the serious economic crises to which the economy has been exposed and for long periods supported the strength of the national currency against foreign currencies. In any case, it continues to provide the possibility of future expansion of the economic base of Iraqi society. Foreign assets generated from rentier revenues (revenues from oil exports) have a clear impact on the overall Iraqi economy, especially on its financial policy, both its revenue and

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expenditure aspects. Government revenues generated from export proceeds have been and still are. They automatically turn into an increase in local liquidity, especially when the government uses it to finance local spending. This is done in the form of issuing new cash, and this issuance of currency by the Central Bank of Iraq is in reality nothing but a restriction of foreign assets, that is, issuing the corresponding national currency to meet the state's financial needs. The exported currency makes its way into circulation through cash payments made by the authority in the form of wages and salaries or purchases of goods and services. Since legal money is one of the components of the money supply, any increase in it will lead to an increase in the means of payment within the national economy. As the abundance of foreign currencies based on rentier revenues and the increase in government deposits with the monetary authorities are achieved, it led to an increase in the strength of the government's monetary position. The latter was reflected in the expansion of the state's spending policy. At this stage, the central bank, as the government's provider, issues money as the sole monopolist authority to issue and deliver it to the government to finance the expansion of its domestic expenditures.

Therefore, the increase in the money supply reflects the net revenue transfer and the influx of foreign language (derived from oil revenues) into local spending. But government spending does not only affect the size of the money supply through currency issuance to finance public spending but also through the effects that the latter has on the borrowing capacity of commercial banks and thus on the money supply (Goode, 1984, 267-269). This effect of government spending on the money supply depends mainly on how revenue recipients move between spending and saving, as well as on the trends of the portion saved between hoarding or depositing with commercial banks. The latter works to increase bank deposits and results in an increase in the cash reserves of commercial banks, which are unique among other intermediate financial institutions in their ability to create bank money. Given that these cash reserves are the basis from which commercial banks grant loans, increasing them is beneficial. These banks have the appropriate environment for exponential expansion in the creation of derivative current deposits that, along with legal money, constitute the money supply. Thus, the final result is an increase in the money supply, both narrow and broad. The previous sequence started from the abundance of rentier revenues and continued to flow through the public spending channel to create a cash abundance in the Iraqi economy. However, this abundance was always absorbed by the inflexibility of the productive system, which led to the inability to expand the production base and then to a state of non-diversification of the entire economy. This means a permanent scarcity of other resources generated in non-oil sectors, and this naturally applies automatically to the revenue structure, which remains suffering from a constant scarcity and permanent lack of non-rentier resources, which means the continued risk of erosion of oil wealth without corresponding real investment for this wealth.

6.1.4. Financial Exposure

Oil revenues received by Iraq have increased since the second half of the twentieth century, which prompted successive Iraqi governments from the beginning of the fifties until the eighties to spend a large portion of those revenues on physical infrastructure. In addition to these positive aspects, these revenues had serious effects, as oil revenues enriched Iraq's abundant wealth, relieved the need to impose taxes, and this in turn eliminated the need for governments to obtain the approval and satisfaction of the people. This contributed to fueling the authoritarian tendency based on pursuing chaotic economic policies that harmed the country's economy, especially since 1979. Its effects are still present to this day. Among them are those that cast a shadow on the course of financial policy and its procedures, which did not have any role that can be praised in most of the situations and crises that the Iraqi economy went through. Indeed, several problems were generated, including what we

