



## THE INFORMAL ECONOMY AND ITS ROLE IN REDUCING THE UNEMPLOYMENT RATE IN IRAQ FOR THE PERIOD (2000-2020)

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<p><b>Received:</b> 24<sup>th</sup> December 2021 <b>Accepted:</b> 26<sup>th</sup> January 2022 <b>Published:</b> 28<sup>th</sup> February 2022</p>	<p>The unorganized sector is one of the most prominent sectors that work to employ (skilled and unskilled) manpower, given that the work mechanism within this sector is not subject to the procedures of education, learning, certificates and other things typical in the labor market and that workers in this sector do not pay taxes and are not considered They are registered with the state among the unemployed, and various goods and services are available within this sector and in all fields and specialties. Therefore, they stimulate the process of economic growth for the related societies. The informal economy appeared in Iraq as a result of the state imposing restrictions on various economic transactions, especially with regard to taxes and fees. This deepened the difficulty of individuals obtaining a work contract that guarantees them a decent living. The unorganized sector is one of the most prominent sectors that work to employ (skilled and unskilled) manpower, given that the work mechanism within this sector is not subject to the procedures of education, learning, certificates and other things typical in the labor market and that workers in this sector do not pay taxes and are not considered They are registered with the state among the unemployed, and various goods and services are available within this sector and in all fields and specialties. Therefore, they stimulate the process of economic growth for the related societies. The informal economy appeared in Iraq as a result of the state imposing restrictions on various economic transactions, especially with regard to taxes and fees. This deepened the difficulty of individuals obtaining a work contract that guarantees them a decent living.</p>

**Keywords:** informal economy, methods of measuring the informal economy, unemployment rate in Iraq, liquid cash flows

### INTRODUCTION:

The informal economy is one of the most prominent sectors that spread in the seventies of the last century, especially in developing countries that are characterized by high rates of unemployment and poverty. Restrictions on entry or exit to and from the markets, thus it occupies the workforce, whether they have education and certificates (competencies) or not, and various goods and services are available within this sector and in all fields and specializations. Within the official activities of the state, especially since workers in this sector do not pay taxes and are not considered registered with the state among the unemployed. In Iraq, the proportion of the informal economy increased - especially after 2004 - as a result of the increase in the number of the unemployed, which compelled them to resort to businesses within this sector to meet their necessary needs and achieve a decent living from the level of subsistence. Therefore, the importance of the study stems from the

fact that the informal sector includes a number of A large number of workers who seek to earn their daily livelihood through self-employment that provide them with a decent livelihood, and this category may include part of government employees who work after the end of their official working hours, and the importance of the informal economy enhances the economic growth of the country locally. government) does not count it within the scope of the country general economic growth.

**The problem:** The informal economy has the ability to reduce unemployment rates and boost economic growth in the country, but it is not counted among the official activities and sectors, meaning does the informal economy contribute to reducing unemployment rates in Iraq?

**Hypothesis:** The unorganized economy is an inevitability imposed by economic and social conditions, which attracts the unemployed, reduces



unemployment rates and enhances the process of economic growth in Iraq.

**Objectives:** The study aims to:

1- Introducing the informal economy, methods of measuring it, and its impact on the reality of developing and advanced economies.

2- The relationship of the informal economy to reducing unemployment rates in Iraq for the period (2000-2020).

### **1- The conceptual framework of the informal economy**

#### **1-1 the emergence of the informal economy - definition and characteristics**

##### **1-1-1 General concept**

The term informal economy was introduced at the beginning of the seventies of the last century, specifically during a study conducted by (J. Keith Hert) that dealt with unemployment in Ghana, and that Talking about this sector is extremely important and difficult at the same time, especially as this phenomenon has grown significantly in developing countries and countries affected by waves of changes and political, economic and social crises (**Friedrich, 2017, 9**).

As individuals in primitive societies were carrying out their economic activities in a simple manner and in line with their needs, so they were not obliged to declare the work they were doing, but because of the absence of an administrative body or unit that regulates the relations between them on the one hand and due to the occurrence of disputes between the individuals themselves on the other hand They need someone to organize their affairs and protect their interests, so they have relinquished part of their public freedoms in favor of a public body that undertakes this task, which is the state, which appeared as an administrative and legislative solution to organize the affairs of individuals in exchange for paying part of their incomes to it, and after the state's functions were multiplied and its expenditures increased. The public had to search for sources of financing its budget through tax deductions, and from here the informal economy appeared, which appeared after the state imposed restrictions on various economic transactions, especially with regard to taxes, or the failure of individuals to obtain a work contract that guarantees a decent living. This sector has been called several different names from one country to another, depending on the culture of countries and the policies followed in it. From this point of view, there are several attempts aimed at giving a definition of different names This sector, including it called in England the hidden economy, and in the United States of America the underground

economy (Souterraine Economic), as it is called in France the black economy (**JAKOVAC, 2018, 284**), and we find it in economic dictionaries by several names that do not differ much in the essence of its concept ( The shadow economy, the underground economy, the informal economy, the parallel economy, the invisible economy, the informal economy) and other different names

The International Labor Organization has defined the informal sector (the informal economy) as the sector that consists of private business enterprises that are not legally organized and not registered in accordance with any specific form of national legislation, and the informal economy includes both the parallel economy that seeks to avoid taxes and regulations And the criminal economy that deals with illegal goods and services (**Human Rights Council, 2012, 6**), while F. Schneider defined it as the economy that includes all unregistered economic activities that contribute to the formation of the gross national product if they are registered, and the IMF sees The international is a group of activities related to small-scale production that provide employment and income opportunities for individuals and small families (**Noiseux, 2000, 18**).

##### **1-1-2- Characteristics**

There are several common factors among the components of the informal economy that distinguish it from the activities of the public and private (organized and mixed) economy: (**Lars, 2010,3**)

A- It is an economy that is not subject to government control and its inputs and outputs are not included in the national accounts, and it is not recognized According to the legislation issued for this, he adopts confidentiality in his work (selling, buying and working), meaning that he is far from the conscious of oversight, and does not keep regular books.

