

# **Economic development in Iraq: Between Foreign Financing Sources and the Terms of International Financing Institutions**

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## ***Abstract***

The role of external financing sources that include both development assistance, foreign loans and foreign investment is the possibility of rebuilding Iraq, and solve some sectorial problems of the Iraqi economy. In addition to the possibility of entering foreign companies with their huge financial capabilities and their ability to attract advanced technology open job opportunities, introduce modern methods of management . However, some comment on the expansion of dependence on external loans to cover the public budget deficit, as it represents a constraint on development rather than an alternative opportunity to finance it from non-oil sources. These loans also constitute a burden on the present and future generations in light of the lack of coherent and consistent macroeconomic policies that work to invest it with high efficiency. Iraq data was analyzed for the period 2003-2018 ,the results concluded that all variables have an impact on economic development in Iraq except for the development assistance variable.

**Key words:** *External Financing Sources, Foreign Direct Investment, External Loans, Economic Development*

## ***Introduction***

There are many studies that deal with the process of economic development and varied and branched to a large degree, but most of the ideas and solutions presented in this regard, whether in the theoretical side or in the applied side. did not achieve what aim the developing countries to achieve, and if the process of economic development has occupied an important place in contemporary economic thought, then financing this economic development has taken the greater part of this interest. Without a doubt, the ability of developing countries to make the development process dependent depends mainly on the available financial resources available to them in order to finance the development process. Developing countries such as Iraq have faced, through their development path, many problems that vary according to the conditions of countries, its capabilities, and the nature of the period in which the development process takes place. As a result of the deficit in domestic financing sources in developing countries to meet the requirements of development and to overcome the difficulty of the local deficit, the economic development process has been facilitated by providing the necessary capital for that through international institutions, and in

the form of foreign capital for countries suffering from a deficit in their domestic saving . More precisely, developed capitalist countries have tended to provide this financing in order to use their surplus funds due to the lack of profitable investment opportunities. The importance of the role of external financing sources represented by development assistance, foreign loans and foreign investments lies in the possibility of rebuilding Iraq, and resolving some sectoral problems of the Iraqi economy in addition to the possibility of foreign companies entering their huge financial capabilities and their ability to attract advanced technology and open job opportunities and introduce modern methods in management, and work according to The latest methods and training of national staff administratively and technically, while some economists such as Rosenstein, Rodin, Bruton, Lewis, and Kriven emphasized. The restriction of the domestic financing gap is the main obstacle to the process of economic development in developing countries, and others such as Jerry Stroot, Kendel Berker, Mirdal Raoul Berbish emphasized the restriction of the external financing gap, while others went on to say that the reasons for the emergence of the funding resource gap (domestic and foreign) In developing countries it is represented by their eagerness to foreign capital, relying on the theories and literature of Western development that spread the illusion of development, which led to an increase in relaxation in the mobilization of domestic savings in these countries, and the dependence of most of them on the economies of developed countries.

- **Research problem:** The Iraqi economy suffers like other economies of developing countries, from the problem of financing economic development , This problem has resulted in weak intertwining between economic sectors, high rates of inflation, unemployment, and poverty, a deterioration in the exchange rate, and exacerbation of external indebtedness. The economic policies pursued have been unable to achieve their goals in correcting the financing problem and its negative consequences and to advance the process of economic development.
- **Research importance:** The research acquires its importance from the fact that it seeks to study the most important trends in financing for development using external financial resources in Iraq. In addition to studying its impact on the economic policy in the country, and the effect it can play at the present time on development finance in light of dependence on oil.
- **Research Objective:** To study the volume of external financial resources and their impact on financing the economic development process, which has become one of the most important tools in financing the development process, through its contribution to bridging the financing gap .Therefore, the government seeks to invest these resources and make efficient use of them, in line with the nature of the current changes that the country is exposed to through international financial institutions.
- **Research hypothesis:** Foreign financing sources play a positive role, but if the country adopts a new policy aimed at diversifying the Iraqi economy, and adopting an effective policy to mobilize resources, develop national savings and raise savings capacity, this would enhance economic development in Iraq in

accordance with the terms of international financing institutions. Therefore, the null hypothesis was tested which states that independent variables do not affect economic development, and other hypothesis The presumption of existence which states that independent variables have an impact on economic development.

