



THE IMPACT OF THE MARGINALIZATION OF THE PRIVATE SECTOR IN IRAQ ON SOME ECONOMIC VARIABLES FOR THE PERIOD (2004-2018)

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Article history:	Abstract:
<p>Received: 4th October 2023 Accepted: 4th November 2023 Published: 6th December 2023</p>	<p>The private sector constitutes a fundamental axis in the economies of both advanced and developing worlds, given its capabilities that qualify it to play a pioneering role in all economic and social fields. Hence, it is essential to assign it more roles. The importance of the private sector in Iraq lies in the fact that the Iraqi economy still exhibits rentier characteristics, relying heavily on oil revenues due to the inefficiency of the overall sectors of the national economy. This necessitates reducing reliance on a single income source and moving towards diversification by restructuring the economy at both the macro and sectoral levels to ensure flexibility in facing successive changes internationally. This can be achieved by increasing the role of the private sector, expanding its contribution to the national economy, and developing its mechanisms, creating a conducive environment through activating national development plans. Thus, addressing the significant problems hindering its development.</p> <p>The research emphasizes the necessity of giving the private sector an increased role in the Iraqi economy to achieve the general objectives that guide its policies towards accelerating its growth. However, several indicators work to marginalize the role of the private sector, excluding it from growth opportunities and not dealing with it as a significant pillar of the economy. The research starts with the hypothesis that the private sector in Iraq has not fulfilled its role as a genuine partner in the economy, reflecting an attempt to marginalize and exclude its participation in economic development.</p> <p>The research concludes with several findings, including the marginal nature of the private sector through studying indicators such as economic freedom, private property index, private sector contribution to GDP, commodity exports, and fixed capital formation. It confirms that the private sector in Iraq has not played its true role in the economy and has been excluded and marginalized. Therefore, the research recommends the importance of mobilizing all the community's resources, including the initiatives, experiences, and resources of the private sector, to enhance its growth and role in the transition to a market economy. It is considered the main engine in correcting the developmental path and diversifying income sources.</p>

Keywords: Corporate governance; earning management; COVID-19 pandemic; Iraqi companies

INTRODUCTION

Many economies have adopted a shift towards the private sector as a fundamental mechanism for transitioning to a market economy and engaging in economic openness, attempting to integrate into the international economy and benefit from the opportunities arising from it. Therefore, the transition mechanism towards the private sector has been closely linked to economic reform processes that have swept through many economies. Reform policies aim to overcome imbalances in economic activity in general, a significant portion of which arises from the performance of public sector institutions. The call is made for the importance of enhancing efficiency in economic performance by relying on the



market in making economic decisions and distributing resources optimally. It involves assigning a role to the private sector as a central axis in activating economic activity and playing an active role in the economic development process. As widely acknowledged, the Iraqi economy remains characterized by rentier tendencies, operating as a monolithic system heavily reliant on oil revenues, given the inefficacy of its economic sectors. This necessitates urgent action to diminish dependence on a singular income source and foster diversification through a comprehensive restructuring of the economy. Such restructuring is crucial at both macro and sectoral levels to ensure adaptability to successive international changes. To achieve this, there is a compelling need to enhance the role of the private sector, broaden its contribution to the national economy, and refine its operational mechanisms. This requires the establishment of a conducive environment through the activation of national development plans, thereby addressing the paramount challenges that impede its progress from one perspective and activating its developmental plans from another.

RESEARCH PROBLEM:

The functions and tasks of the state have expanded and inflated in recent decades, accompanied by a budget deficit increase and heightened economic growth problems, including unemployment. In Iraq, the role of the state in addressing employment problems after the events of 2003 has significantly diminished. It could not withstand the wave of unemployment that affected the workforce and economic actors. In contrast, the private sector could not participate in addressing the crisis because the state restricted and marginalized its role in the economy. The state did not deal with it acknowledging its role as a major pillar of the economy. It overlooked that the progress of this sector serves as evidence of economic growth and advancement, as is the case in advanced countries. Hence, the research problem arises to answer a question that revolves around the role of the private sector in Iraq: is it a genuine or marginal role? If the state, with all its resources, cannot address economic problems, can this sector face them and, consequently, achieve what the state failed to achieve?

Significance of the Research

The private sector represents one of the main pillars of the country's economy, and its progress serves as evidence of general economic growth. This necessitates giving the private sector an increasing role in achieving the general objectives guiding its policies towards accelerating its growth. Therefore, the research's importance lies in focusing on key indicators of marginalizing the private sector in Iraq, excluding it from growth opportunities, and not dealing with it as a major pillar of the economy.

Research Hypothesis

The research is grounded in the hypothesis that the private sector in Iraq has not effectively fulfilled its genuine role in the economy, reflecting an attempt to marginalize and exclude its developmental contributions.