B- This sector refrains from performing all its entitlements towards the state, whether they are fees, taxes, plans or providing data, while it benefits from most of the services provided by the public (official) sector in all its forms.

C- That workers in the informal economy do not enjoy social protection, such as old-age insurance, disability, death, illness, work injuries, and others.

D- This sector causes the process of environmental pollution, meaning it causes the addition of new materials or energy to the environment that exposes people, their health, way of life, well-being, and their natural resources to danger directly or indirectly. For example, the accumulation of garbage in slums or lack of connection to the sewage network And pure water, or pollution caused by informal factories because they are not subject to control.



F- The size of the informal sector constitutes a large and important percentage of the gross domestic product of most countries, especially the developing ones, and therefore it overlaps in its effects with the formal economy. There are features or characteristics specific to each sector of the informal economy. In the informal labor sector, it may lack organization, meaning freedom from the restrictions of official work in the areas of production, distribution, marketing and others, as well as the stray capital and technology used, as work depends on the human effort expended, meaning The intensification of employment in exchange for the capital used, as well as the low level of skill of workers, as it is characterized by the absence of precise specialization and division of labor, and ease of entry and exit to the market, as it does not require procedures and transactions for that.

As for the features of the unorganized housing sector, it is characterized by randomness, deprivation, and the lack of urban services as a result of the non-registration of property, which pushes the population to bypass the neighboring public services allocated to neighboring areas, thus generating pressure on them and a decrease in the per capita share of services provided by the government, such as pure water and sanitation services. Electricity, markets, transportation, schools, etc., and that residents do not pay their dues in terms of taxes or fees as a result of obtaining these services, and that low incomes or salaries (wages) will lead to workers in the formal (government) sector to work at certain times in the informal sector. (And they are mostly individual works) without being paid any fees or taxes as well, as it may lead to evasion of the duties entrusted to them during official working hours in the organized sector, or their performance with less efficiency (Yasser, 2011, 51)

### **1-2 The growth of the informal economy - causes and costs**

Existing studies in several countries indicate that the main driving force behind the significant growth in the size of the informal economy is the increase in unemployment and poverty, as well as the burden of Tax payments that increase from time to time in relation to technological developments and increasing government spending, and the subjection of the official labor market to many restrictions, in addition to the fact that wage rates in the official economy have a major role in this regard. In developing countries, in general, the growth of the informal sector occurred as a result of The decline in real income, and the state of economic stagnation in most areas of the country, especially the rural ones, as well as the weak

economic growth compared to the large population growth.

#### **1-2-1- Reasons**

A- Heavy taxes and social expenditures: It is one of the most important factors that lead to the growth of the phenomenon of the informal sector, as the greater the difference in the cost of labor and the return, income or net profit after subtracting taxes, the more it leads to the trend towards the informal sector, whether tax evasion or other non-governmental activities.

B- Governmental laws and regulations: Government restrictions imposed on the economic activity of individuals are one of the reasons for the growth of the informal sector, as some believe that if there are no taxes, the informal sector will also continue to appear because of these restrictions, laws and government regulations that impede the establishment of economic activities , as when there are complex legislation and laws, this encourages individuals to transfer economic activities to the informal sector on the one hand, and on the other hand, it encourages the presence of informal activity in official activities, meaning the spread of the phenomenon of bribery (corruption) in order to reduce transaction costs, whether In terms of time or price and facilitating the process of obtaining loans and others (Thomas, 2014, 201).

C- Achieving economic growth and creating job positions: The decline or weakness of economic growth in most countries of the world has led to a decrease in the number of offered job positions much more than the number of required job positions, which led to the search for jobs in the informal sector, and even countries that have achieved growth from During the volume of large investments, but it is growth without creating new jobs.

D- The phenomenon of poverty: The spread of the phenomenon of poverty in the world, especially in recent years, is one of the biggest problems facing most countries of the world, as the fact that an individual is poor does not necessarily mean that he is in a state of unemployment, it is possible that his poverty is the result of the insufficiency of his individual income. Accordingly, the increase in poverty increases the size and growth of the informal sector (Lorenzo,2014,99).

F- The role of micro economic projects: Small and micro projects are very important for the informal economy. These projects tend to use their transactions using liquid money that facilitates informal activities, and the process of imposing a tax by the force of law on such projects will result in their bankruptcy as a



result of Due to the low volume of capital used in it, and the increasing number of small and micro enterprises leads to the growing relative importance of the informal economy in many countries, and it becomes easy to evade tax **(Dagmani, 2019, 181)**.

There are several other reasons for the growth of the informal economy, such as (the availability of information and the scarcity of goods), as the taxes imposed by governments in developing countries are often indirect taxes and not taxes on income, meaning that the tax structure is focused on consumer and capital goods, as the system Prices are usually inappropriate and do not reflect the level of scarcity, as basic commodities are sold at subsidized prices by the government, which leads to this phenomenon - subsidized prices - to the spread of the phenomenon of human queues, and sometimes the excess demand for consumer goods increases, leading to the growth of the unorganized sector Either by reselling these goods illegally, or by trying to produce them in the informal sector to meet the needs of the demand for them, and the availability of information has an important role in the performance of the informal economy, as both buyers and sellers in the labor market and goods need to Information about the parties who deal on the ground, and if this information is not available, the market in the informal economy cannot work **(Shihan, 2013, 7)**.

#### **1-2-2- The social and economic costs involved**

The characteristics of the informal economy, by its nature, are largely negative, as it can plunge individuals and firms into a cycle of low productivity and poverty, and there must be a consistent national strategy that facilitates the transition to the formal economy and that recognizes that labor costs in the informal economy High on business projects, workers and the local community, and from the perspective of unprotected workers, the negative aspects of work in the informal economy far outweigh its positive aspects. Workers in the informal economy are not recognized, registered, organized or protected under labor and social protection legislation. Consequently, they are not able to enjoy, exercise or defend their fundamental rights, and given that they are usually not organized, their collective representation vis-à-vis employers or public authorities may be little or non-existent **(International Labor Office, 2013, 8)**.