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mentioned above, and the matter did not stop. At this point, the intensity of the external variable and its occupation of the center of gravity in the movement of the general budget of the rentier state in Iraq, and in light of the lack of financial certainty and the scarcity of non-oil financial resources, contributed to generating the phenomenon of "financial exposure" to the outside world. Through rentier revenues, income is withdrawn. The effects of global crises are transmitted through financial policy and then transmitted to the rest of the economy, as rentier revenues are completely subject to global market fluctuations and are affected by global prices and demand. The biggest challenge facing Iraq, like the oil-producing countries, is how to manage its wealth and precautions while moving away from interest in diversifying its economy. Based on the above, financial performance was dependent on the extent of the stability of rentier revenues. Regardless of the effectiveness of the precautions taken to reduce the severity of the import of turmoil witnessed by the global economy through the rentier revenues channel, the state of financial adaptation to confront external supply shocks was not useful. Its effects on the objectives of fiscal policy, which aspire to achieve economic efficiency, distributive justice, price stability, and economic development, have not been avoided. All the types of imbalances mentioned are reflected in the specific pattern of external economic relations of its economy, which is consequently reflected in the situation of its balance of payments and the deficit it suffers from, which is caused by the characteristics of the structure of its trade, which is represented by its export of oil as a raw material that it specializes in producing, and its import of various consumer and productive products.

On the other hand, developed countries often represent the main importer of the fuel they export. This is a matter whose economy and economic variables are largely related to developed economies that are often exposed to frequent fluctuations. The decrease in demand in developed countries means a decrease in demand for the export commodity that characterizes Iraq. What makes the matter more difficult is the lack of diversification of its products and the low flexibility of the supply of those products in the short term due to its limited production capacity, which further facilitates the process of transferring crises from the importing capitalist countries into the economy, like the rest of the developing countries that export primary products.

The economic structure of developing countries is a structure that stimulates the spread of the crisis in an easy manner because it is characterized by being an economic structure that depends on one or two producers of raw materials with an inflexible productive system in addition to the demographic pressures that characterize it. Therefore, it can be said that the structural composition of the Iraqi economy has stimulated, through external revenues, the majority of which are rentier, to absorb the crises of the global economy and spread them through the public revenue channel to penetrate into the heart of the economy. Given that this economy depends on a single product, oil, and in addition to its inflexible production system, it has become an importer of crises. The intensity of the external variable in the structure of Iraqi public revenues has made the Iraqi economy suffer from the phenomenon of "financial exposure." Therefore, the economy has been an importer of crises for countries importing Iraqi oil, the majority of which are developed countries through the rents they receive, and at the same time a source of these crises through revenue and spending channels. This has deepened the structural imbalances that they already suffer from, and thus the economy has become dependent on this exposure to all the fluctuations and crises that afflict the global economy.

6.1.5. The Problem of Controlling Financial Resources

The availability of financial resources in any country's economy is an urgent necessity for several purposes, especially development ones. Usually, the state obtains these resources from internal or external sources to be used later in achieving economic development. Financial resources represent the basic basis for meeting the financing needs of the economy of the country in question. The lack of availability means a deficit in the resources and cash necessary to meet the financing needs, and then several problems are generated that may affect the economy. As for the Iraqi economy, its financial resources did not play the role that they should have played in its development, especially since those resources were generated far from the usual financing sources in developing countries as a rentier state. This subsequently led to several problems, including the problem of stifling indebtedness, which had social and political effects no less serious than the economic effects. Hence, it can be said that the lack of clarity in the vision of the Iraqi state stems from how to exploit what is available from financial resources, especially those provided by oil revenues, and using them in an optimal way after setting goals and rearranging priorities regarding the investments you want to encourage and determining the type of financial resources (local or foreign) required for investment in order to ensure the abundance of financial resources away from the possibility of shortages resulting from waste, loss, and mismanagement.

