



## Challenges and Prospects for Revenue Collection in Iraq: An Analysis of Fiscal Powers between the Federal and Local Levels in the Post-2003 Era

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### Abstract

Almost complete dependence on the federal budget allocations, which depend heavily on oil revenues, to finance current and investment domestic expenditures and the associated problems and challenges to development, In achieving its objectives, in particular the provision of services and infrastructure projects, and that of research aims it is Definition of the financial and economic situation at the federal and local levels in the Iraqi economy it's work and problems, and demonstrating the importance of diversifying local revenue sources and its role in achieving economic stability and achieving sustainable development at the local level, has been based on the data collected at the federal and local levels, then we used pointers to measure fiscal decentralization that appeared almost complete dependence on oil revenues, which amounted to (92%) of the total public revenues for the period (2006-2023) based on an official exchange rate between (1467 - 1182) Iraqi dinars per dollar during the above period. As for non-oil revenues, they constituted (8%) only.

This has led the exposure of the Iraqi economy to external shocks as a result of dependence on the oil sector and its implications for the federal budget, which is the main channel through which the effects of fluctuations in the crude oil market are transmitted. As for Revenues Governments local has formed (5%) of the total public revenues, that reflected on the low percentage of its contribution to financing local spending and strengthening the local budget, which brings us to a state of schizophrenia between federal and local revenues, which will deepen the financial gap and impede development In addition, local governments suffer from a lack of diversification of alternative revenue sources, so the Diversification of revenues at the federal and local levels in the Iraqi economy involves the effect of crowding out Whereas, increasing local revenues to 25% will be at the expense of federal government revenues. Finally To diversify revenue at the federal and local levels ought to Subject to swap based on Basis Efficiency and fairness considerations in revenue sharing.

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### Introduction

The Iraqi economy is new to adopting the decentralization system, which requires the sharing of financial resources at all levels of government under the federal framework. These financial resources encourage local governments to exercise their administrative and legislative duties as set out in the Constitution. (Martinez-Vazquez, J. 2011) <sup>[24]</sup> On The authorities and responsibilities of local revenue collection are among the important tools in regulating and influencing the economy.

This is why many local governments have become major actors in the public sector (David N. Hyman 2010) <sup>[27]</sup>. Consequently, its roles have grown and the expectations associated with it have increased. As countries continue to abandon centralized governance, it becomes increasingly important to understand the impact of decentralization on a number of economic issues including growth and development; And Poverty reduction and achievement of the Millennium Development Goals; as well promoting public services such as education and health; and achieving greater macroeconomic stability with lower unemployment and inflation rates (Bernard – MADIÈS. 2011). In this regard, providing sufficient sources of local revenue is one of the necessary requirements to enhance and strengthen the role of local governments in achieving financial sustainability and promoting the principle of financial decentralization as a type of decentralization that allows local governments to continue providing public services in a manner that achieves sustainable local development (Charles- DIW- Rainald-2004).

### Revenue collection at the federal and local levels methods

Governments enjoy central (Federal) With greater authority to collect revenue from local governments, these federal governments often have access to all of the most important revenue sources, while local governments may be largely restricted to the lowest revenue sources., However, there are instances where the federal government (FG) is significantly restricted and from access to sources of revenue that may be important, and the lack of complete access in these cases may explain that the tax application of the FG is less effective than the taxes it would impose if it were less complex. Distributive considerations of revenue responsibilities and powers are factors affect the financial independence of local governments, and often what do governments collect? (Carlo, 2009). central Revenue in a way that exceeds what you need for direct spending, while some are shared Revenues Or make some money transfers to help Governments local On meet its revenue needs, achieve redistribution of wealth, or in order to further the objectives of a government program Federal. The importance and manner of assigning responsibilities varies between Governments Significantly (Anderson, 2007) <sup>[15]</sup>.

### 1. Local revenue collection authorities

There is no widely agreed-upon approach to how to finance decentralization and government investments at local, Lessons learned from the experiences of many countries show that the first steps are to get as close as possible between revenue and expenditure transfers. On services, which requires that decentralization be a process of delegation to For impartial authorities revenue collection To reach this neutrality (Jonathan 2016), estimates must be made of all costs of services that will be delegated to local governments, that These estimates form the basis of an agreement on the mix of services and income that will ultimately be transferred (FAO Studies on Land Tenure, 2004).

### 2. Distributing Responsibilities Revenue collection

Distribution of revenue collection responsibilities is generally stronger than the logic of distribution expenditure responsibility. Although the scope of revenue collection authority (including borrowing) from the center to regions and governorates varies according to the nature of the unions (decentralized system) expenditure also varies greatly

between the mission of the unions, and maybe iodine Revenue sharing and remittances a variety of purposes, where the local governments Contribute to the general financial requirements of all local government bodies. The government is doing central Conditional transfers that advance its policy objectives toward other levels of government (Anderson, and Federalism 2009) <sup>[16]</sup>.