Research Structure

To substantiate the hypothesis, the research is organized around two main axes: the first axis delves into the concept and significance of the private sector, while the second axis focuses on studying the indicators of marginalization of the private sector in Iraq. The third axis involves a discussion of the most significant challenges facing the private sector, along with the opportunities and prospects for its future development.

1. The Concept and Significance of the Private Sector

Most scientific studies and research have varied in defining the concept of the private sector due to various associated terms such as private ownership. Therefore, distinguishing between these terms is necessary in social, economic, and humanitarian studies to ensure precision in expression.

The concept of the private sector, as per the Encyclopedia of Economic and Statistical Terms, is described as that part of economic activity not directly subject to government administration. Moreover, it includes economic activities undertaken by private projects as well as individuals and organizations aimed at profit, sometimes referred to as the personal sector (Fahmi, 1987, p. 684).

It is defined as economic activity aimed at profit, not funded by the state, with profits not directed to the treasury, except for the part subject to taxation (Al-Nasrawi, 1990).

In Iraq, despite the absence of an operational definition, government documents use the term "private sector." However, the Private Sector Strategy issued by the Cabinet's Advisory Board has accepted a definition stating it is that part of the national economy not directly controlled by the state, operating for profit (Republic of Iraq, 2008, p. 8).

From the foregoing, it is understood that the private sector is the sector of business managed by individuals and institutions domestically, or by foreigners for their own account, relying on a mechanism of full competition, where profit is considered the primary motivation for engaging in these activities.



The private sector constitutes a central axis in the development of the country's economy, whether in advanced or developing nations, due to its capabilities and advantages that qualify it for a leading and pioneering role in all economic and social fields. In the global context, the relationship between the private sector and economic growth has undergone in-depth discussions and dialogues through international cooperation. Most academic studies emphasize the existence of a positive and strong relationship between them, with productivity growth closely linked to private investments.

The importance of the private sector is highlighted through its contribution to stimulating the economy and propelling it forward. This is achieved by creating and expanding the working base, increasing employment opportunities for individuals in society, not limited to just increasing their income, but also enhancing their standard of living and providing a dignified life. Moreover, it contributes to reducing poverty and unemployment rates, as well as mitigating the growing deficit in the general budget, trade balance, or payments balance, and reducing indebtedness. Furthermore, it helps alleviate the burden on the state's general budget by redistributing operational expenses and attempting to minimize waste in public expenditure.

In summary, the significance of the private sector can be outlined in the following points:

1. Increasing economic growth rates and encouraging investment opportunities.
2. Improving economic performance and correcting structural imbalances in the balance of payments.
3. Easing the burden on the public sector and redistributing roles between the private and public sectors.
4. Working to improve the government's financial situation.
5. Combating economic corruption and eliminating its mechanisms.

The advantages inherent in the private sector, as compared to the public sector, can be delineated as follows:

1. Its economic activities are profit-oriented, in contrast to the public sector, which often excludes the pursuit of profit in its activities due to the dominance of social objectives.
2. Efficiency in resource management, considering the costs incurred relative to the benefits gained. In contrast, the public sector is often characterized by profligacy and a lack of prudence in resource utilization.
3. The private sector's capacity to create and provide incentives for the workforce, ensuring increased productivity and rigor in performance.
4. Competent management of economic activities by the private sector, stemming from its targeting of qualified human resources with experience, skills, and high proficiency.
5. Distinctiveness in initiative, creativity, innovation, and renewal in economic activities, allowing for competitiveness and market sustainability, unlike the public sector.

2. The Reality and Key Indicators of the Marginalization of the Private Sector in Iraq

2.1 The Total Number of Private Sector Projects in Iraq

Before delving into the indicators, it is imperative to ascertain the total number of private sector projects in Iraq. The discernible fluctuation in the numbers of small industrial projects during the study years is evident in Table (1). A notable decline in the number of projects is observed during the years (2004-2018), which can be attributed to the industrial sector grappling with a substantial legacy of economic problems. It contends with economic challenges, primarily characterized by the absence of a clear economic policy for the development and advancement of industrial projects.

Table (1): a summary of the results of industrial statistics for small industrial establishments for the years (2004-2018).

Year	Number of small projects	Annual growth rate	Relative importance %
2004	17599		96,9
2005	10088	(15,19)	95
2006	11620	15,19	96,1



2007	13406	15,37	96,5
2008	11741	(12,4)	94,7
2009	10289	(12,3)	95
2010	11131	8,18	95,2
2011	47281	32,47	98,5
2014	21809	(21,2)	96,7
2015	22480	3,08	97
2016	25969	15,51	97,2
2017	27856	7,28	97,4
2018	25747	(7,57)	97

Source: Ministry of Planning, Department of Statistics, annual statistical reports for different years

- Numbers between parentheses mean that the value is negative.