Workers in the informal economy are characterized by different degrees of dependency and vulnerability. Women, youth, immigrants and older workers are particularly exposed to the most serious deficits in decent work in the informal economy, either. They are exposed to violence, including sexual harassment, and

other forms of exploitation and abuse, including corruption and bribery. Or that child laborers and workers work in the unorganized sector to pay off the debts incurred by them as a result of the poor social situation in which they live.

Most economic units in the informal economy do not have secure property rights, which deprives them of access to both capital and credit, they have difficulty recourse to the legal and judicial system to enforce contracts, and they have limited or no access to government infrastructure and public markets, and informality may discourage investment in larger business sectors and hinder trade because unorganized companies often lack the necessary size to exploit economies of scale to the fullest extent, as the size of partnership, productivity growth and export opportunities are closely linked to each other, and companies cannot Larger companies can not only benefit from economies of scale, but also have greater access to highly skilled labor and bank credit (including trade), and are more reliable than smaller companies in fulfilling contracts in a timely manner, which is important for establishing long-term relationships with customers (consumers and others), and micro and small enterprises in the informal economy lack the ability to generate sufficient profits to reward innovation and risk taking Studies show that high rates of informality push countries towards the lowest and most vulnerable end of global production chains, and attract capital flows associated with the presence of a broader group of low-paid (low) labor and cost within hours. Work **(Schneider&Buehnn,2017,21)**.

Unregistered and unregulated enterprises often do not pay taxes and do not pay workers benefits and benefits, thus not only depriving workers of protection, but also competing with other enterprises in an unfair manner, and the shortage in tax payments and contributions, which is sometimes very large, places an unfair burden. In addition, when governments suffer from a decrease in public revenues, this reduces the financial support available to them and their ability to expand the scope of social protection programs and other systems vital to national development such as infrastructure, education and health systems. Informality is often also associated with weak institutional arrangements and poor governance structures - with the possibility of corrupt practices - but weak law enforcement does not mean the absence of rules and agencies implementing these rules and laws, therefore special means of imposing order in the informal economy are very costly. For enterprises and workers, it is sometimes based on the threat of violence and corruption **(AMF, 2017, 14)**, and if the



costs of transition to a formal economy can be mitigated, many businesses may volunteer to emerge, pay taxes, comply with labor laws, and benefit from the security that access to the judiciary can provide property and contracts.

### **1-3 Methods of Measuring the Informal Economy**

The process of measuring or estimating the informal economy is one of the biggest difficulties and challenges faced by economists and researchers in various fields and fields due to the fact that this phenomenon is characterized by the nature of secrecy and concealment from the scope of government agencies to prevent access to accurate and reliable data about them. Methods of measuring the informal economy are classified into two methods:

#### **1-3-1- Direct methods**

Direct methods for measuring and estimating the size of the informal economy depend on a set of data and data obtained by researchers and commentators through field observations on the ground of activists in this hidden sector. The observations are partial and do not reflect the true picture of the overall economy until after they are collected. Therefore, direct measurement methods are complementary to indirect measurement methods and cannot be a substitute for them (Adair, 2009, 1126). Direct measurement methods are summarized into two methods:

**A- Sample survey method (survey):** This method depends on specialized survey investigations that include certain groups, or through periodic surveys carried out by various bodies or institutions, and the essence of the method is to prepare a set of systematic questions prepared by experts and specialists called forms The survey (questionnaire), which is directed to the dealers in the unorganized sector such as traders, craftsmen, owners of workshops and factories, as well as customers (buyers), and then a process of comparison between the answers of the target groups by examining the information of the form to see the extent to which their answers match, and if the answers match, the experts rely on the results To access data that is close to the reality of the informal economy.

**B- Tax audits method:** This method depends on the efforts made by the tax authorities, which seek through their departments spread across the different governorates or regions in the country to discover incomes that are not disclosed, and this is done through an intensive and continuous tax review of a sample of Taxpayers who submitted their tax declarations to verify their validity and then circulate them at the national level.

#### **1-3-2 Indirect methods**

The measurement of the informal economy through indirect methods depends on discovering and tracking the effects of practicing economic activities in the shadow economy, and they are called (indicator approaches), because they use macroeconomic indicators in an attempt to measure this important sector away from The criticisms directed at direct methods, especially with regard to the method of sampling the samples, and the following is a set of sub-methods of measurement that we will address successively: (Almenar,2019,2907)

**A- National accounts statistics:** The measurement process in this way depends on income and spending. The size of the informal economy does not appear in the form of income, but rather in the form of spending, meaning that hidden incomes turn into spending, meaning that individuals whose announced income is less than their spending may hide Part of their income, which is due to the fact that these incomes were originally generated in the informal sector, and thus income and spending have a significant impact in determining the size of the informal economy.

**B- Population census (labor force):** This method is summarized in adopting the difference between the labor force and the number of actually workers as a first step, and then measuring the productivity of one worker (the number of workers x the productivity of one worker), and the production in the informal economy is equivalent to the difference between the labor force and the number of workers. The workers are actually multiplied by the productivity of one worker, meaning (the difference between the labor force and the number of workers x the productivity of the worker), and the low demand for the activities of the organized (formal) economy indicates the tendency of labor to participate in informal activities.

**C- Electricity consumption:** The majority of economic activities in various countries of the world depend on electric energy. Applied studies show that the flexibility of electricity consumption in relation to the gross domestic product is often close to the correct one, meaning that the consumption of electrical energy is the best physical indicator of economic performance.

**D- Multiple Indicators and Multiple Causes Approach:** This model is one of the latest methods used in measuring the informal economy, as it tests the statistical relationship between latent (non-measurable) variables and total measurable variables, and it is one of the most prominent structural equation models, a model Multiple Indicators (MI, MIC), and



this model allows testing the statistical relationship between non-measurable variables but linked to measurable and observable variables, which reflect changes in the size of the informal economy, and through this model, the observed variables are divided into two groups, the first includes causal variables Which explains the independent variable, and the second, includes the variables that are affected by it **(ASPILAIRE, 2014, 8)**.