### Revenue collection powers and responsibilities at the federal and local levels in the Iraqi economy

The structure of the Iraqi economy is one of the unilateral economies that have gone through varying stages of development dependent on the agricultural sector in the first stage due to the fertile lands owned by Iraq and the availability of water in the previous stage after the Oil Iraqi discovery ,it moved to rely on the oil sector It has abundant oil reserves, totaling 143 billion barrels, and it is among the largest oil reserves in the world, and it is the third largest conventional oil reserves in the world after Saudi Arabia and Iran, and is characterized by the cheap cost of extraction. Since 2003, increased production has led to an increase in per capita GDP, without being for this increase economic philosophy clear at the local and federal levels determine the nature of the structure of the Iraqi economy, despite the fact that the constitution of Iraq of 2005 specified a set of articles that determine the nature general policies for the structure of the Iraqi economy on federal and local levels.

### Formulas, Equations and Theorem Proofs

**Percentage of Federal and Local Revenues from Total Public Revenues** It measures the proportion of federal and local revenue from the total public financial revenue. This indicator determines the financial capacity of the federal and local government compared to the total public revenues (Uchimura and Suzuki, 2009).

$$RIGR=i(\sum IGRi)/(\sum i IGR+CGR) \quad (1)$$

$$RFGR=i(\sum FGRi)/(\sum i ILR+FGR) \quad (2)$$

Where refers *IGR<sub>i</sub>* to local government revenue (i), and *FGR* is central government revenue *IGR<sub>i</sub>* does not include money transfers from central to local governments. Therefore, the denominator receives the sum of fiscal revenue without the need for repetition.

**Percentage of contribution of oil revenues to total public revenues in the federal budget** where refers *OR<sub>i</sub>* to oil revenue (i), and *TPR* is the total public revenue at the federal and local levels, the denominator receives the total financial revenue without the need for repetition.

$$ROGi=i(\sum ORi)/(\sum i TPR) \quad (3)$$

**The percentage of the contribution of non-oil revenues to the total public revenues in the federal general budget** where refers *NOR<sub>i</sub>* to non-oil revenue (i), and *TPR* the total public revenue at the federal and local levels, the denominator receives the total financial revenue without the need for repetition.

$$RNORi=i(\sum NORi)/(\sum i TPR) \quad (4)$$

**Percentage of federal and local spending to total public spending** This indicator determines the degree of responsibility of local spending compared to the central government.

$$RLE = i(\sum LE_i) / (\sum LE + CE) \quad (5)$$

$$RCE = i(\sum CE_i) / (\sum LE + CE) \quad (6)$$

Where  $(LE_i)$  is local government expenditures, and  $(CE)$  is central government expenditures.

### Federal and local government powers and responsibilities Powers and Responsibilities of the Federal Government

The 2005 Constitution of Iraq defined the nature of the powers and responsibilities of the Federal Government. The constitutional articles define the Federal Government's planning, implementation of public policies and preparation of the Federal Budget (FB), as well as the reform of the Iraqi economy in accordance with modern economic foundations, ensuring optimal investment of resources, by diversifying their sources and encouraging and developing the private sector. Nevertheless, we note the dependence of the Iraqi economy on the crude oil sector, which accounts for 44% of GDP and 93% of total exports for the period (2004-2020). Despite the availability of many resources and capacities, this is what makes it a rentier economy, This is why the Iraqi economy was exposed to external shocks from falling oil prices on world markets, GDP for 2020 fell by 28.5% compared to 2019, and crude oil exports accounted for (65%) Central Statistical Organization. (2021 a ,b) of total commodity activities for 2020, reflecting the importance of oil exports to the Iraqi economy This decline is due to a combination of the most important factors:-

1. This decline in domestic output is due to the COFID-19 pandemic and its reflection on the reality of the world economy as a result of closures and the suspension of most economic activities due to the pandemic, which led to a decline in demand for crude oil and a decline in the supply of oil in world markets.

2. To counter this, the Organization of Petroleum Exporting Countries (OPEC), in addition to non-OPEC countries, has decided to reduce the supply of oil on world markets, as Iraq has reduced the amount of crude oil production it supplies to the world according its quota scale, from 1674 million barrels in 2019 to 1436 million barrels exported in 2020, down by an estimated 12.6%. The average price of a barrel of oil also declined during this period from \$61 per barrel in 2019 to \$38 per barrel in 2020, an average decrease of 37%, which in turn led to a decrease in the GDP of crude oil activities in 2020 compared to 2019.

This led to the exposure of the Iraqi economy to external shocks as a result of dependence on the oil sector and their repercussion on the FB that prepares It is the main channel through which the effects of fluctuations in the oil market are transmitted raw to the economy Iraqi.