The tabulated data reveals a consistent rise in small-scale projects in Iraq, reaching approximately 47,281 with an annual growth rate of 32.47% in 2011. This upswing can be attributed to the implementation of the National Development Plan (2010-2014), the industrial initiative, and the initiation of funding campaigns for small and medium-sized projects following a surge in crude oil prices during the period (2010-2014), surpassing \$140 in some years. Moreover, the release of frozen funds held by the United Nations under the Oil-for-Food program, heightened government support for small projects due to their individual and small-scale nature, and their capacity for employment and business expansion contributed to this increase. However, the number of small projects declined in 2014 due to security deterioration in specific provinces, accompanied by economic downturns and a focus on liberation operations, resulting in neglect of the private sector and small projects. Despite this decline, small projects retained their significance, constituting approximately 97%, as indicated in the preceding table.

2.2 Key Indicators of the Marginalization of the Private Sector

The marginalization of the private sector in Iraq becomes apparent through various economic indicators, encompassing economic freedom, ownership, the private sector's contribution to commodity exports, its contribution to the gross domestic product (GDP), contributions to fixed capital, value-added indicators for its projects, investment size in economic activity, employment indicators, its contribution to sustainable development, and business environment indicators.

Concerning the economic freedom index, the private sector's authentic role in the economy is contingent upon adequate economic freedom. Despite Iraq's shift towards a capitalist approach and the embrace of economic freedom policies since 2003, practical challenges persist due to corruption and a daunting business environment. Iraq ranked 168 out of 180 countries in the Corruption Perceptions Index and 168 out of 190 countries in the Ease of Doing Business Index in 2018. Both factors hindered the conveyance of reliable data, resulting in Iraq's exclusion from the economic freedom index ranking, notably after 2003.

Regarding the ownership index, private ownership stands as a pivotal factor motivating private sector economic activity. The more substantial the private sector's right to own means of production, the more influential its role in economic activity. However, state ownership of over 80% of land, a critical means of production, coupled with significant dominance in the banking sector, where government banks hold 90% of total assets compared to 10% for private banks in 2016, underscores the limited role of the private sector in Iraq.

Examining the indicator of the private sector's contribution to commodity exports reveals that oil exports overwhelmingly dominate Iraq's commodity exports, comprising approximately 99% of these exports. Given the state's control over oil exports, it implies that the private sector's contribution to commodity exports is minimal, to the extent of being negligible. This is primarily due to the inefficiency of the central standardization and quality control apparatus, which fails to apply suitable standards. Consequently, the market becomes flooded with inexpensive goods of low quality. Corruption poses a significant obstacle to private sector development, hindering processes related to importing goods, assessing their quality, transportation, obtaining licenses, and benefiting from state-granted privileges. Corruption, both financial and administrative, prevents the private sector from utilizing the privileges bestowed upon it by the state.

Moreover, challenges related to certification of origin, particularly concerning industrial products, implementation of quantitative quotas, cash transactions, and import licenses contribute to the hindrance of the private sector. Moreover, the state faces limitations in effectively addressing trade violations and ensuring transparency in commercial transactions



(Ministry of Planning, 2019, p. 14). These factors collectively underscore the marginalized position of the private sector in Iraq.

1. Private Sector Contribution to Gross Domestic Product (GDP):

Concerning the private sector's contribution to the gross domestic product (GDP) in Iraq, it is well-known that the oil sector occupies a significant share of the total GDP. Given the state's control over this sector, it implies that the GDP is predominantly in the hands of the state, driven by oil revenues rather than contributions from the private sector.

Table (2): the contributions of both the private and public sectors to the GDP for selected years, expressed as a percentage.

Year	Percentage of private sector contribution to GDP	Percentage of public sector contribution to GDP %
2004	30,9	69,1
2005	32,8	67,2
2006	29,7	70,3
2007	30,9	69,1
2008	26,7	73,3
2009	33,7	66,3
2010	34,8	65,2
2011	30,5	69,5
2014	30,5	63,4
2015	39,2	60,8
2016	42,7	57,3
2017	38,6	61,4
2018	33	67

Source :Ministry of Planning, Central Bureau of Statistics, various issues

The table illustrates that the private sector contributed approximately one-third of the total Gross Domestic Product (GDP) during the period from 2004 to 2018, reaching its highest contribution in 2016 at 42.7% and its lowest in 2008 at around 26.7%. The table reflects the insignificance of the small projects sector's contribution to the overall GDP compared to the public sector. The fluctuation in these percentages can be attributed to various prominent challenges (Al-Shawi, 2011, p. 4):

- i. Most production equipment is outdated, and much of it has disappeared, reaching the end of its productive life due to the lack of replacement for worn-out parts.
- ii. Prolonged economic sanctions have adversely affected the development of the production process, particularly for many imported goods with low efficiency, impacting overall production.
- iii. Insufficient availability of electrical energy has disrupted the production process, resulting in significant losses and decreased productivity levels, leading to a reduction in energy utilization.
- iv. Many factories and facilities have been subjected to looting and robbery, causing the loss of productive equipment, particularly after the events of 2003.