The financial administration in Iraq is characterized by its inability to adapt and direct public revenues in a correct economic and social direction, away from all aspects of waste and loss of financial resources, and in a way that achieves harmony with the objectives of development plans. This ultimately records a clear weakness in this administration and puts it on the verge of opening the door to many problems, perhaps among them the difficulty of controlling financial resources, even if those resources are available to the economy thanks to the oil resource. The previous situation fueled the weakness in financial management in Iraq, making it unable to adopt a successful course of action that would result in an effective financial policy and efficient financial management. What contributed to this was its continued

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adoption of the traditional approach (budgeting items) in preparing financial budgets in Iraq, which made it lose the far-from-realistic future and planning vision when choosing priority goals. It focused on meeting immediate needs only, not future ones, and oil revenues remained the most important source for financing public budgets. This made the financial situation characterized by uncertainty, which occurred every time the Iraqi budget was estimated. This created pressures to spend and constantly generated inflationary pressures, opening the doors for fiscal policy to shirk responsibility and place the burden on monetary policy, which recorded undeniable successes at the level of the Iraqi economy.

6.2.Rebuilding and Designing Financial Policy in Iraq

The sharp decline in crude oil prices in mid-2014 provided an opportunity for most oil-producing countries to address and mitigate the effects generated by excessive dependence on oil. It is assumed that the challenges will turn into opportunities to restructure and design public financial policy in Iraq in accordance with financial and economic reform programs, and to adapt to the decline in oil revenues. In this context, designing a new framework for financial policy tools is of utmost importance, not only to isolate the impact of oil price fluctuations from general budget trends but also to implement construction and reconstruction programs and achieve sustainable economic growth and stability. The following is a set of approaches that can form the starting line for achieving the desired financial reform.

6.2.1. Targeting Financial Consolidation

The financial imbalance in the structure of the general budget in Iraq requires focusing fiscal policy efforts on maximizing non-oil revenues to bring the non-oil financial balance within acceptable limits by reducing the growth rates of operational expenditures and maximizing non-oil revenues. For this reason, and to maintain the stability of the non-oil financial balance in the short term, a package of government policies should be activated at the national level or at the governorate and regional levels to reduce the financial deficit and limit the accumulation of the public debt stock. In other words, work should be done to reduce financial deficits and curb the rates of increase in public debt by restructuring public expenditures and reducing current expenditures to the extent possible while continuing efforts to raise levels of non-oil revenues. This aims to reduce the rates of the non-oil financial balance during the current three years from 72 trillion dinars in 2017 to approximately 42 trillion dinars in the year 2020, assuming the stability of the volume of public spending within the range of 100 trillion dinars. This requires that the percentage of change in the oil financial balance towards decline or reduction be within the limits of 70%. This requires an effective improvement in non-oil revenues, including taxes, fees, and capital revenues during the years 2018-2020. To achieve this, we must begin with a set of steps, perhaps the most important of which is:

a. Maintaining the price of $46 in the 2018 budget, and depositing the additional amounts resulting from improved oil prices in the Public Debt Payments Fund, in order to pay all internal and external debts. This approach can be adopted in the coming years to achieve financial surpluses that may be used in generation or stability funds, as is the case in many oil economies.
b. Contracting with reputable international companies to collect border crossing revenues and reduce the rates of corruption that accompany all customs clearance operations in a way that ensures maximizing public revenues.
c. Reconsidering the tax system, modernizing collection methods and methods, and expanding existing tax bases to reduce current tax evasion and ensure abundant tax revenues, in a way that contributes to compensating for the decline in oil revenues.
d. Reconsidering government support and limiting it to low-income classes in order to avoid suspicions of corruption that have plagued the social protection network

and the ration card for years, and to ensure that government support reaches those who deserve it.

6.2.2. Controlling and Reforming the Structure of Public Spending

With the expectation that oil prices will continue to fluctuate far from the rates that characterize public budgets in Iraq, government expenditures must gradually adapt to control and reduction programs, especially the ongoing ones. This requires radical reforms that improve the structural balance of public finances in a fundamental and sustainable manner by improving the efficiency of spending items in the general budget, as follows:

a. Wage and pension bill reforms in Iraq, as it is the largest and fastest-growing item in the state's general budget, and controlling and rationalizing this item represents an urgent priority for the Iraqi government. The reforms, supported by international institutions, aim to achieve substantial savings in the state's general budget by creating structural protection tools against acts of fraud and manipulation in the processes of disbursing salaries and wages.
b. The management of investment expenditures in Iraq suffers from significant weaknesses in aspects of management, implementation rates, and oversight. This has generated a sharp decline in investment, reconstruction, and construction efforts and the spread of corruption and nepotism in most government projects. This makes it necessary to reconsider the management of public investments in a way that ensures efficient referral and implementation. Private partnership may be one of the solutions proposed to overcome these difficulties.
c. In the context of the rapid rate of accumulation of public debt (both internal and external) in Iraq, limited experience regarding basic debt instruments and growing financing needs, strengthening public debt management in Iraq has become an urgent necessity. For this reason, accountability and transparency

rates in public borrowing operations must be improved, in addition to the need to enhance the capabilities of financing the government's fiscal deficit by activating financial markets to absorb local savings and hoards.

d. Reconsidering the system of pensions and social insurance in Iraq due to its distortion, imbalance, lack of justice, and high costs, as it is characterized by financial unsustainability in the relatively short term. There is an urgent need to undertake structural and institutional reforms to ensure financial safety through good principles of salary design, in light of the age structure of the population in Iraq. This will subsequently achieve significant savings in public finances and achieve good results, especially if it is accompanied by the adoption of a unified salary system shared between the public and private sectors.
e. Reconsidering the existing protection network system due to its large gaps and gaps in coverage of poor and vulnerable segments. The new Social Protection Networks Law, which was prepared in 2014, can be activated to ensure that cash transfers reach those eligible, leading to improving the efficiency and sustainability of protection networks as an economic protection ring for the poor classes.
f. Governance of public financial management in the country by curbing corruption rates, activating the provisions of the Financial Management Law, and ensuring the transparency of the public budget, as well as issuing reports containing public financial tables in accordance with international standards.

6.2.3. Preparing a Flexible Financial Strategy

The primary responsibility for leveraging the stability opportunities provided by monetary policy—acting as a development umbrella—falls on adopting a financial policy capable of generating investments that drive the economy forward. This includes focusing on major projects, particularly infrastructure and strategic projects across governorates and regions, and creating a national market that can absorb and

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mobilize the workforce effectively through clear and direct partnerships between the government and the national business sector. Re-engineering financial policy, especially to address investment stagnation in the real sector, involves mobilizing highly productive sectors that the external sector cannot compete with through the current open-door policy. This means re-planning development priorities, implementing robust reconstruction policies, and entering areas that can attract labor, combat unemployment, and activate savings by creating market-driven entities, such as joint public-private joint-stock companies (Saleh, 2011, 23).

6.2.4. Expanding the Absorptive Capacity of the Investment Budget

To achieve targeted completion rates for investment expenditures and overcome the dilemma of absorptive capacity, the efficiency of implementing the investment budget must be increased. This can be done by establishing an investment guarantor fund, where annual investment allocations or financial surpluses are deposited to support development supplies in the budget. This fund will finance and guarantee contracting companies, thereby increasing the absorptive capacity of the investment budget with the assistance of high-performance international contracting companies. Surpluses resulting from weak implementation of the investment budget should also be transferred to the investment budget for the next year, especially since many public investment projects require several years for completion. The current pattern in managing the general budget often prioritizes covering fixed expenses, representing the operating budget, at the expense of dedicating a large portion of the investment budget to potential deficits and oil market volatility, treating them as variable expenses. Addressing this pattern requires correcting the country's development path by directing oil revenues—particularly new investments—at high rates of no less than 75% towards the investment budget, provided there is good implementation and performance (Saleh, 2012, 263).