The FB is among the exclusive competencies of the federal government, as federal revenues have witnessed changes old during the period From (2006-2019) (Iraqi Proceeding ,2006 to 2019) the general trend was Revenues towards the height, Based on this, the rent of the Iraqi economy becomes clear and in terms of indicators, as shown in Table (1) and my agencies:-

- A. During the period (2006-2019), the total federal revenue trend in the federal budget was higher than in 2006, owing to higher prices of crude oil on world markets and a mixed annual growth rate, with average annual growth (17%), and the contribution of oil revenue reaching its highest level (98%) of total federal revenue in 2007.
- B. Federal revenue declined in 2009 to 50408215 million dinars at an annual growth rate(-1%) Compared to 2008 as a result of the 2009 global financial crisis requirement and its impact on the decline in crude oil prices on world markets, Owing to cash reserves formed in the previous period as a result of higher crude oil prices, the Iraqi economy was able to mitigate the consequences of the crisis, with the highest revenue in 2013 of 119296663 million dinars.

**Table 1:** The planned federal revenue structure in the Iraqi Economy (2006-2019) trillion dinars.

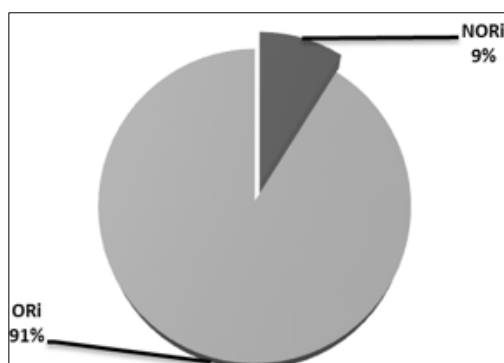
$(\sum NOR_i) / (\sum_i TPR)$ %(6)(5/1)	NOR <sub>i</sub> (5)	$(\sum OR_i) / (\sum_i TPR)$ %(4) (3/1)	OR <sub>i</sub> (3)	Annual Growth Rate (%)(2)	TPR (Planned) (1)	The year
7%	3104404	93%	42287900		45392304	2006
2%	960839	98%	41103691	-7%	42064530	2007
11%	5556997	89%	45218084	21%	50775081	2008
6%	.2879954	94%	47528261	-1%	50408215	2009
3%	1941194	97%	59794118	22%	61735312	2010
6%	4750653	94%	76184137	31%	80934790	2011
8%	7948848	92%	94378050	26%	102326898	2012
2%	2932858	98%	116363805	17%	119296663	2013
	-		-		-	2014
16%	15399332	84%	78649032	-21%	94048364	2015
15%	11927403	85%	69773400	87%	8170803	2016
14%	11061196	86%	67950225	-18%	79011421	2017
16%	14483274	84%	77160392	13%	91643667	2018
11%	11828576	89%	9374110	29%	105569686	2019
	8751000	88%	54448000	35%	631990000	2020
	13811000	86%	95270000	26%	109081000	2021
	14714427	90%	146982573	25%	161697000	2022
	13568100	90.9%	122112900	-16%	135681000	2023
		91%		17%		Average
9%	9494775528		910132205		1004907734	Total

- C. The Iraqi economy was hit by two shocks (2014-2020): falling oil prices on world markets, which led to lower FB revenues at a time when current spending rose significantly in 2014 to cover the costs of the war on terrorism as well as increased social spending on displaced persons.
- D. The planned average oil revenue (91%) accounted for the total federal revenue during the period 2006-2019, while non-oil revenue (9%) accounted for the same period, reflecting the fact that the Iraqi economy continues to suffer from its fundamental problem of structural imbalances in favour of the oil sector and reflecting changes in this sector across all other economic sectors, industrial, agricultural, commercial and service. Although the overall thrust of the Iraqi economy is to apply the methodology and mechanisms for the functioning of the market economy, by leaving its central and inclusive nature, taking into account the great difficulties and challenges it faces, by fulfilling two complex tasks of reforming the Iraqi economy after 2003:

#### The transition from a centralized totalitarian economy to a market economy.

It made the Iraqi economy less sensitive to external and internal shocks, especially as it is an oil-dependent economy that is highly exposed to low oil prices. At the same time, the high level of current spending, making it more difficult to respond to external shocks without disproportionately reducing investment spending, the rise in oil revenues also led to an increase in public spending (Central Statistical Organization, 2020). As a result, financial sustainability at the local and federal levels is weak, and consequently the inability to provide public services, owing to:-

- Focusing on dependence on oil revenues (91%) versus other revenues without diversifying sources of revenue. This reflects the structural imbalance in favour of the oil sector in the Iraqi economy, as shown in form (1).
- The high proportion of current spending in the public finances compared to investment spending is due to the large growth of the public. The weakness of the private sector, and as a result of the security, social and economic conditions that require the federal Government to support, from an economic perspective, the use of investment spending is highly flexible, with the possibility of less flexible cuts on the part of current spending, given that investment allocations are subject to delays, as opposed to current or operational allocations, it is the duty of the Government to its citizens.