**F- Demand for money:** This method is among the most widely spread methods during the past decades, due to its simplicity, especially since it depends on monetary variables in the measurement process, and assuming that the transactions of the monetary sector depend on liquidity in settling various (informal) transactions, and that To hide all traces from the tax and regulatory authorities, therefore, it is assumed that the largest size of the informal economy must be reflected in the form of a high level of demand for liquid money. This method includes three sub-methods: (liquidity ratio, demand for money as a percentage of deposits, and the transaction approach), In general, the transactions that take place in the informal economy depend mainly on liquid money, especially since the goal is to erase all traces and hide them from the tax authorities, and accordingly, the changes that occur in the rate of activities of the informal economy can be calculated through the changes that occur On the rate of money in circulation in relation to the money supply **(GEORGIU, 2007, 13)**.

## **2- the informal economy and unemployment - support programs and the dependency trap**

### **2-1- unemployment and social security - a causal relationship**

That defines the unemployment rate as the number of the unemployed as a percentage of the labor force, where the latter consists of the unemployed in addition to wage workers or self-employed workers, and that The unemployed are those who report that they are without a job, that they are available to work and that they have taken active steps to find work in the past four weeks, and when unemployment rates rise some people become discouraged and stop looking for work, and then are excluded from the labor force, so it may decrease Unemployment or stops rising despite the absence of a fundamental improvement in the labor market. Self-employment is also defined as the employment of employers, self-employed workers, members of producer cooperatives, and unpaid family workers, at regular intervals but sharing in the income generated by the enterprise. Unpaid family workers are particularly important in the agricultural and retail

sectors. All individuals who work in corporate organizations including company directors, are employees, and self-employment may be seen either as a survival strategy for those who cannot find any other way to earn income or as evidence of entrepreneurship and desire to be one own boss. Employees are those aged (15) or older who report having worked at a profitable job for at least one hour in the previous week or who worked but were absent from work during the reference week, i.e. the process of measuring this indicator as a percentage of the employed population It is (total / men and women) **(Schneider, 2002, 13)**.

Although the net effect of changes in the unemployment rate on the informal economy is weak, this does not mean that it is not important to study the two effects separately. In fact, it is important to know the extent to which the unemployed participate in the informal economy while receiving social welfare benefits because These activities distort the intended fairness of the social security system. We conclude from the above that if the level of the amounts given by the government (social security) is too low, the social security system fails to maintain adequate support for those in financial hardship, while on the other hand, a system that is too generous may encourage dependence on social welfare This may stimulate the emergence of the so-called (dependency trap), meaning the dependence of the unemployed on these grants and aid and not participating in work that is part of the gross domestic product, and the combination of the generous social security system and the income of the shadow economy may provide a level of income The net is more than that obtained from formal employment, in addition, the dependency trap may remain across generations and the culture of participation in the shadow economy itself may be entrenched, so that some consider participation in the shadow economy as an acceptable behavior.

### **2-2- Informal Economy and Corruption**

**2-2-1- Interaction between the formal and informal economy** over the course of the business cycle It is widely accepted that weak policy enforcement, high taxation, and a preference for shaded employment increase participation in informal economy activities and amplify the formal economy's fluctuations in production and consumption. However, comprehensive research has not yet been done on how and to what extent this occurs, and the current consensus on the interactions of formal and informal economies is based on certain concepts such as the (income effect) i.e. periods of recession lead to lower consumption in both formal and informal economies



And (the effect of substitution) i.e., during periods of recession, unemployed workers enter the informal economy), and the first interaction indicates a positive correlation between the growth rates of organized and unorganized economies, while the second interaction refers to the informal economy opposite to the economic cycle (**Bajada and Schneider, 2009,1038**).

Most empirical research findings indicate that the shadow economy is countercyclical, and more specifically, studies that use indirect measurement approaches, studies that explore the relationship between shadow economy activities and unemployment, and studies on trends and shadow employment cycles, all indicate that the substitution effect prevails and that the shadow economy Shadow grows during recessions, and there are also results that do not indicate asymmetry in business cycles in shadow and formal economies, and the validity of these studies has been criticized on the basis of the measurement models that have been used, for example, one criticism relates to the concern of some models regarding the variables that It is not related to the size of the shadow economy (such as joint movements in productivity), but it ignores the variables and patterns that are significantly affected by the presence of shadow economic activities, such as wage volatility, and despite these criticisms, there can be a procyclical relationship due to the dominance of the income effect.

### **2-2-2 Corruption and the Informal Economy**

Corruption, generally defined as the abuse of conferred power for private benefit, is one of the biggest obstacles to economic and social development, as it distorts the rule of law, weakens institutional foundations, and severely affects the poor (**transparency International, 2019**), Both personal and country-specific characteristics also determine the risk of bribery, but increased bureaucracy is usually associated with higher corruption and explains differences in policies and regulations across industries where bureaucrats are bribed either for doing their duty effectively or for not doing it, and political corruption affecting law enforcement, in this case The briber (or campaign financier) is concerned with his own gain, including by distorting market competition.

The relationship between corruption and the informal economy is not a direct relationship. For example, with regard to bureaucracy in the organizational structure, it is said that only vertical centralization favors corruption and shadow economic activities, and the question of whether corruption and informal economy are complementary or alternative to each other largely

depends on the level of Institutional quality (government policies), and a set of studies and research developed in the nineties of the last century indicated that corruption has a positive impact on the size of the informal economy and thus this growing sector has a negative impact on the growth of official GDP (**Schneider and Enste 2000**), and the rationale justifying this inclusion is the complicity of government officials with entrepreneurs and taxpayers in exchange for bribery, and it can be easily assumed that corruption enhances the shadow economy through the efforts of agents to avoid further complications of bureaucracy and corruption.

The idea of a positive association between corruption and the informal economy dates back to the first decade of the twenty-first century, however, the references are only related to high levels of corruption and large shadow economies, in the sense that corruption pushed companies out of the formal sector - they sought to be more Competitiveness - and undermined the development of the formal economy and the consequent depletion of tax and lower revenues of basic countries, especially in the major industrial countries and others, and in the event that the informal economy mitigates the distortions caused by the government, corruption and the informal economy may be alternatives (opposing) to each other. Some (**Hindriks, 1999 Muthoo and**).