2- The contribution of the private sector to fixed capital formation is a pivotal economic variable with significant implications for both advanced and developing economies. Fixed capital formation stands out as a cornerstone of economic growth and development, representing a primary source for creating new productive capacity. The concept of fixed capital formation refers to the final value of fixed capital goods, plus the value of the capital goods produced by the producer for their own use in their factory.



When applying this indicator, the limited role of the private sector in effectively managing development activities becomes evident. Its contribution to fixed capital formation did not exceed 5% of the total fixed capital formation at constant prices for the years 2016 and 2017, respectively. This serves as an indicator of an unsupportive environment, an unfavorable investment climate that does not align with the potential of this sector, and negatively reflects on the private sector. The decline in its contribution to fixed capital formation indicates an unencouraging and non-empowering environment, posing a significant challenge to the successive national development plans.

Table (3): the contribution of both the private and public sectors to fixed capital formation at constant prices for the base year (1988=100) for the period (2007-2018) in billion dollars.

Year	Percentage of public sector contribution to fixed capital formation	Percentage of private sector contribution to fixed capital formation	Gross private and public fixed capital formation
2007	5,4	0,5	5,6
2008	9,7	0,2	9,9
2009	5,5	0,4	5,9
2010	10,8	0,6	11,5
2011	14,4	0,4	14,8
2014	13,7	0,2	13,9
2015	8,2	4,0	12,2
2016	7,2	5,0	12,7
2017	7,1	5,4	12,7
2018	7,1	5,4	12,7

Source :Ministry of Planning, Central Bureau of Statistics, various issues

On the other hand, the table illustrates that the public sector's contribution to fixed capital formation is significantly higher than that of the private sector. It reached approximately 14% in 2011 of the total fixed capital formation, while the private sector constituted only 0.4% for the same year. This implies that the state continues to play a substantial role in the Iraqi economy, exerting significant control over its sectors.

3.Value Added Indicator in Small-Scale Projects in Iraq:

Table (4): the percentage of value added for small-scale industries as a proportion of the value added in manufacturing industries for selected years.

2015	2016	2017	2018	2020
26,7	32,6	25,5	20,7	20,3

Source: National Accounts Directorate

The percentage of value added for small-scale industries, as a share of the total value added in manufacturing, decreased from 26.7% in 2015 to 20.3% in 2020. Despite their substantial number, these industries now represent less than 30% of the total value added in manufacturing in Iraq.

The private sector's contribution to value added in Iraq remains very low, not exceeding 32% in 2016. This is a result of neglect due to the economic and security instability post-2003, coupled with the continuation of state industrial policies favoring large projects. Most programs and policies have been designed to serve these large ventures, neglecting the private sector and significantly undermining its role in economic development.

4. Size of Investments in Economic Activities

The private sector dominates economic activities in agriculture, wholesale and retail trade, tourism, property ownership, and personal and social services. Housing and manufacturing, as depicted in Table (5), hold particular importance in the private sector's activity. The relative importance of sector contributions varies, as evident in the table.



Table (5): The relative importance of economic activities for the private sector for the period (2016-2019) as a percentage.

	2016	2017	2018	2019
Agriculture	1,4	4,0	0,8	0,2
Manufacturing industry	11,0	25,4	6,1	18,7
Building and construction	0,0	1,9	0,1	1,2
Transportation, communications and storage	12,2	0,0	12,5	13,8
Wholesale and retail trade	4,8	5,3	23,5	9,9
Residential home ownership	41,7	41,5	54,1	52,5

Source: Ministry of Planning, Central Statistical Organization, Actual Estimates for Gross Fixed Capital Formation in Iraq for Various Years.

The table reveals that the largest private sector investments are concentrated in the property ownership sector, reaching a relative importance of approximately 54.1% in 2018 of the total investments in this sector. It is followed by the manufacturing industry, with a contribution percentage of about 25.4% in 2017. Moreover, the transport, communications, storage sector contributed approximately 13.8% in 2019, and wholesale and retail trade had a contribution percentage of about 23.5% in 2019. This signifies that property ownership, particularly residential construction, constitutes more than half of the total private sector investments. In contrast, investments in other activities collectively account for only 42.4% of the total private sector investments in 2019.