- **Research methodology:** The study adopted the descriptive approach which depends on the method of induction and deduction, By analyzing historical data extrapolating economic realities, analyzing relevant macroeconomic variables, and evaluating them in quantitative terms.

### ***First: External government financing***

**1) Official development assistance:** Foreign assistance is represented in it includes all cash and in-kind flows that the receiving country obtains according to facilitated rules away from the prevailing financial and commercial rules and principles, it does not include any obligation to pay later. Usually, the purpose of these grants is to assist countries emerging from an economic crisis or with the aim of achieving economic development in them, and the recipients of the grants are obligated to spend them for the purposes of forming fixed capital or in specific investment projects (International Monetary Fund, 2009). Development assistance did not represent an important source of financing for development in Iraq until after 2003, during the period (1960-2002) Iraq was in some of those years a provider of assistance and the most prominent of those countries that received assistance are Egypt, Syria and Palestine, but the biggest change occurred after 2003, As the volume of development assistance jumped from 113.4 million dollars in 2002 to 2.3 billion dollars in 2003, to 22.0 billion dollars in 2005, then it decreased again after that, and the average volume of development assistance during the period 2003-2018 reached about 4815.73 billion dollars annually, Figure (1) explain These ratios.

The International Institutions Fund to finance the reconstruction of Iraq, which includes 20 donor countries, the International Monetary Fund and the World Bank, according to conditions, provided financial assistance for the process of rebuilding the Iraqi economy through holding three meetings during the years 2003 and 2005. These meetings resulted in the provision of financial assistance estimated at 13.5 billion dollars, and that the amount be paid between 2004 and 2007, and when this amount was delivered to implement the reconstruction process, he did not touch on the ground many of the results of the operation, Nor is there general information available regarding how this money was used, nor the Iraqi authorities responsible for distributing it (Ozlu, 2006). Iraq topped the list of Arab countries in obtaining the largest share of the cumulative total of official development assistance provided to developing countries, amounting to 253.9 billion \$ during the period 1990-2012, at a rate of 26.7%, then Egypt came second, at 17.3%, and Palestine ranked third at 9.9%. The United States and Japan ranked first with grants to Iraq, at 18.5 billion each, while at the institutional level, the World Bank was ranked first.

**2) External borrowing:** Refers to funds borrowed from a source outside the country and the external debt must be paid in the currency in which it is borrowed. As a result of this type of financing, the ownership of the assets that are financed by it becomes a national ownership and exercise sovereign rights over them, but these loans have a burden on the borrowing country to pay the debt installments with the agreed benefits, as well as their exposure to economic and even political pressure related to the weight of debt and its accumulation (Kenton, 2018).

After 2003, Iraq sought to strengthen international and regional economic relations in order to reduce its debts during the time of the previous regime, in addition to concluding a number of loan agreements with different countries and international destinations, most of which were soft loans that those countries and institutions used to provide to the poorest countries in the world. However, it is the desire of these countries to strengthen their relations with Iraq and help it to rebuild the infrastructure destroyed by the war, which invited them to provide this financial support.

Accordingly, Iraq concluded the (EPCA) loan agreement that was held in 2004, according to which Iraq obtained a loan of 436.3 million \$, and it was intended to help Iraq meet the urgent needs of the balance of payments, which was suffering from a deficit in the balance of trade and the account Ongoing (IMF EXTERNAL RELATIONS DEPARTMENT,2004), Also, according to the Credit Readiness Agreement (SBA) concluded in 2005, Iraq received a loan amount of 685 million \$and was intended to achieve stability in the macroeconomic variables. (Ozlu, 2006).