**Fig 1:** The average structure of the federal revenues in the Iraqi economy for the period (2006-2019)

The federal government faces two complex dilemmas:-

1. Limited ability to fully implement the FB during boom times.
2. Budget display Federal to sudden fluctuations in oil prices.

Therefore, in order to ensure the financial sustainability of the state, it is necessary to restructure the economy by adopting a set of economic reforms to set development plans and federal strategies at the national level to balance Federal:

- Restructuring items of current spending so that the volume of spending is reduced in favor of investment spending which leads to deficit reduction in the budget especially items of expenditure on car maintenance and fuel, cancel or reduce phone cards, buy furniture and cars, Cancellation of the Hospitality Section and Miscellaneous Section Items in the Sub-Budget It also defines the nature of central administrations and self-financing in terms of their complete dependence on the revenues generated by them. As for the allocations of the energy and electricity sector, the transition to investment with foreign companies and the private sector leads to improving the reality of production and improving the method of collection and partnership with local governments.
- Specify Prioritizing and planning at the central and local levels According to government activities and general strategic direction: through directing allocations budget Federal to achieve agreed long-term development goals, And Prioritizing capital investment (based on cost-benefit analysis and spending efficiency).
- Activating the private sector by achieving partnership with the public sector, which leads to reducing unemployment and creating job opportunities in a for the private sector.
- Reducing financial waste, especially in the process of determining the costs of investment projects, in addition to restructuring the method of payment of funds for investment projects in a way that reduces administrative corruption, with a focus on income-generating projects.
- Linking the strategic planning of multiple ministries and agencies with each other in interrelated
- Processes, such as the process of preparing budget. Re-privatization of productive enterprises of the public sector.
- Restructuring collection Revenues between the federal government and the Kurdistan Region.
- Activating the collection of money from mobile phone companies, according to the profits achieved, in addition to launching a fourth mobile phone license, which will result in financial returns on the federal budget.
- Reducing the external and internal indebtedness in order to correct the structure of the Iraqi economy and reduce the degree of its exposure, which is a negative factor in the direction of the economy's exposure to external shocks as a result of the contribution of the oil sector to the total federal revenues.
- Reforming the tax system by improving the reality of the services provided to reduce tax evasion by automating the outlets Monarchy and investment of state property in order to achieve the highest revenues through synchronization between the currency sale window in the Central Bank and imports.



- Reform the FB, approves the budget for programs and performance, and involves local governments in the preparation process in accordance with the principle of decentralization.
- Reducing the impact of fluctuations in revenues on public spending planning. The volatility of the flow of public revenues complicates the planning of public spending, and thus the implementation of policies and programs at the central and local levels. To help reduce the cost of fluctuations, it is important to separate overheads from short-term fluctuations in oil revenues

### 1.3.2 Powers and Responsibilities of Local Governments

Revenues for local governments are one of the most important factors affecting their capacity in providing public services, which requires achieving financial sustainability through diversification of revenue sources and collection mechanisms, and challenges faced by governments, especially in extraordinary circumstances that Iraq is going through. Revenue divided Local Governments in Iraq into two main parts:-

**Revenue generated outside of a territory borders** The Iraqi constitution of 2005 (Constitute, 2005) laid the foundation for the principle of decentralization. The constitutional articles define the powers and responsibilities of local governments, and she listened article (25) that the state guarantees the reform of the Iraqi economy in accordance with modern economic foundations, in a way that guarantees full investment of its resources, diversification of its sources, and encouragement and development of the private sector, so that local governments have an impact on the reality of the public economy, this is done through the common competencies of the federal authorities and local governments administering customs, regulating and distributing major electrical energy sources and their distribution, formulating environmental policy, and development policies, public planning, public health policy, education policy and education In consultation with the regions and governorates that are not organized into a region.

The constitution specifies in article (106) show revenue is divided between the federal government and local governments, while article (121) / third, it has been specified customize revenue from FB for local governments as a fair share of revenues the federal outcome is sufficient to carry out their responsibilities, taking into account their resources and powers according to needs and the proportion of its population. This revenue is classified to local governments as revenue born externally, one of these programs supporting decentralization was the . program Territory Development Which started work in (2006) may witness the program up through duration (2006-2013) comparison by duration (2014-

2019) which showed the program dropped, has reached the share Total Local governments have the highest level in (2013) and In the amount of (8126607) trillion dinars from the FB, compared to (2584863) trillion dinars in 2006, table (3) This rise in the regions development program is due to:

- A. Government orientation to adoption of the principle of financial decentralization as one budget strategy goal by enhances program efficiency the development of the regions and the reconstruction that started in 2006. By providing financial resources, and humanity that local governments need it, by redistributing powers between local governments and central ministries in a way that the governorates take on greater responsibility in implementing investment projects.
- B. The strategy also recommends raising the efficiency of local governments in developing and implementing investment projects.
- C. The rise in crude oil prices in global markets and its reflection on the total federal revenues. The period (2014-2019) was a trend Territory Development Program towards a decline, reaching its lowest level in (2017), the amount were (965743) trillion dinars, caused the decrease in oil revenues in the FB and its reflection on investment spending in general and the share of local governments in particular, while current spending from the FB in particular is subject to the laws and instructions of the federal government regarding wages and public sector salaries, reflects that the administrative structures of the federal government have an approach strong central.