A clear contradiction emerges in the significant decrease in the contribution of the agricultural sector, which is under the dominance of the private sector. Surprisingly, its contribution represents only 0.2% of the total private sector investments in 2019, as evident in the preceding table.

2.3 Employment and Labor Index

The economic structure in Iraq operates to undermine the role of the private sector, which is natural considering its representation as the real engine for the employment process. The increase in the number of public sector employees in recent years has put financial pressure on the state, making the issue of deficit a tangible problem due to the rising wage bill. The public sector, offering attractive employment opportunities with stable positions and high salaries, has led to a growing inclination among youth and university graduates to seek employment in the public sector. This has exacerbated the unemployment issue in the economy.

Furthermore, this trend has contributed to a mismatch of skills in the job market, as graduates often possess skills relevant to the public sector, such as medicine and engineering, while the private sector demands different skills (International Labour Organization, 2021, p. 11). On the other hand, it is observed that the private sector's activities constitute approximately 40-50% of the workforce, primarily engaging in non-formal activities, concentrated in retail, transportation, construction, textiles, and various professions where the informal private sector competes with the state. Since 2003, this sector has experienced significant expansion, particularly in small urban services, with lesser increases in agriculture and various small industries.

An estimate suggests that the contribution of the informal economy to the gross domestic product (GDP) was about 65% in 2006, compared to 35% in 2002. Around 68% of the workforce is engaged in informal activities. It assumes that many registered unemployed individuals utilize the informal economy as a "coexistence" strategy until they find opportunities in the formal sector (ibid).

Concerning the role of the private sector in Iraq in creating employment opportunities, according to the National Development Plan 2013-2017, the distribution of full-time wage workers between the public and private sectors was overwhelmingly in favor of the public sector, accounting for 96.1%. The private sector's share did not exceed 48.4%. However, the situation is reversed for part-time workers, where their percentage is higher in the private sector, as



illustrated in Table (6). The public sector has become a source of security, comfort, and stability, with the protected employment rate reaching 97.1% in 2011. This explains the higher percentage of full-time employment in the public sector compared to the private sector.

Moreover, the data reveals that the private sector has become an insecure haven for both men and women, especially in the absence of social security coverage. The percentage of women employed in unprotected jobs in the private sector was 92.2%, compared to 97.9% for women employed in protected positions in the public sector. This underscores the need to develop and legislate social security laws capable of protecting all workers in the private sector, making it an attractive sector for the workforce and creating a conducive business environment. This will establish a solid and sustainable foundation for transitioning towards a market economy at the lowest cost.

Table (6): the employment percentages in both the private and public sectors for the year 2011.

Indicators	Public Sector %	Private Sector %
Percentage of paid and full-time employees	96,1	48,4
Percentage of temporary-time workers	0,3	33,3
Percentage of part-time workers	3,3	15,9
Percentage of full-time female workers	98	58,7
The percentage of women employed in protected jobs.	97,9	- - -
The percentage of women employed in unprotected jobs.	- - - -	92,2

Source: Ministry of Planning, National Development Plan (2013-2017), Baghdad, January 2013, p. 36.

The attraction and absorption of public sector employment occurred as a natural result of the changing employment landscape in Iraq after 2003. This change is evident through the expansion of the state and the public sector with workers whose rates sometimes exceed economic growth. This phenomenon could be justified by the state's economic policy, aiming to maintain the inflation of its apparatuses to achieve various goals, notably providing employment opportunities and absorbing unemployment in the economy. Moreover, public sector wages, especially after 2003, saw an increase, accompanied by adequate guarantees and relative security compared to the private sector, known for lower income and less job security. This may be attributed to the absence of necessary laws and regulations to govern private sector work, leading to challenges in labor relations, dismissals, and layoffs by employers. Moreover, the private sector lacks retirement benefits and social guarantees, making work in the private sector uncertain, prompting graduates and job seekers to turn to government employment, despite lower wages that do not align with local market prices.

On the other hand, the private sector's most substantial employment rates were in agriculture, wholesale and retail trade, transportation, and communications, relying on unskilled labor. In 2008, approximately 12,088 workers out of a total of 14,512 were employed in these sectors (Abdul-Ridha, 2012) Agriculture, once a significant employer, now only provides around 20% of employment opportunities, mainly in the private sector. Thus, unemployment has become a national priority affecting the entire country, particularly the youth facing high unemployment rates. According to the Integrated National Energy Strategy, around 250,000 people enter the labor market annually during the period 2007-2011, increasing to about 290,000 during 2012-2016. This is due to the fact that 64% of the population is under 24 years old, with an average age of only 20 years. In such circumstances, there is no alternative for Iraq but to stimulate and develop the private sector to meet the growing demand for employment opportunities. This situation is further complicated by widespread migration of skilled workers (Republic of Iraq, Council of Ministers, 2014, p. 46).