In the year 2003, the donor countries conference for the reconstruction of Iraq was held in Madrid, according to which Iraq obtained a loan from the Japanese government within the development assistance program amounting to 5 billion dollars by 3.5 billion dollars in the form of a soft loan at an interest rate of 0.65% for a period of 40 years, including 10 years The 1.5 billion\$ loan was deposited into the Iraq Reconstruction Fund as a grant, and this loan is one of the most important loans as it included several projects that included several sectors (infrastructure, education, electricity, water, sanitation, health, oil) and with 20 projects distributed over All over the country (Republic of Iraq, Iraqi Ministry of Finance, Borrowing and Grants Division, 2014). In 2004, the International Development Association provided a 500 million\$ loan to Iraq to finance infrastructure projects. The loan term was 35 years, to be repaid after 10 years. The loan amounts were distributed to several sectors: electricity, water, education, roads and bridges. In 2007, the Italian government pledged to provide a loan to Iraq worth 400 million euros at a rate of 0.2% per annum with a repayment period of up to 16 years, to be paid after eight years, according to the cooperation agreement signed between the two countries. This loan was allocated to support the agricultural sector and revitalize the agricultural private sector through Allocating the amount to the Ministry of Agriculture and Water Resources for the import of agricultural machinery and equipment, provided that such equipment is of Italian origin only. In 2008, Japan granted a 3.5 billion \$ loan to Iraq for the reconstruction of Iraq. However, this loan included conditions, the most prominent of

which was the involvement of Japanese companies in reconstruction contracts. In contrast to this condition, interest rates double. The Ministry of Finance signed with the World Bank a sustainable development policy agreement (DPL) to support the budget on March 17, 2010 at an amount of 250 million \$ and an interest rate of 1.06% In 2014, the Istisna'a Agreement and the Istisna Agency Agreement were signed in Amman between Iraq and the Islamic Development Bank, according to which Iraq obtained a loan of 217 million \$ to contribute to the development of Highway No. 1 linking Iraq and neighboring countries, and the amount was allocated to the Ministry of Construction and Housing. The loan repayment period has extended to 10 years and the repayment will take place after a 4 year grace period. (Republic of Iraq, Iraqi Ministry of Finance, Borrowing and Grants Division, 2014).

The World Bank provided a 355 million\$ loan to expand the road and port network, and in the same year the International Monetary Fund provided a loan of 2,376 million \$ to support the public budget, as the loan term was five years and its payments would be made after three years (Republic of Iraq, Iraqi Ministry of Finance, Borrowing and Grants Division, 2014). These loans were transferred to 2018 and this is show in Figure (1). The high rate of external borrowing indicates the most dangerous phenomenon practiced by the Iraqi government, as part of the external borrowing was not directed to finance production projects agreed with the international institutions and bodies funded, but to finance current expenses, and may lead to excessive financing of the state's budget deficit from external sources. In exacerbating the external debt crisis in Iraq, whose burdens increased at rates faster than the growth rates of exports and other foreign exchange resources, which makes the Iraqi government unable to continue to pay the debt installments and benefit.

### ***Second: Private external sources***

**Foreign direct investment:** Foreign direct investment is concerned with directly affecting growth through the accumulation of capital, and the incorporation of new inputs and foreign technologies into the production function in the host country, This type of investment comes from outside the national economy that depends on its financing on imported capital. Foreign investment in its various forms can benefit the host country by providing net foreign exchange and transferring technology and administrative knowledge and creating additional job opportunities to absorb unemployment and access to international markets through export development (Almfraji & Almsafir, 2013). As a result of the wars that Iraq fought and the near-total sabotage of the infrastructure and its chronic structural imbalances, it has become an urgent need for foreign investment and imported sources of financing after external indebtedness to Iraq has worsened to a large degree, just as oil revenues are barely sufficient to finance current spending and finance part Of the expenses of the war against terrorism and the payment of the internationally imposed percentage of it is war compensation of 5%. Foreign investment plays an important role in supporting domestic savings as a primary source in economic development by reducing the gap between domestic investment and local savings and helps in increasing the use of

material and human resources efficiently, as well as addressing the deficit in the balance of payments by entering the foreign investor in export industries with competitiveness. The high dependence of foreign investors on a high technological level, which leads to an increase in exports and enhancement of the balance of payments and the trade balance on the one hand and the provision of what the country needs of basic commodities that were met by importing from C. On the other hand, and despite its turbulent past and the continuation of internal violence, Iraq today stands on the edge of the economic opportunity in ways that only a few developing countries can imagine, the National Investment Commission (NIC) reported that in 2010, 178 companies submitted applications for investment licenses of A total of 10.5 billion dollars (Toone, 2012).