6.2.5. Approval of Program and Performance Budgets

The current economic situation in Iraq necessitates defining the economic policies and objectives required when preparing the general budget. The budget must reflect the country's economic programs and policies. The program and performance budget helps achieve this by focusing on the outputs of spending—evaluating whether the mechanism of work performed aligns with what was actually spent and whether the service provided is proportionate to its cost, with a focus on efficient resource use. Thus, the program budget aims to reduce corruption by imposing oversight on spending and allows the Financial Supervision Bureau to evaluate the efficiency of spending units. The budget for items relies on three main pillars (Salem, 2012, 15):

a. Adopting scientific management to use and exploit resources optimally.
b. Measuring performance through the approved cost of these programs.
c. Classifying government programs and procedures into basic groups related to the functions performed by administrative or economic units.

Program and performance budgeting constitutes a more advanced method for preparing the general budget and reforming public finances in Iraq. Adopting this budget type is a significant step towards developing and reforming the public finance structure in Iraq and reducing corruption and inefficiency resulting from the traditional item budget. It also requires reconsidering the organizational structure of government administration to match good performance in implementing the programs and activities included in the general budgets. Additionally, it should be highly flexible, relying on alternative methods and solutions to implement economic programs and objectives in the event of reluctance or failure of public spending units to execute them as designed.

6.2.6. Isolating the General Budget from Oil Market Turmoil

Years ago, Gulf countries adopted the practice of establishing sovereign wealth funds to invest oil surpluses in global markets, hedge against oil price fluctuations, and isolate their negative effects from budgetary, economic, and national trends. These funds successfully absorbed the impact of the recent oil price collapse, with countries like Saudi Arabia and Kuwait using sovereign funds to achieve financial and economic stability and distance their economies from the crisis's acute effects. The Iraqi economy can benefit from this experience, especially after oil prices gradually recovered to around $70 per barrel. The government should accumulate the surplus from oil prices above the default levels specified in the budget into funds designated for this purpose, when oil revenues recover and dollars flow abundantly, as seen during 2011, 2012, and 2013. The sovereign wealth fund can manage potential risks resulting from oil price volatility and its effects on public revenues in two ways. The first direction involves managing financial resources in the fund by preferring liquidity over expected returns, providing budget resources sufficient to cover necessary government expenses when oil prices fall. The second direction focuses on preferring expected returns over liquidity to increase the fund's capital. Establishing investment/stability funds to absorb oil surpluses requires developing transparent structures and rules for the use, management, monitoring, and accountability of these funds. This involves securing the following trends (Mirza, 2013, 12):

a. Providing solid, independent technical management to outline the sovereign wealth funds' investment policy in collaboration with the Central Bank and the Ministry of Finance.

b. Determining the strategy and work policies of these funds to ensure they achieve stability and investment within transparent and efficient rules and frameworks.

c. Setting rules for using the financial resources of these funds to cover financial deficits in the general budget when oil revenues decline.

d. Appointing the funds' management, defining work rules, strategies, and policies for investing their assets, and overseeing withdrawals, with approval from the House of Representatives. The Council should also monitor, evaluate, and hold the management accountable periodically, based on technical and accounting follow-up by reputable public (civilian) and professional bodies. The experiences of similar funds in oil-producing countries, especially Norway and Gulf countries, can provide valuable insights.

7. Conclusion

The conclusion of this paper:

1. There is a lack of precise financial assurance in Iraq.
2. Iraq's dependence on oil, which constitutes 90% of the country's revenues, is problematic given the depletion of this resource.
3. Iraq does not have a stable fiscal policy.
4. There is no flexible financial strategy for the state's general budget.
5. The general budget needs to be reconsidered and transformed into a program and performance budget.
6. Fiscal policy requires a structure aimed at financial strengthening and controlling spending.

8. Recommendations

1. Diversify Revenue Sources: Reduce dependence on oil by diversifying sources of revenue to support the general budget.

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2. Adopt Program and Performance Budgeting: Transition to a program and performance budget instead of the traditional item-based budgeting approach.
3. Develop a Flexible Financial Policy: Establish a clear, flexible, and applicable financial policy tailored to Iraq's economic reality.
4. Build a Comprehensive Database: Create a detailed database and information system to support informed decision-making in financial and economic policies.

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