2.4. Private Sector Contribution to Sustainable Development Index

In Iraq, there is a clear need for private sector assistance and its contribution to sustainable development financing to ensure the achievement of goals and address challenges within and outside the economy. This is particularly crucial given the worsening problems the economy has faced since the events of 2003, affecting its ability to fund sustainable development and achieve its objectives.



Table (7): private sector contribution estimates in development plans for the period (2010-2022).

	Private sector (trillion dinars)	%	Public sector (trillion dinars)	%	Total (one trillion dinars)	%
Development Plan (2010- 2014)	89,5	46,3	128,5	53,7	218,0	100
Development Plan (2013- 2017)	88,0	21,0	329,0	79,0	417,0	100
Development Plan (2018- 2022)	88,6	40,0	132,0	60,0	220,6	100

Source: Ministry of Planning, National Development Plan for the years (2010-2014), p. 18. National Development Plan for the years (2013-2017), p. 28. National Development Plan for the years (2018-2022), p. 62.

According to the table, estimates of the private sector's contribution varied in each plan, aligning with their respective objectives. The most ambitious of these plans was the 2010-2014 Development Plan, aiming for significant involvement of the private sector in sustainable development. It projected a contribution reaching (46%) of the total planned investment. However, this contribution decreased in the second plan to only (21%), and in the latest plan, the private sector's contribution reached (40%). Criticism was directed at the 2013-2017 Development Plan for the diminishing role of the private sector in previous years. Its investment policy was characterized by a lack of diversification, adhering to traditional patterns despite efforts to open up investment opportunities across various economic, social, and service activities. The plan highlighted that the private sector's contribution to generating output in the education and health sectors did not exceed (15%) of the total output in these sectors for the years (2009-2010). This suggests that the private sector lacks the necessary flexibility to diversify its activities, indicating that the investment policy for the private sector has been characterized by a lack of diversity and a tendency to adhere to traditional patterns, despite the plan's efforts to open up investment opportunities in various economic, social, and service activities (Ministry of Planning, 2013, p. 6).

2.5 Business Environment Indicator

The business environment, or the investment environment, reflects the laws, policies, economic and political institutions that contribute to instilling investor confidence in the country they invest in. The investment environment is influenced by a combination of economic, political, social factors, as well as security stability. The success of the investment environment requires influencing the investor's decisions and encouraging them to invest in the country.

In Iraq, several obstacles hinder the private sector and impede its operation due to various complications. For instance, imposing taxes acts as a barrier to any steps that may be taken to participate in addressing economic challenges or reducing unemployment rates. Despite the global importance of tax incentives in most world economies, their role is limited in the overall economic structure of Iraq. It is characterized as a rentier economy where oil revenues constitute 95% of the general budget, while taxes make up only a small percentage. This underscores the need to make taxation and tax incentives an effective tool in creating a conducive environment for private sector growth in Iraq.

On another note, we are faced with clear evidence of the blatant neglect of this sector by the state, whether intentional or unintentional, especially after the events of 2003. There were no investment allocations to support the activities of the private sector or any form of financial or service support to facilitate its operations.

Legislation in Iraq is not conducive to the business environment. Social dialogue in Iraq suffers from the absence of a supportive legal environment. In this context, it is observed that the Labor Law of 2015 allowed all private sector workers to organize and collectively represent their interests, including representation through strikes. However, in the absence of a new law for labor unions or the official cancellation of the previous law, the Trade Union Law No. 52 of 1987 remains in effect. This law prohibits workers in state-owned industrial establishments from organizing into unions. Recently, the Ministry of Industry and Minerals issued a decision prohibiting workers from forming unions or engaging in organizing activities within ministry circles. Apparently, the government prefers monopolizing labor unions over pluralism or union diversity. Another challenge identified in the legislative environment in Iraq is the absence of



executive regulations, hindering the effective implementation of laws. Many provisions in the Federal Labor Law require the formulation of executive regulations, but most expected regulations have not yet been formulated or issued. This contributes to uncertainty about legal matters and challenges in the implementation and enforcement of the law. On the flip side, some current regulations and business registration laws do not meet the needs of business owners. For example, there is no law to give an organized character to commercial activities operated privately and owned by a single individual with a chamber of commerce. The current laws and regulations are defined as limiting the development opportunities of new economic business units, such as information technology, communications, and social and economic consulting services (Ministry of Planning, 2018, p. 86).