From the above we conclude that the informal economy reduces corruption in high-income countries and increases it in low-income countries The rationale behind these findings is that the ability of agents to bring corrupt officials to court generates the choice to participate or not to participate in the informal economy, and this ability depends on the level of Institutional quality, which varies between high and low income countries.

### **3- the repercussions of the informal economy on the reality of unemployment in Iraq**

#### **3-1- the informal economy in Iraq - an overview**

The Iraqi economy has gone through a number of important and profound changes over the past decades, especially during the nineties of the last century and beyond and to the present time, and it was one of the most prominent The results are the rise and growth of the informal economy, as economic policies focused on the production capacity of various economic activities and sectors within the public sector, which was later reduced under the influence of economic sanctions in 1990 when both agricultural and industrial production faltered due to their weak contribution, and after 2003 plans The occupation is to transform the Iraqi economy towards a market



mechanism, and as part of this plan, it was expected that private companies would play a key role in advancing the Iraqi economy and advancing the wheel of development forward, and then would lead the reconstruction programs and would be sufficient to convince a large wave of investments (investors) and employment. However, the state of violence and the lack of clarity in the future undermined the confidence of investors, which generated an environment expelling investment in Iraq, and the result is a decline in the gross domestic product. Financial ratio by (35%) in 2003, but on the other hand, the only part that has survived these changes is the unregulated economy (the sector).

The spread of the informal economy in Iraq during the last three decades, due to the living pressures left by the economic policies and the wars imposed on Iraq, and the subsequent economic siege that lasted for thirteen years, which contributed to the increase in the number of poor in Iraq and the high rates of unemployment in it, which must be to push the citizen to think about new sources of income, which calls for them not to be pursued by the government, especially in light of the inability of the current economic activity to absorb all the workforce in it, and the Iraqi economy is now in a state of chaos due to the lack of clarity or the absence of a scientific vision for the determinants of its paths, and the absence of vision. This is caused by another phenomenon represented in the financial and administrative corruption that is rampant in all its aspects, and this phenomenon has deepened the phenomenon of the informal economy and complicated the ways to deal with it, and from other issues related to this sector and represent another aspect of it is the window process of selling currency carried out by the bank. The Central Bank of Iraq, as it does not have a positive impact on the economic development process, as well as the fact that the unorganized economy - one of its activities such as money laundering and tax evasion - is characterized by its negative activity in economic development process.

Despite the wide spread of the activities of the unorganized sector in Iraq, we did not find official data on this sector, and it seems that the reason for this is considering this sector as part of the private economy without specifying its percentage, as indicated by the National Strategy for Poverty Alleviation in 2009 that (38%) of the poor work in the private sector, which is characterized by low productivity and the predominance of informal work (**Poverty Reduction Strategy, 2009, 15**), but the field reality indicates the existence of much more dangerous rates, especially

since the phenomenon of the informal economy has expanded after 2003 significantly, and therefore the unorganized sector in Iraq can now be defined according to its fields as follows:

**3-1-1-** The spread of street vendors and rows of stalls, carts and stalls on both sides of most commercial streets, which belong to individuals forced by unemployment and poverty to work in these informal places, and the state has turned a blind eye. I told her about these practices and works throughout the period before 2003 due to the siege, and she tried to find the squares and places for these workers to no avail as a result of the concerned workers' refusal to change their places, which the state sometimes decided to eliminate these violations and even arresting some workers in this unorganized sector (**Yasser, 2010, 66**).

**3-1-2-** The presence of many houses with unorganized possession on the outskirts and center of the main cities. These houses were built on lands owned by the state, which were used before 2003 as camps for the former army, or sites for military industrialization or otherwise, or on agricultural lands that were transforming them into residential homes without official approval, whose residents are economic refugees from poverty and unemployment inside the country.

**3-1-3-** Workers in the formal sector whose services are in great demand within the unorganized sector, such as teachers (private tutors), plumbers or electricians and others, who do their work outside the official working hours in return for certain wages, and these differ in the extent to which they are forced to work within the unorganized sector. Some of them are pushed by greed, and some of them are forced under the pressure of need because of their low income.

### **3-2- The growth of the informal economy in Iraq - causes and effects**

**3-2-1- Positive reasons:** The reasons that led to the growth of the informal economy in Iraq are many and varied, and they are consistent with the political, economic and social conditions that the country has experienced, as follows:-

A- Structural imbalance In the labor market, there is a difference between the supply of labor and the demand for labor, which is represented in the weak ability of the local economy to absorb this labor, which leads to the entry of increasing numbers of individuals to these informal activities.

B - The structural imbalance in the gross domestic product, and this appears when the growth in the distribution and services sectors precedes the growth rates in the commodity production sectors, so the





expansion of the services sector without the availability of a developed and flexible productive apparatus means generating cash or additional incomes that the production apparatus is unable to absorb due to the lack of production capacity or due to The lack of investments in these sectors, which provides the appropriate conditions for the growth of inflationary pressures, which leads to the erosion of the purchasing power of the local currency, and this in turn is reflected in the increase in the cost of living, which pushes low-income people to search for new additional jobs to meet the burdens of life, which is a major reason for the emergence of The informal economy in Iraq (Shehan, 2013, 10).

C- The imbalance in the state's general budget deficit, meaning the imbalance between public revenues and public expenditures due to the state's philosophy with regard to supporting both oil derivatives and the ration card, which in turn discourages investment in the private sector, as it does not reflect the real cost and at the same time does not provide the total supply through This subsidy, meaning that it engages in unorganized work, which encouraged the emergence of the black market, as well as the corruption that mars this subsidy.

D- The imbalance in the legal and organizational structure of private activity. Projects in general are affected by the laws and regulations in force within the country, as they face many legal and regulatory requirements, and that the project's decision to remain small and unorganized (informal) depends on balancing the costs of compliance with laws and regulations on the one hand. And the advantages obtained by the project as a result of this commitment on the other hand.