After the occupation of Iraq in 2003 and the destruction of the remaining components of the Iraqi economy, calls for openness to foreign investment appeared to rebuild what was destroyed by the war, and in a quick step to change the course of the Iraqi economy, which has been for more than two decades away from foreign investment, and the occupation authority issued its number decision 39 of 2003, which included openness to foreign investment in all its forms, and the aim of this matter was to achieve fundamental changes to the Iraqi economic system and its transition from a centrally planned economy to a market economy. In view of the many criticisms about this decision because of its disadvantages, the Investment Law No. 13 of 2006 was issued, which brought many concessions to the national and foreign investor, including giving a ten-year grace period of taxes for foreign direct investment as well as establishing an investment body in all governorates working to provide information on possible investments and granting investment licenses. Iraq has had difficulty attracting foreign capital due to its large security problems, fragile institutions and lack of governance. However, hydrocarbons continue to attract foreign companies, and most FDI goes to the oil industry. Since 2013, the inflow of foreign direct investment has been negative, reaching -4.8 billion \$ in 2018. Consequently, the total foreign direct investment (FDI) stock has decreased to 10.1 billion \$, accounting for about 5.3% of GDP (investment report). 2019 UNCTAD World (In addition to the oil industry, cement production, the construction sector and public works provide interesting opportunities for investment. The United States and the European Union are the largest investors in Iraq (UNCTAD, 2019).

Obtaining accurate data on the sources and use of foreign direct investment is one of the difficulties, because the announced investments are seldom executed. The Iraqi government announced in 2011 about investment projects worth more than 100 billion \$ not only in infrastructure in the oil sector but to expand access to electricity and water and housing, but not all of these investment plans have been implemented. Among the foreign companies that invested in Iraq after 2003 are Chinese investment companies, these companies have invested in the type of green fields in the cement industry, as this form of foreign direct investment ensures that the parent company creates a new project in the host country by establishing entirely new operating

facilities, as well as building new facilities that generate new long-term job opportunities in the host country. This type of investment is contrary to the investment of interstitial fields, which is the purchase of production facilities or business establishments already present by companies or government agencies for the purpose of starting new production activities or services. This type of investment does not include building new production facilities. The British (Merchantbridge) and the French (Lafarge) have also contracted to develop the Karbala cement factory for a rent of 15 years (Frank, 2013: 375). In a study related to the sources of foreign direct investment submitted by Dunia Investment Corporation, it was found that there are five countries that accounted for two thirds of direct investments in Iraq in 2009, as the United Arab Emirates got 24% of the total direct investments, South Korea 16%, the United States of America 14%, and Britain 7 %, And Lebanon 6%. As these countries had a role in repairing and expanding the infrastructure in the oil and gas sectors, in 2009 Exxon Mobil acquired a project to improve production in the West Qurna oil field at a value of 25 billion \$. When investment in the oil sector and other government investments are excluded, the percentage of US investments in foreign direct investment decreases to less than 1% (Frank, 2013: 375). The state also directed most of the foreign direct investment towards the oil and gas sector, as that industry got the highest rate of 47% of all foreign direct investment in 2012, as well as investment in the mixed sectors by 35%, and in the real estate sector by 18%. As for other sectors, such as transportation, tourism, and non-governmental infrastructure, they received less than 0.3% for each of them. Three governorates received about 70% of foreign direct investment, Basra Governorate received 39%, Anbar Governorate 18%, and Baghdad Governorate 13%. The three governorates of the Kurdistan region got less than 7% of foreign investment during that year, and the reason for this sharp drop in the proportion of investments in the region is due to the low frequency of violence across Iraq after 2007, in addition to the dispute between the Iraqi government and the Kurdistan Regional Government On the Legitimacy and Export of Oil Contracts (Frank, 2013: 374).