3. Major Challenges Facing the Private Sector and Key Opportunities

3.1 Major Challenges Facing the Private Sector

The private sector in Iraq faces several challenges that may hinder its role in the economy, making it ineligible to lead the development process in Iraq, both in the present and the future. Among the most significant challenges is the governance of the private sector in Iraq, which has encountered several challenges. The most important of these challenges include the lack of a clear vision for private sector governance, the absence of a clear framework regulating the partnership between the public and private sectors, the sector's limited awareness of its role in social responsibility, and a lack of commitment or, more precisely, funding. The failure of policies, plans, and various strategies before 2014 is attributed to the complexity of the problem. Even when there is commitment, there is an issue of the inability to express this commitment from both parties, and the responsible planning authorities bear the responsibilities arising from the failure to find realistic solutions to such problems (ibid).

Moreover, other challenges can be noted:

1. The private sector lacks the necessary technical and managerial capabilities and the massive financial resources needed to finance development in Iraq. Despite supportive laws for involving the private sector in rehabilitating public companies, such as Public Companies Law No. 22 of 1997, and adopting an annual plan to announce companies the state aims to rehabilitate, the response from private sector investors has been weak. This could be attributed to the advanced age of these companies. (Ministry of Planning, 2013, p. 6).
2. Delay in implementing legislative, structural, and technical reforms related to creating an investment-friendly environment for the market economy and attracting investors, especially those who left Iraq.
3. The financial and banking sector is state-controlled, resulting in its inability to meet the capital requirements of the private sector. Consequently, it fails to fulfill its role in mobilizing the savings of institutions and individuals and redirecting them into investments in private sector production.
4. Fragility of the security situation presents another challenge, creating a discouraging environment for both local and foreign private investors alike.
5. Weak economic infrastructure, including financial infrastructure and electricity, has impacted the success of the private sector in performing its investment role. A survey conducted by the Industrial Statistics Directorate (Sallibi, 2012) revealed difficulties and problems facing medium and small industrial projects concerning infrastructure. The primary problem, ranking first, is the irregular supply of electrical power, with a percentage of 85.8% for medium industries and around 84.8% for small establishments. The second most significant issue is the unavailability of fuel and oils, with a percentage of around 64.6% for medium establishments and 54.9% for small ones. The third-ranked difficulty for medium-sized establishments is the high production costs, reaching approximately 54%, and for small establishments, it is about 39%. The security situation deterioration occupies the third rank, with about 32.7% for medium establishments and around 48.6% for small establishments. Issues with less impact include communication and information problems for medium establishments, and difficulties in external transfer for small establishments.

3.2: Key Opportunities and Future Prospects

To overcome the challenges faced by the private sector, Iraq's economic policy post-2003 aimed to support and empower the private sector, making it an active participant in the developmental and reconstruction processes. This was executed by establishing a three-year developmental strategy that focuses on revitalizing and energizing the private sector. The goal was to make it a dynamic force in the economy, generating employment opportunities, enhancing sustainable growth, and contributing to development financing. This approach aligns with Article 25 of the Iraqi Constitution of 2005, emphasizing the encouragement and development of the private sector.



The National Development Strategy (2005-2007) and (2007-2010) aimed to develop the private sector, making it a key player in economic activity. This objective became one of the four main components of the general strategic directions for Iraq's reconstruction and development. The strategy outlined various requirements for achieving this goal, including legal and regulatory reforms, privatization of state-owned companies, restructuring public commercial banks, providing necessary financing for small and medium enterprises, and rehabilitating infrastructure.

Despite the outlined strategies' visions and objectives, the reality indicates a lack of achievement of any of these goals. This can be attributed to the disruptive security and political environment affecting development and investment. Moreover, the private sector's lack of understanding of its required role and obligations is influenced by the ambiguity of the adopted economic policy. The fluctuating development trends and the absence of a description of the management style of the Iraqi economy also contribute to this. Hence, the Development Plan (2010-2014) was introduced to highlight the economic policy that would be adopted in Iraq over the next five years.

The plan emphasized the private sector's crucial role in achieving its goals, especially its contribution to financing plan projects, estimated at 46.2% over the plan's duration (Ministry of planning, 2014, p. 178). One of the plan's general objectives was to enhance the role of the local and foreign private sector in terms of investment and job opportunities to finance development. This involves establishing an interactive, participatory, and competitive private sector that promotes sustainable development and creates an attractive investment environment.

The National Development Plan (2010-2014) estimated that private investment would constitute around 46% of the expected total investments, equivalent to 100 trillion Iraqi dinars out of the estimated total investment of 218 trillion dinars.