Since administrative decentralization has not been implemented purposefully in the modern sense, while the structures of the federal ministries will pass as delegated departments to the various central ministries with the continued transfer of powers and responsibilities to local governments in a The Ministries, the eight selected based on the provisions of Law 21 and its subsequent amendments, led to find that the weakness of public financial management systems and capabilities at the level of local governments poses a major threat to the decentralization of service delivery responsibilities.

Also, varying annual growth rates between positive and negative rates were recorded, as shown in chart No. (2), where the governorates accounted for (14%) of the total investment budget for the period (2006-2019) (Iraqi Proceeding ,2006 to 2019)within the program for the development of regions and reconstruction, table (2), despite the fact that it represents only 5% of the to tal federal revenues, figure (2), however, these revenues are insufficient to meet the needs of local governments in providing public services at the governorate level.

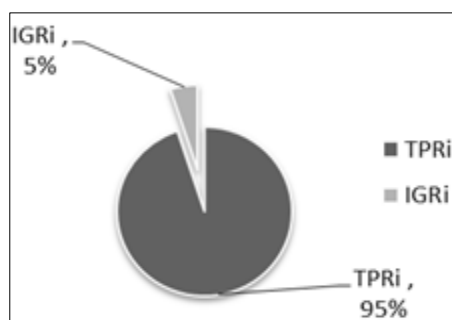
**Table 2:** The local governments share from the FB in Iraq (2006-2019) per trillion dinars.

$\sum IGR_i / \sum TPR_i$ %(6)(5/1)	$TPR_i$ (5)	$\sum LR_i / \sum FDI_i$ %(4) (3/1)	Federal budget investments (planned) (3)	Annual Growth Rate(%) (2)	$IGR_i$ (1)	The year
6%	45392304	28%	9272000		2584863	2006
6%	42064530	21%	12665305	1%	2604000	2007
8%	50775081	26%	15671227	54%	4000000	2008
5%	50408215	17%	15017442	-36%	2550000	2009
4%	61735312	11%	23676773	-0.04%	2549000	2010
6%	80934790	15%	30066293	81%	4614600	2011
7%	102326898	20%	37177897	58%	7304681	2012
7%	119296663	15%	55108602	11%	8126607	2013

	-		-		-	2014
6%	94048364	14%	41214037	-29%	5740887	2015
3%	8170803	9%	25746311	-61%	2218652	2016
1%	79011421	4%	25454018	-56%	965743	2017
1%	91643667	5%	24650112	34%	1291027	2018
3%	105569686	11%	33048506	178%	3587427	2019
5%		14%		19%		Average
	1004907734		348768523		48137487	Total

This reflects the nature of the relationship between strategies Federal and strategies at the level Local governments that are not clear enough, which requires a set of reforms to ensure the implementation of fiscal decentralization measures:

- Provincial development strategies should follow policy priorities Federal Developed by the Federal Government, In addition, development planning must federal to take into account clearly the development plans for local governments and link it to it. Federal planning tools in past years have not been clearly linked to the development plans of the governorates, although evidence shows that this would significantly improve the chances of Successful implementation of development plans strategies at the federal and local levels.
- Redesign the public sector structure program in order to adhere to a successful power-sharing system at the local and central levels, there is a difference between the Constitution and Law, and the reality the practical application of decentralization. So it must be done design and implementation economic structure based on transparency and accountability that ensure decentralization finance lead to better use of resources available to serve society, unlike bureaucracy federal government in terms of height cost with opportunities for corruption, could for the government federal to play an important role in policy formation, quality control, monitoring and evaluation, and the most honorable on decentralization Services and mission.
- Strengthening the capacity of local governments to formulate policies by building capacity for evidence-based policy analysis and development processes, by developing the planning capacities of local governments under concurrent powers and responsibilities in development planning within their territories, local governments need to Link Responding to local priorities with development priorities at the federal level and corresponding plans.