As well as the existence of imbalances and many other factors, such as social and political factors and imbalances, the technological gap that Iraq suffers from, the low degree of acquired technical skills and competencies and the simple educational level, and the absence of development for these capabilities in order to develop them in a manner that is commensurate with the requirements and outputs of the new work.

**3-2-2- Implications:** The informal economy is one of the forms of government failure to achieve its economic and social goals, as it is a process that requires the exploitation and stimulation of all economic resources within the country with high efficiency, and it is also a form of market failure in distributing economic resources according to the principle of economic efficiency in The allocation of resources, and the effects of unorganized activities are

not limited to these forms only, but also have a feature of unsustainability in all areas related to sustainable human development. The government re-spends it on public services and improving the environment. These unregulated economic activities have several effects (negative and positive) on the national economy, which are:

**A- Negative effects:**

- Workers in this sector get all the services provided to the official sector (water, electricity, health education, etc.) without finally contributing to paying taxes, and this leads to an increase in the tax burden on workers in the organized sector and may lead again This leads to an increase in tax evasion, and as a result the loss of a large part of the state's public revenues, as well as the difference in the rate of economic growth, in the presence of the informal economy, the real growth rates in the economy will differ from the official growth rate, which leads to a distortion of economic indicators.

- The financial and banking institutions sector and the in-kind assets, especially after the emergence of the phenomenon of money laundering, which helped to deepen these effects, and the informal economy leads to incorrect data and information that we rely on when preparing annual plans such as (unemployment rate, inflation rate, dependency rate, monetary mass and others) and this affects our treatment of these problems and leads to inaccuracies in calculating the country's GDP.

- The informal economy negatively affects the industrial and Commercial, through its ability to secure goods at prices lower than the prices of regular goods, as a result of their low cost and poor quality, which leads to a distortion in the composition of the market for goods and services and a constant fluctuation in prices, and that the increase in the size of the informal economy leads to an increase in the size of government spending and thus Increasing the budget deficit and thus leads to increased economic pressures on workers in the formal sector.

For example, the losses in electricity have exceeded (31%), and most of them are due to electricity theft, which is one of the highest rates in the world, and what applies to electricity applies to other sectors such as water and health, and this leads to the inability to reach accurate accounts for fuel and water consumption. And electricity due to illegal abuses, which leads to not knowing how much the citizen needs from those services and consequently a weakness in the provision of those public services, as well as charging the public budget with unnecessary additional expenses and burdening workers in the



concerned state agencies with unjustified efforts, and these are deducted sums Of the development allocations or supposed to invest in them (Hussain, 2020, 150).

The spread of unregulated activities affects the use of local resources, and their use becomes distorted through their consumption for personal or industrial use, which leads to the state losing an important part of its financial and economic resources, especially in light of the availability of cash, as this sector is dominated by the use of money the questioner.

**B - Positive effects:**

The informal economy helps reduce unemployment by securing job opportunities in this sector for the unemployed at a time when the governmental organized sector is unable to secure and create those opportunities, as it does not need official approvals or a certain scientific level In addition, it helps to invest legitimate funds in investment projects that benefit the community, and helps reduce imports from abroad and reduce the deficit in the country's balance of payments, and helps to invest illegal funds in investment projects that benefit society, as it works to increase the volume of hidden incomes of individuals And thus leads to an increase in the national income of the country, and it contributes to providing additional incomes for work and creates a partial increase in aggregate demand, especially as it provides goods and services to the formal (organized) sector, and produces goods and services at low prices to meet the needs of low-income groups (Yahya, 2020, 197).

The employment in this sector constitutes a reserve for the official sector to be exploited during periods of economic recovery, and unorganized economic activity may be a healthy economic phenomenon if it is a legitimate activity, as the worker's productivity In this

economy, it may be higher than in the formal economy, due to the high incentives to work within the informal sector and the worker's adaptation to and harmony with the new working conditions, and this may be appropriate to the economic conditions inside the country.

**3-3- Measuring the impact of the informal economy on unemployment in Iraq**

**3-3-1- The size of the informal economy in Iraq**

The International Monetary Fund issued a study in 2010 on the informal economy and indicated the size of the informal economy in the economies of the Group of Twenty countries, as the average size of the activities of this The sector in the group is approximately (22-23%) of the gross domestic product during the period (2002-2007), and the same study included the size of the informal economy in Saudi Arabia, which amounted to about (19%) of the gross domestic product, while in Egypt, the percentage reached About (40%) in 2012, and a study titled The Shadow Economy in Europe, issued by Visa International in 2014, indicates that the wholesale and retail trade sector, the hotel and tourism sector, and the transport and communications sector are the largest sectors that embrace the activities of the informal economy. In Iraq, we will depend on the method of demand for money (liquid money) in estimating the size of the informal economy, as changes in the rate of activity of the informal economy can be calculated through changes in the rate of money in circulation in relation to the money supply, and the relationships have been formulated Which allows to find the size of the informal economy through the following equations: -

(DAVIDESCU,2013,35)

Table (1) Equations for estimating the informal economy

$C = C_u + C_o$	$K_o = C_o / D_o$	$V_o = \frac{Y_o}{C_o + D_o}$	$IE = \frac{V_o}{V_u}$
$D = D_u + D_o$	$K_u = C_u / D_u$	$V_u = \frac{Y_u}{C_u + D_u}$	

Source :- DAVIDESCU Adriana (2013) Estimating the size of Romania shadow economic using Guttman simple currency ratio approach , p35 .

**Where:**

- C: the actual stock of liquid money
- u: to denote the informal economy,
- Yu: undisclosed (hidden) income,
- Ku, Ko: the ratio of currency to demand deposits in the informal and formal economy, respectively.
- Vu, Vo: the velocity of money turnover in the informal and regulated economy, respectively.
- D: the actual stock of demand deposits.
- o: to denote the formal economy.
- Yo: declared (observed) income.