The state continued to monitor the private sector in Iraq through its evaluation of its activities in the National Development Plan (2013-2017). This evaluation included a comprehensive analysis of the private sector's situation and an assessment of the achievements of the previous development plan (2010-2014). The National Development Plan (2013-2017) recognized that the private sector's role in overall economic development was still modest and not strategic. This was evident in the significant deviation in the private sector's contribution to forming fixed capital, with a planned 24.8 trillion dinars in 2011, while the actual achievement was only 1.6 trillion dinars, indicating a deviation of -92%. (Republic of Iraq, Council of Ministers, 2014, p. 47).

Various surveys and studies, despite the difficulty in measuring the actual potential for developing the private sector, indicate tangible opportunities for its growth and contribution to economic development and employment. These opportunities include:

1. Qualified Human Resources and Untapped Natural Resources:

- Iraq possesses qualified human resources and vast untapped natural resources, providing an opportunity for the private sector's development.

2. Continuously Growing Domestic Market Demand:

- There is a continuously increasing demand in the domestic markets for goods and services across various sectors.

3. Oil Industry Opportunities:

- The oil industry presents a massive opportunity for the private sector to offer services in exploration, drilling, extraction, as well as in transportation, refining, and marketing.

4. Innovation Potential and Market Competition:

- Increasing opportunities for innovation through enhancing market competition, including the issuance of quality certification, the use of information and communication technologies, and the introduction of modern technologies and new comprehensive business models.

5. Establishment of Small and Medium Enterprises (SMEs):

- A high and clear dynamic in establishing small and medium-sized enterprises since 2007, indicating economic resurgence.

6. Large Public Procurements and Foreign Direct Investments:

- Massive public procurements by the Iraqi government and international oil companies, along with significant foreign direct investments.

The United Nations Development Programme in Iraq launched the Local Network Initiative for the Global Compact in October 2011 in partnership with the Iraqi government. This initiative aims to promote social and environmental responsibility for the private sector in line with global standards for sustainable and inclusive business practices. Initially, a few Iraqi companies committed to applying the ten principles of the UN Global Compact in their business operations.



The local network now includes around 90 organizations, including private companies, business associations, and non-governmental organizations from various parts of Iraq.

With the support of the World Bank, the Private Sector Development Center was established in 2011 as a non-governmental organization. It represents a partnership between private sector-representing organizations seeking to identify the main obstacles to business activities in Iraq. The center collaborates with the government to find solutions to overcome these obstacles, aiming to enhance the inclusivity and competitiveness of the Iraqi private sector. This is achieved through building trust and dialogue between the public and private sectors, advocating for economic reforms, market-oriented activities, and contributing to business development, investment, economic growth, and entrepreneurship.

CONCLUSIONS

1. The research substantiates the hypothesis regarding the marginalization of the private sector. This is evident through an examination of indicators such as economic freedom, private ownership, private sector contribution to the GDP, commodity exports, and fixed capital formation. It confirms that the Iraqi private sector has not fulfilled its actual role in the economy; instead, it has been excluded and marginalized.
2. The private sector's weak contribution to generating the gross domestic product underscores its modest role in effectively managing development activities. Its weak contribution to fixed capital formation indicates an unfavorable and non-empowering environment, signaling a negative investment climate. Furthermore, the private sector's contribution to fixed capital remains a crucial factor in defining its role in economic development, which remains modest, non-strategic, and a significant challenge to successive national development plans. Moreover, the increasing contribution of the public sector to fixed capital formation implies that the state continues to dominate the Iraqi economy to a large extent.
3. The public sector has become a source of security, reassurance, and stability, with research revealing that 92.2% of employed individuals in the private sector lack employment protection compared to 97.9% in the public sector. This underscores the need for attention to formulating and legislating social security laws that cover all workers in the private sector.
4. The research also highlights the private sector's weak participation in sustainable development financing. The national development plan for the years (2013-2017) criticized the declining role of the private sector in previous years. Its investment policy lacked diversity, maintaining traditional patterns. This is evident in the private sector's contribution to education and health sectors, which did not exceed 15% of the total output in these sectors for the years (2009-2010).

RECOMMENDATIONS:

1. Mobilising all societal resources, including the private sector's initiatives, experiences, and resources, to enhance its growth and role in the transition to a market economy. The private sector should be the main driver in correcting the developmental path and diversifying income sources.
2. The increase in the working-age population implies a growing labor force, emphasizing the importance of adapting economic policies to promote job-generating growth. This adjustment aims to enhance the labor market's efficiency, making it more disciplined and balanced in aligning labor supply and demand.
3. Iraq lacks a clear employment policy based on scientific foundations, facts, and accurate labor force indicators. This necessitates the formulation of social security laws to attract workers to the private sector. Furthermore, laws should create a business-friendly environment for investments, laying a solid foundation for Iraqi economic development.

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