**Fig 2:** The local governments share in the total public revenues (2006 -2019).

### Internally generated revenue (self-revenue)

Local governments collect local revenue and her meal to fund

The Projects developmental In order to improve the financial decentralization on which the system is based Governments local, In addition to investing in a variety of local amenities. To support the success of local governments, these resources must be large, adaptable, and equal, and The types and sources of local revenue are usually determined by the nature of services provided by local governments, where . Basic local services, such as those related to health and Education and Infrastructure, by local governments, regardless of the cost, because they are often paid from Revenues, the FB, the Regional Development and Reconstruction Program in Iraq, Revenue consists local According to the Law of Governorates Not Organized in the Region No. 21 of 2008 (Iraqi Proceeding, 2008), as amended, Article (44) Excluding oil and gas, the governorate's revenues include the following:

**Revenues internally generated in Najaf Governorate** In light of the above, we note that the revenues were collected by the local government, where the internally generated revenues are divided into:-

- A. Subjectivity Revenues: Is collected by the local government in the province of Najaf based on the local laws and legislation issued by the provincial council. During the period from (2016-2020), revenues of (6337731) thousand dinars were achieved by the Najaf Governorate Office, and an amount of approximately 60 trillion dollars was obtained by imposing 10 US dollars for each foreign arrival to the province through Najaf International Airport and it is deposited in a fund Local Resources Issued No. (1) for 2010, as the rest of the revenues are based on the above laws.
- B. Internally generated revenue collected by the federal government It is divided into:-
  - Revenues Customizations Amputation and countries NS the Najaf Governorate's share of the allocations amounted to (8410242280) trillion dinars, based on to me Article Two of the Federal Budget Law(FBL)for the year 2012 and (11304919) trillion dinars according to the FBL for the year 2013. Allocations were distributed in the light of the actual revenues generated for each governorate, and audited by the office of Financial Supervision 2010 after taking into account the addition or download of what the Ministry of Planning added during 2010 and 2011, an increase or decrease in the entitlement of the concerned governorate.
  - Revenues from the border crossing points at Najaf Airport achieved (304,227,000) dinars, and the governorate's share was (50%) of the total revenue achieved, with a value of (1521,350) dinars, according to the months of 2019 in accordance with the provisions of the implementation controls paragraph (third), article (19) of the FBL for 2019, (The Iraqi Ministry of Finance, 2019).table (3).

**Table 3:** Revenue earned in airport Najaf Governorate for the year (2019), dinar per month.

The province's share of revenue(50%)	Revenue generated	The year
31250	625000	January
0	0	February
648050	12961000	March
1214100	24282000	April
909700	18194000	May
665950	13318000	June
959,000	19180000	July
1417750	28355000	August
3073850	61477000	September
3632400	72648000	October
0	0	November
2659300	53186000	December
15211350	304227000	Total

**Revenues internally generated in Babil Governorate** Babil Governorate achieved local revenues during 2020, with a total amount of (727,151,470) IqD according to local laws and legislation, and these revenues were divided into: -

- Contract salaries and wages in the amount of (695775200) IqD.
- Depositing the remaining revenues in the current account in the amount of (31376270) IqD.

#### **Revenues internally generated in Diyala Governorate**

**A. Based on the foregoing, revenue is divided generated Internally in Diyala Governorate to:**

- Revenues collected by the Diyala Governorate Office (local government) and are classified within the revenues of quarries achieved in Diyala Governorate for the period (2016-2020) (Local Government in Diyala, 2020), where the total revenues of quarries amounted to (714189100) IqD, and the governorate's share of the revenues amounted to 30% at an amount of (214256730) IqD, As for the remaining amount of revenue, which represents 70%, in the amount of (499932370) IqD, it is considered final revenue for the FB, table (4). It is used to finance service projects provided by the local government, according to the sector and the beneficiary.

**Table 4:** Quarry revenue verified in the province Diyala for the period (2016-2020) IqD.

The federal budget share of revenue of 70%	Share local government of revenue 30%	Quarry revenue	The year
118308610	50703690	169012300	2016
56835520	24358080	81193600	2017
126883540	54378660	181262200	2018
113569820	48672780	162242600	2019
84334880	36143520	120478400	2020
499932370	214256730	714189100	Total

Revenues The sum by Diyala Governorate Council verified from ,and distributed according to sectors, municipalities, administration local, sanitation , roads and bridges, the total amount was according to Resolution No. (97) for 2017 the amount (2,074,730,000) . This amount is part of the amounts collected during the previous period , noted that a focus has been placed on the issue of maintenance and completion of suspended projects as a result of the lack of financial allocations from the FB, especially after 2015 as a result of the decline prices oil raw in a markets. This affected the suspension of most service projects in the governorate, and attic and founding systems generation revenues the local government ensures that the governorates are able to finance the transferred jobs related to the provision of services without relying entirely on federal government funding. It includes generating activities revenues the following:

Develop a financial policy.

Generating Units Configuration for revenue.

Conducting studies feasibility Economic.

Establishing laws and processes for using, managing, evaluating and reviewing the system.