After 2003, foreign investment was characterized by quantitative fluctuation in the years following the fall of the political system, despite the Iraqi economy's need for such investments as a solution to many of its problems. Foreign investment increased after the numbered investment law (13) of 2006, which brought many concessions to the foreign investor (Presidency of Ministers 'Council, 2015). Accordingly, foreign direct investment constituted the majority of the inflows of international capital, as foreign direct investment increased from 300 million dollars in 2004 to 1855 million dollars in 2008 to 5131 million dollars in 2013, and the increase in the volume of foreign investment flows was associated with an abundance of oil revenues In 2007, as a result of the rise in oil prices to record levels as a result of the rise in oil prices globally, as the price of a barrel reached 140 dollars in the second half of 2008. In addition, the Iraqi government's announcement of investment projects worth 100 billion dollars not only in the infrastructure of the oil sector, but also to expand access to electricity, water and housing, helped to attract more foreign companies (Frank,

2013). Despite the high volume of foreign investment inside Iraq, this did not happen in major positive changes in the structure of the Iraqi economy, because most of these investments were directed towards oil sector projects, tourism projects and projects with rapid profit.

It should be noted that the small foreign direct investment coming to Iraq is due to what the foreign companies consider to be deficiencies in the necessary attractions for these investments, especially with regard to the incentive laws and legislations, in addition to the terms of the merger between foreign companies and local companies and privatization programs that are still not satisfactory in relation to foreign investments. In spite of the great openness to foreign investment by Iraq and the issuance of the investment law, the current circumstances indicate the difficulty of creating an atmosphere that helps to attract foreign investment due to a set of challenges that can be demonstrated. As follows:

- A) The unstable security situation, which does not help in attracting foreign investments, whatever the other conditions are, in addition to the lack of political stability, which does not help to establish stable legislative frameworks that regulate the work of foreign investment.
- B) The low level of infrastructure in Iraq, especially energy sources, roads, transportation and basic services necessary for the success of investment projects.
- C) The absence of developed financial markets capable of meeting the requirements of the investment sector in all its forms.

### ***Third: Estimating the Model and Analyzing the Results for Economic Development and External Financing Sources in Iraq for the period (2003-2018).***

In this section, determining and analyzing the determinants of economic development and external financing sources in Iraq, will be based on the EViews10 statistical program, in analyzing official data and statistics from ministries and government institutions denominated in US dollars for the period (2003 - 2018).

**1- Standard Model Description:** In order for us to correctly describe economic relationships, we must define the economic indicators that are used in economic measurement:

- A)** Dependent variable: Gross Domestic Product (GDP) index in Iraq.
- B)** Independent variables: These variables were Direct Foreign Investment (FDI), Development Assistance (DA), external borrowing (Loans).

We notice from Figure (2) that the gross domestic product in Iraq during the study period has witnessed a noticeable increase gradually from 2003 to the year 2008 by (155,636,783) million US dollars, To decrease after that, affected by the global financial crisis, to become (139,330,211) million dollars in 2009, and then increased again during the years 2010-2013 to reach (271,091,778) million dollars. And because

of Iraq's crisis in the face of the terrorist organization during the years 2014 and 2015 led to a decrease in the gross domestic product again and then began to recover again after two years to achieve a gradual increase up to 2018. We notice from Figure (3) that the indicators during the years 2003-2009 have varied significantly during this period due to the war on Iraq from the United States in 2003, whose effects spanned several years on the Iraqi economy, It also turns out that the Development assistance (DA) recorded its highest level in 2005 with (22,057) million US dollars to advance the economic reality of Iraq. From 2009 to 2018 the indicators (FDI, Loans, DA) were close and almost stable throughout this period.