This method assumes that the base year is the year in which the size of the informal economy is zero or the least possible, which means that the base year is the year in which the demand for money (C) as a ratio to demand deposits (D) is the least possible, and the table (2) represents the development of money in the Iraqi economy for the period (2000-2020) as follows:

Table (2) the ratio of currency in circulation to demand deposits in Iraq for the period (2000-2020) billion dinars



The year	Currency in circulation (C)	Demand deposits (D)	M1 = C + D	K = C ÷ D %
2000	1854	719	2573	2.57
2001	1987	832	2819	2.38
2022	2065	1093	3158	1.88
2003	2377	1143	3520	2.07
2004	4388	1975	6363	2.22
2005	9113	2286	11399	3.98
2006	11149	4491	15640	2.48
2007	14232	7489	21721	1.90
2008	18492	21304	39796	0.86
2009	21776	24169	45945	0.90
2010	24342	27507	51849	0.88
2011	28287	32157	60444	0.87
2012	30593	35784	66377	0.85
2013	34995	40630	75625	0.86
2014	36072	39883	75955	0.90
2015	34855	38585	73440	0.90
2016	42075	45231	87306	0.93
2017	40343	45103	85446	0.89
2018	44264	24019	68283	1.84
2019	51834	27574	79408	1.87
2020	49324	40521	89845	1.21

Source: From the researcher's work based on the Central Bank of Iraq, the General Directorate of Statistics and Research, various annual publications.

Table (2) represents the development of each of the money circulating outside the banking system and the volume of demand deposits in Iraq for the period (2000-2020), which are the two variables that represent the basic elements in estimating the size of the informal economy, and we note that the chain of circulating money and the chain of demand deposits are close During the period (2008-2017), with the increase in the currency in circulation on demand deposits in the rest of the years, this is due to the weak performance of the banking system in Iraq with the lack of trust between individuals and banks in general, and the increase in demand for liquid money at the expense of demand deposits It will lead to the

settlement of various transactions in the informal economy. Based on the assumptions approved by (Guttmann) and Table (2), the base year is 2012, because of the procedures on the basis of which it is possible to consider that this year there is no informal economy, in addition, this year is one of the years that accompanied the rise in oil prices In global markets, this was reflected on the reality of the Iraqi economy, especially in investment projects and the high demand for currency, which amounted to about (35784) billion Iraqi dinars. The size of the informal economy and the percentage of its contribution to the non-oil GDP can be calculated through Table (3) and as follows:-

Table (3) Estimated the size of the informal economy in Iraq for the period (2000-2020) billion dinars

Year	Growth rate of informal economy (rK)	M1	NON OIL GDP	Velocity Money (V)	The size of the informal economy * (IC)	Rate IC to NON-OIL GDP %
2000	1.72	2573	8363	3.25	6025	72.0



2001	1.53	2819	10497	3.72	7391	70.4
2002	1.03	3158	11978	3.79	7826	65.3
2003	1.22	3520	9213	2.61	6203	67.3
2004	1.37	6363	22379	3.51	15401	68.8
2005	3.13	11399	31153	2.73	24878	79.8
2006	1.63	15640	42736	2.73	30436	71.2
2007	1.05	21721	52437	2.41	34299	65.4
2008	0.01	39796	69859	1.75	32361	46.2
2009	0.05	45945	74645	1.62	35277	47.2
2010	0.03	51849	89159	1.71	41624	46.6
2011	0.02	60444	102070	1.68	47522	46.5
2012	0.00	66377	127789	1.92	58738	46.0
2013	0.01	75625	148013	1.95	68240	46.1
2014	0.05	75955	141960	1.87	67454	47.5
2015	0.05	73440	129486	1.76	61344	47.3
2016	0.08	87306	129523	1.48	62271	48.0
2017	0.04	85446	133000	1.60	64548	48.2
2018	0.99	68283	133289	1.95	86314	64.7
2019	1.02	79408	135043	1.70	88117	65.2
2020	0.36	89845	128043	1.42	70040	0.54

Source: Prepared by the researcher based on: Ministry of Planning, Directorate of National Accounts, economic reports for different years (2000-2020). \* The calculations in the table were made based on the following equations:  $K = K_t - K_{min}$ ,  $V = \text{Non-Oil Gdp} - M1$ ,  $IC = C. V$

We note that the size of the informal economy has played a major role in various economic activities, as its ratio to GDP was close during the period (2000-2007), and this period witnessed the highest percentage of informal activities, reaching between (65-79%) , due to the difficult economic conditions that were imposed on the Iraqi people from economic sanctions before 2003 and terrorist operations, especially in the years (2006-2007), then decreased to an average rate of (46%) until 2017, due to the improvement of the country's economic conditions As a result of the rise in oil prices in global markets, which reflected positively on the increase in salaries and wages for employees in the public sector - in addition to the occupation of several provinces by ISIS in Iraq in 2014, which also reduced the unorganized business and activities that were taking place in those provinces - which reduced the trend of These employees - mainly middle and low incomes - have to work within the activities of the informal economy, to rise during the last three years due to the financial and administrative corruption that has spread in all the joints of the state and the loudness of the protesters voices in the central and southern regions. As a result, formal and informal economic activities in the country have weakened.