#### **Internally generated revenue collected by the federal government it is divided into**

Revenues Of the petro-dollar allocations, Diyala governorate's share of the allocations amounted to

(1377324780) trillion dinars based on article(2) of the FBL for the year 2012/[12], at a rate of (1%) for each barrel of oil produced and (4877192) trillion dinars according to the FBL for the year 2013. Distributed allocations In view of Revenues Actual achieved from each barrel of oil produced in the governorate, especially the regions product to crude oil, In order to reduce the impact of pollution on the region and the environment, and audited by the office of Financial Supervision for 2010 after taking into account the addition or download of what the Ministry of Planning added during the years 2010 and 2011, an increase or decrease in the entitlement of the concerned governorate.

-Revenues from the border crossings (Mandali, Mundhiriya) for 2018, the governorate's share amounted to (23795, 000,000) IqD, distributed among projects and according to the sectors of local administration, municipalities, youth, sports and roads. Bridges, electricity and water, as in 2019 (Iraqi Proceeding ,2008), the total revenue amounted to (29532599879) dinars, and the proportion of the governorate's share of implementers was (50%) of the total achieved revenues the amount of (14766299940)IqD, and according to the months of 2019, the annual growth rate was irregular during the year, both negative and positive. It has been disbursed revenues according to plan projects prepared by the local government, in accordance with the implementation controls for the provisions of Paragraph

(third) of Article Law budget Federal No. (19) , year 2019 ,therefore, creating a sustainable and integrated spatial development in which there is equal access to services and infrastructure , and reducing the development gap between urban and rural areas, and better exploitation of natural resources, leads to creating a spatial development balance commensurate with the needs, capabilities and comparative advantages of different regions and limits duplication of development, and spatial focus, strong demographic focus and currently prevailing economic activity by achieving goals spatial development politics at investment for development and ages.

### The impact crowding effect of on revenue diversification at the federal and local levels in the Iraqi economy

The diversification of revenues at the federal and local levels involves the effect of crowding out and the consequent withdrawal of a part of the revenues of the federal government or local governments in a way that may affect the amount of available revenues, and therefore the effect of crowding out on revenue diversification can be defined as the amount of the shortage in federal revenues resulting from High diversification of local revenue sources, which in turn is due to an increase in local spending in the provision of services.

This means when local governments increase their spending, this requires diversification of revenues, which is reflected in crowding out the federal government over the available resources, and then federal spending decreases, i.e. substitution of local spending occurs)replace federal spending, and accordingly we will be faced with two criteria (efficiency-and justice) and how to compare them, where local governments have an informational advantage for the needs of citizens locally, which leads to the optimal allocation of resources, and thus can provide public services more efficiently, and here local governments bear the responsibility to provide .Those services that do not have external effects, in return, local citizens will be willing to pay a fee Leverage these services, this will be at the expense of considerations of justice in the allocation of resources, which may lead to the existence of horizontal differences between the governorates, such as the governorate of Babil, which achieved local revenues estimated at (727,151,470) according to the legislation and laws, compared with each of the governorates of Diyala and Najaf, which amounted to revenues received respectively (16148501912) IqD and (8436758549) IqD from the allocations of amputation, dollars and border crossings only, in addition to the revenues obtained in accordance with local legislation and laws, and its reflection on the allocation of resources between levels of government, which requires the federal government to overlap to achieve justice and reduce differences between governorates The percentage of local government revenues from the FB for (2006-2019) amounted to (5%) which reflects the impact of crowding out on federal revenues, which amounted to (95%) of the total available revenues, And According to Iraq vision 2030(Central Statistical Organization ,2019), there is a tendency towards supporting the decentralized system, as we explained earlier, by strengthening the financial capacity of local governments to diversify the sources revenues and raise it to 25% of the total available resources, as shown in the graph:

- Total revenue available (TRA)  
-Federal revenue:- (FR)

-Revenue local government:- (RIG).

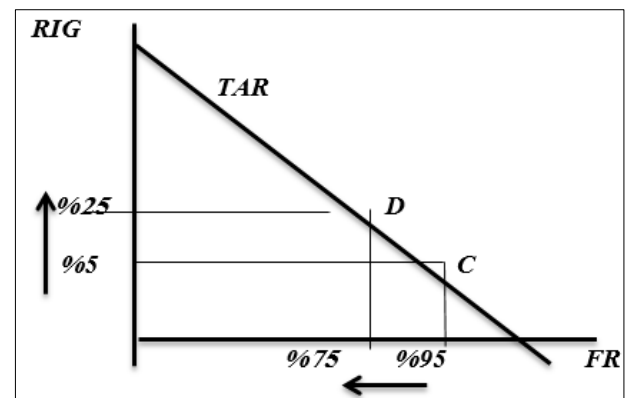


Fig 3: The crowding Impact on revenue diversification at the local and federal levels in Iraq for (20062019)

Based on the foregoing, an increase in the amount of goods and services provided by local governments is required(IG) From OG1 to OG2 reduce the amount of goods and services available annually by the federal government(FG) As shown in figure (3), the annual amount of available federal government goods is determined from (OX1) to (OX2) where the economy moves from point A to point D on the total available revenue curve (TAR), For example, it has been assumed that individuals require more health services and to make these available, local governments may tax companies or citizens to finance hospital construction spending that is reflected in the total revenue available to the federal government. The total resource curve illustrates alternative sets of local and federal goods and services that can be produced in the economy, The curve assumes total available revenue (TAR), where an increase in local goods from (G1) to (G2) requires the sacrifice of X1X2 units of federal goods each year.