**2- Standard methodology:** For the purpose of linking the theoretical side represented by the economic development variables that were explained previously, it was relied on the Auto Regressive Distributed Lag (ARDL) model because it gives the best results for the parameters in the long term, and through it the model of error correction that helps in measuring the relationship is obtained Short-term between model variables. This model was developed by (Shinand and Sun, 1997) and (Pesaran et al, 2001), This model is distinguished by the fact that it does not need to be an integrated time series of the same degree, as Pesaran believes that the (ARDL) model It can be applied regardless of time series properties whether they are stable at their (0) I level or at the first difference (1) I or both. The only condition for applying this test is that the time series are not integrated from the second degree (2) I, that is, at the second difference (2014: Alimi, 106). The Pesaran ARDL model has better properties in the case of short time series compared to other methods known in the joint integration test such as the 1987 (Engle Granger) two-stage method , And Johansen Cointegration Test under the model (VAR) (Pesaran et al., 2001). In order to test the extent of achieving a common integration relationship between the study variables in the ARDL model (Pesaran et al, 2001) developed a model to test the extent of achieving a long-term balance relationship between the variables in the error correction model, and this method is known (Bounds Test).

This test is based on a comparison of the calculated value of (F) with the tabular values (2005, Narayan), at the level of significance (1%, 2.5%, 5% and 10%). If the calculated value of (F) is greater than the maximum critical value, it is He rejected the null hypothesis and accepted the alternative hypothesis ,But if the calculated value is between the maximum and minimum value, the result is inconclusive. If the calculated value of (F) is less than the minimum value, this means that there is no long-term relationship, and the following steps can be followed to estimate the ARDL model :

- A) Perform a Dickie Fuller test of time series and determine their rank of integration.
- B) Test the long-term co-integration relationship using the (Bound Test) in (ARDL) model (Gebrehiwot, 2014).
- C) We test the error correction model for estimating short-term and long-term parameters According this equation : (Pradhan et al. , 2013)

$$\Delta(Y_t) = c + \lambda Y_{t-1} + \beta X_{t-1} + \sum_{i=1}^n a_1 \Delta(Y_{t-i}) + \sum_{i=0}^m a_2 \Delta(X_{t-i}) + \mu_t$$

Where (  $\Delta$ : the first difference,  $c$ : fixed term,  $n$ ,  $m$ : upper limits of time lags for dependent and independent variables ,  $\beta$ : parameters of the long-term model,  $a_1 \dots a_2$ : long-term parameters,  $i$ : Time ,  $\mu_t$ : random error limit,  $\lambda$ : error correction parameter [(CointEq (-1)) is a percentage of short-term errors that can be corrected in a unit of time to return to equilibrium, This parameter depends on two conditions for correction, The first value must be negative, and the second value must be significant).

D) Estimate the long-term relationship.

#### ***Fourth: Auto Regressive Distributed Lag (ARDL) Tests***

**1- Unit Root Test with Augmented Dickey-Fuller (ADF) :** The unit root test was performed for all study variables (foreign direct investment, Development assistance, gross domestic product, external lending) by the Dickey-Fuller test (ADF) to test the unit root for time series. This method is based on the ( $H_0$ ) null hypothesis which states that the time series of a variable is not static, as opposed to the ( $H_1$ ) alternative hypothesis which states that the time series are Stationary. The results of the Stationary tests for the variables can be illustrated as follows:

**A) The Unit Root Test For the (FDI) variable:** The results of Table (2) indicate that the time series of foreign direct investment are Stationary at the level of the first difference, and the value of (Prob.) Is recorded less than (0.05), which means rejecting the null hypothesis ( $H_0$ ) and accepting the alternative hypothesis ( $H_1$ ) Which states that the foreign direct investment variable is Stationary.

**B) Development Assistance Stability Test (DA):**The results of Table (3) indicate that the time series of development assistance are static at the level of the first difference, and a value of (Prob.) Is recorded less than (0.01), which means rejecting the null hypothesis ( $H_0$ ) and accepting the alternative hypothesis ( $H_1$ ) which provides for the stability of the results of development assistance .