### 3-3-2- The impact of the informal economy on unemployment

The phenomenon of unemployment is one of the economic and social phenomena that it is difficult for any society to be devoid of, regardless of its levels of sophistication. The waste of these active human forces in the national development process, which is difficult to replace with similar alternatives, and the danger of this phenomenon lies in its impact and the crises and repercussions it causes that extend to most social, economic and even political facilities. Unemployment is defined as (the individual who has the ability, willingness and desire to work, but does not find it ) or (the part of the economically active population whose period of unemployment exceeds their period of work for a period of time, such as a year or more) **(Byrne&Strobl, 2001,4)**. Likewise, the phenomenon of unemployment was not known in Iraq to some extent during the sixties and seventies, and until the mid-eighties, due to the sufficient petroleum resources (oil) as a result of the high prices at that time. For a short period, it became one of the most important economic and social concerns and challenges for the state, and that the real causes of this phenomenon may be due when the economy turned into a war economy at the beginning of the eighties of the last century, but with the economic blockade on Iraq, the unemployment rate increased, especially with the cessation of the basic sector in the GDP. The total, which is (oil) with its weight in the revenues of the general budget, as well as the suspension of many



heavy and light industries, and table (4) shows the process of estimating the size of the informal economy

and its impact on unemployment in Iraq during the period (2000-2020), as follows:

Table (4) The impact of the informal economy on unemployment in Iraq for the period (2000-2020)

<b>Year</b>	<b>The informal economy</b>	<b>% Unemployment</b>
<b>2000</b>	<b>6025</b>	<b>22.4</b>
<b>2001</b>	<b>7391</b>	<b>24.6</b>
<b>2002</b>	<b>7826</b>	<b>26.6</b>
<b>2003</b>	<b>6203</b>	<b>28.1</b>
<b>2004</b>	<b>15401</b>	<b>18.8</b>
<b>2005</b>	<b>24878</b>	<b>17.9</b>
<b>2006</b>	<b>30436</b>	<b>17.5</b>
<b>2007</b>	<b>34299</b>	<b>11.7</b>
<b>2008</b>	<b>32361</b>	<b>15.3</b>
<b>2009</b>	<b>35277</b>	<b>14.1</b>
<b>2010</b>	<b>41624</b>	<b>12.0</b>
<b>2011</b>	<b>47522</b>	<b>11.0</b>
<b>2012</b>	<b>58738</b>	<b>11.9</b>
<b>2013</b>	<b>68240</b>	<b>12.1</b>
<b>2014</b>	<b>67454</b>	<b>10.6</b>
<b>2015</b>	<b>61344</b>	<b>13.2</b>
<b>2016</b>	<b>62271</b>	<b>10.8</b>
<b>2017</b>	<b>64548</b>	<b>10.9</b>
<b>2018</b>	<b>86314</b>	<b>9.7</b>
<b>2019</b>	<b>88117</b>	<b>12.1</b>
<b>2020</b>	<b>70040</b>	<b>13.8</b>

Source: Prepared by the researcher based on: Ministry of Planning, Central Statistics Agency, Directorate of National Accounts.

In general, we note that unemployment rates fluctuate between rise and fall, as is evident in Table (4). The reason for these rises is due to the political and economic conditions that the country has gone through - as we mentioned earlier - and the large number of appointments the government has granted to non-specialists or to those who do not need them. Where most government departments suffer from the presence of numbers of disguised unemployment in their ranks, in the sense that there are many numbers of employees who do nothing and receive monthly salaries and are raised annually, and promises to begin with, it becomes clear to us that the increase in the activities of the informal economy positively affects unemployment rates Iraq, as this sector absorbs the (unemployed) labor force, so we find that the period (2000-2007) decreased unemployment rates by (47.7%) as a result of the high volume of financial flows in the informal economy to (34299) billion dinars in 2007 after It was about (6025) billion dinars in 2000. As for the period (2009-2018), unemployment decreased by (31.2%) after the volume of liquid cash flows to the informal economy rose to (86314) billion dinars as a result of several factors that contributed to

that, including Height Crude oil prices in the global markets to more than (100) d / b, especially during the period (2010-2013), which revived the state treasury, which launched a number of investment and other projects within an expansion plan in the country. As for the years in which unemployment rates increased, they witnessed a decrease in the size of the informal economy. We find that unemployment in 2008 rose to about (15.3%) after it was (11.7%) in 2007, due to the financial and economic crisis that struck the world, which was reflected on the The drop in world oil prices, which reduced the country's investment budget allocations, but in 2015, the unemployment rate rose to about (13.2%) due to ISIS's occupation of several provinces, which caused the loss of many individuals working in the public (official) and private sectors or the economy Thus, the amount of cash in the informal economy decreased to about (6110) billion dinars compared to the previous year, as well as in the years (2019-2020), the country witnessed several simultaneous events, including popular protests and the health and financial crisis represented by the Corona pandemic. And the economic recession in 2020, which negatively affected



the reality of the economy in general, as the closures greatly hampered the large service sector in Iraq, thus, reducing job opportunities in small and medium-sized companies within various sectors. It decreased in the sectors of construction, manufacturing, agriculture, services, retail and wholesale trade to about (52%, 45%, 39% and 40%) respectively (**UNDP,2020,22**), which increased unemployment rates to (13.8%), especially in the youth category, which rose to About more than (40%) in the country (**IMF,2020,4**).

#### 4-CONCLUSIONS

1- Acceptance of the research hypothesis that was presented through the findings of the study, which is that the informal economy has reduced unemployment rates in Iraq.

2- The informal economy emerged as a result of the state's imposition of restrictions on various economic transactions, especially with regard to taxes and fees, which deepened the difficulty of individuals obtaining a work contract that guarantees them a decent living.

3- The informal economy is characterized by several characteristics, including that it is not subject to governmental control, and refrains from fulfilling the entitlements arising from it towards the state. On the other hand, this sector does not enjoy old-age, sickness and other insurance, in addition to the fact that the units operating within it do not enjoy insured property rights, which deprives them Opportunities to obtain both capital and credit.

4- The process of measuring and estimating the informal economy faces many difficulties, especially since it is characterized by the nature of secrecy and concealment from the government's eyes, which does not give reliable data or data for the government to ask them to pay fees or taxes, but with that, a number of ways (direct and indirect) have been found. ) To estimate and measure the size of this unorganized sector, including the liquid money method that was used in the body of the research.

#### 5- RECOMMENDATIONS

1- Encouraging workers in the unorganized sector to join the (formal) organized sector by giving it financing benefits and credit loans to anyone who seeks to work officially.

2 - Studying the possibility of the government or the concerned authorities setting up a special legislative framework to treat the problem of factories or laboratories within the informal economy to ensure that they benefit from them in a way that serves the national industry and benefits the factories and the consumer.

3- The necessity of implementing reforms related to tax systems, especially with regard to defining production units in the unorganized sector to encourage them to integrate into the organized (formal) sector.

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