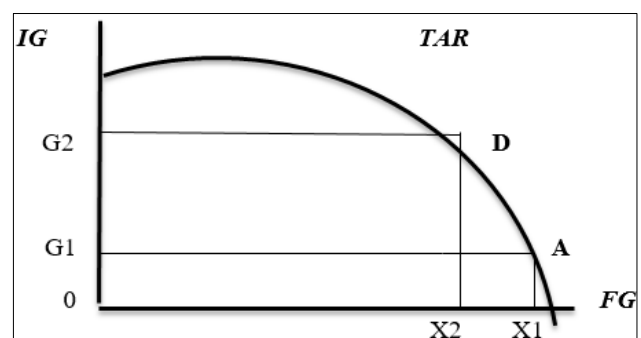


Fig 4: Public goods at the federal and local levels in Iraq

Therefore, when comparing the two forms, we note that there is an increase in local government revenues, offset by a decrease in federal revenues from total available resources (the crowding-out effect). Therefore revenue sharing is subject to a barter based on considerations of efficiency and equity:

- Determining the nature of spending at the local and federal level and allocating the financial resources available for that.
- Allocating revenues to local governments based on the services provided that require allocating the necessary resources according to the efficiency criterion, at the expense of the revenues available to the federal



government.

- C. Allocating financial resources to the federal government to reduce horizontal differences between governorates that suffer from shortages revenues compared to the governorates with financial abundance according to the criterion of fairness in the distribution of revenues, and this is at the expense of diversification of government revenue local.

## Conclusions and Recommendations

### Conclusions

- The adoption of the FB on oil revenues, which constituted (92%) of the total federal revenues, and this is what will help the allocations of local governments, which constituted (14%) of the investment budget.
- The adoption of the government budget at the local government over the FB makes it subject to the same accounting system and its complexities, which constitutes an obstacle to developing the capabilities of local governments in preparing budgets. The programs and performance to improve the quality of services provided at the local level.
- The allocations of local governments from the FB constituted the largest percentage of local revenues that depend in their determination mechanisms on the percentage of the population without being based on the nature of the tasks assigned to them, which are still unknown or ambiguous in the case of Iraq.
- Diversification of revenue sources for local governments involves the impact of crowding out the federal government on the total available revenue in the country, and based on Iraq's vision 2030, local revenue will constitute (25%) of the total available revenue, while federal government revenue will constitute (75%) of the available revenue. Accordingly, any diversification of local revenues will be according to the diversification of federal government revenues.
- The features of the application of financial decentralization in Iraq are not clear scorer and The goals from This transformation, as local government revenues constituted (5%) of the total federal revenues during (2006-2019) of the FB, which also relates to the absence of appropriate and effective mechanisms and institutional arrangements supporting the conduct of these transformations. that It is coordinated and standardized, as is the standardization of these transitions and the design of an efficient equation and chain of distribution Financial resources, where No There is An actual system that has independent goals and mechanisms and has real positive effects in the development of raising the efficiency of diversifying the revenues of local governments in various sectors, and The Ministry of Finance controls all aspects of the finances of local governments in accordance with its directives and policies. As a result, there is a two-way relationship between the diversification process domestic revenue and strengthening fiscal decentralization.

### Recommendations

A. Diversification of revenue sources for local governments requires the development and reform of the fiscal decentralization system in Iraq. This can only be achieved by

following well-defined strategies related to transformation and transition processes, since at the same time strengthening the financial capabilities of local governments will be reflected in fiscal decentralization. This requires the development of well-defined strategies and mechanisms over the long, medium and short term foundational stages that lead to building a financial structure at the federal and local levels in a way that enhances human, legislative, organizational, financial and administrative capacities. for the provinces.

B. Redistribution of available revenues at the local and federal levels, according to the assigned tasks NSE very level of itching NS, using the method select authorities Tunnel responsibilities based on the external effects of the tunnels.

C. Preparing a list of revenues that can be collected on the basis of the comparative advantage of the province through the study of economic, financial and social feasibility, for this revenue. Re-drafting the previous federal laws of 2003 and those related to financial aspects in line with the directions of the Iraqi constitution of 2005 in addition to activating the Provincial Law No. (21) In the 2008, article (44) by issuing instructions to implement the law.

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