**C) GDP Stability Test :** The results of Table (4) indicate that the time series of GDP are stable at the level of the first difference, and the value of (Prob.) Is recorded less than (0.10), which means rejecting the null hypothesis ( $H_0$ ) and accepting the alternative hypothesis ( $H_1$ ) Which states the stability of the GDP variable.

**D) External Loans Stability Test :** The results of Table (4) indicate that the time series of external borrowing are stable at the level of the first difference, and the value of (Prob.) Is recorded less than (0.01), which means rejecting the null hypothesis ( $H_0$ ) and accepting the alternative hypothesis ( $H_1$ ) which states On the stability of the external borrowing variable.

**2- Bounds Testing Approach to Cointegration :** The goal of this test proposed by (Pesaran, 2002) is to confirm the presence or absence of a long-term balanced relationship between study variables (co-integration), It tests the null hypothesis

(H<sub>0</sub>) and the alternative hypothesis (H<sub>1</sub>) which states that there is a long-term balanced relationship between study variables, using the (F) test. After performing a test (F) for parameters of the levels of the variables, the calculated (F) is compared with the tabular, so if the calculated is greater than the tabular then this means that there is a common complementarity between the study variables, and vice versa in the case of the emergence of (F) is less than the tabular, but if it mediates the two values A firm decision cannot be taken. Table (6) shows the results of the joint integration limits test, as it was found that the calculated value of the (F) test was (2.723209) which is greater than the values of the tabular critical maximum limits (F) according to the sample size, degree of freedom, and level of significance (%10, %5, %1), And therefore the null hypothesis (H<sub>0</sub>) is rejected and we accept the alternative hypothesis (H<sub>1</sub>) which states that there is a Common integration between all the variables.

- 3- Error Correction Regression (ECM) according to (ARDL) model :** The short-term relationship is the estimation of the error correction model that expresses the study variables used in the first difference formula (1) I with the addition of the error correction error slowed for a period of one time (ECM-1) as an explanatory variable. The error correction model measures how quickly the adjustment is short-term imbalance to long-term balance, If the error correction parameter is negative and significant, this means that there is a long-term balance relationship between the variables. We conclude from Table (7) that the error correction coefficient was (-0.071006) negative CointEq(-1)\* and significant and with a level of significance less than 1%, and this means that there is a common integration relationship between variables, meaning there is a long-term balance relationship between the variables in the short term. We also conclude from Table (6) that the negative and moral value of the correction factor reveals to us the speed of the return of the economic development variable towards the equilibrium value in the long term in each time period estimated by a factor of (-0.07) which is relatively good.
- 4- Estimating the long-term relationship model of the variables :** In order to estimate the relationship between the variables, the time series were converted from annual to quarterly by program (EViews 10) in order to give more accurate results to the model used. Table (8) shows the impact of independent variables on GDP, and we note that all independent variables have an impact on economic development except for the Development assistance variable whose value was (Prob.) By (0.3864) which is more than the level of significance (10%) and this reflects The extent of structural imbalances in the Iraqi economy. As for all other variables, the value of (Prob.) Has been recorded lower than the level of significance (10%), and this indicates that it affects the growth of GDP, as the value of (R<sup>2</sup>=0.997), meaning that the independent variables included in the model have been explained. (99.7%) of the changes in the dependent variable, and the value of (Adjusted R-squared=0.996), and also it was found from Table (8) that the calculated value of (F) is greater than the tabular and is significant at the level of (1%) and thus reject the null hypothesis We accept the alternative hypothesis.

### ***Conclusions:***

- 1- The government's inability to achieve financial sustainability due to increased operating expenses, which negatively affected the creation of resources to finance development from funding sources as well as the effects of competition resulting from the expansion of government borrowing and the exacerbation of internal and external debt.
- 2- Development assistance cannot be relied upon as a major source of financing for economic development, as it has been characterized by volatility and instability, with the exception of the first years after the events of 2003.
- 3- Foreign direct investment was an important source of international capital flows and financing economic development, but most of those investments were concentrated in the oil sector and some tourism projects.
- 4- The continuation of the domination of the natural resource revenues as a main and main source in financing the state budget and forming more than half of the gross domestic product, and its dominance is expected to continue as a source of financing for economic development in the future.
- 5- Iraq is ranked first in the list of countries, which indicates a high indicator of corruption in all institutions and departments of the state, which causes waste of money allocated for the establishment of investment projects.
- 6- The role of the private sector in Iraq remains unclear and weak due to the weak financial, administrative and organizational structures for it and the weak activation of the laws related to it, namely the investment law and the law to protect the national product, which was reflected in its low contribution to economic activity.
- 7- All independent variables have an effect on economic development in Iraq except for the Development assistance variable, and this reflects the magnitude of the structural imbalances in the Iraqi economy.

### ***Recommendations:***

- 1- Adopting a financing policy dominated by the nature of bank financing rather than relying development financing on the state's general budget, as banks play this role in development finance contributes to achieving the goal of developing and diversifying sources of income through its financing of private sector projects in various economic sectors other than oil, which Its impact is positively reflected in the growth and diversification of activities generating non-oil GDP.
- 2- Expanding the establishment of joint-stock companies because of the benefits they achieve as the most appropriate legal form to create strong economic entities that can contribute to achieving the goal of development and diversification of income sources.
- 3- Accelerating the growth of the private sector to provide more job opportunities for citizens, which leads to positive repercussions on the performance of the national economy and the standard of living through increased interest in the small and

medium enterprises sector, achieving more diversification of the economic base with a special focus on increasing non-oil exports .

- 4- Using oil revenues in economic and social development projects as they constitute more stable and continuous sources of revenue.
- 5- The gradual amendment of the general budget structure towards changing dependence on oil as the main source of financing the general budget in percentages and ridding the budget of its dependence on external shocks represented by fluctuations in oil prices, and internal imbalances represented by the non-diversification of non-oil revenues.

**Table (1) data on sources of financing for external development in Iraq for the economic indicators used in the study for the period (2003-2018) denominated in US dollars.**

years	FDI	Loans	DA	GDP
2003	1000	8658	2287.65	29585788.6
2004	300	11153	4650.65	53235358.7
2005	515.3	7107	22057.09	73533598.6
2006	383	5451	8889.32	95587954.2
2007	971.8	6200	9204.34	107828462.8
2008	1855.7	5978	9884.53	155636783.3
2009	1598.3	2522	2791.23	139330210.6
2010	1396.2	2345	2178.33	177008632.3
2011	2082	2172.5	1914.69	217327107.4
2012	3400	1121.8	1300.88	254225490.7
2013	5131.4	3449.1	1541.54	271091777.5
2014	4781.8	3519.1	1371.06	260610438.4
2015	3316.3	4320.1	1485.03	194680971.8
2016	6255.9	2901	2287.89	196924141.7
2017	5032.4	4250.1	2907.51	225722375.5
2018	4885.1	4311	2299.87	251064479.9
<b>Average</b>	<b>2681.58</b>	<b>4716.17</b>	<b>4815.73</b>	<b>168962098.25</b>

- Development assistance data : <https://data.albankaldawli.org/indicator>
- Foreign direct investment data <http://dhaman.net/ar/news/2018>.
- <https://data.albankaldawli.org/indicator>

**Table (2) Results of the FDI Variable Stability Test**

Null Hypothesis: D(FDI) has a unit root  
 Exogenous: Constant  
 Lag Length: 6 (Fixed)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-3.441070	0.0137
Test critical values:		
1% level	-3.560019	
5% level	-2.917650	
10% level	-2.596689	

\*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation  
 Dependent Variable: D(FDI,2)  
 Method: Least Squares  
 Date: 04/01/20 Time: 12:36  
 Sample (adjusted): 2005Q1 2018Q1  
 Included observations: 53 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(FDI(-1))	-0.680181	0.197666	-3.441070	0.0013
D(FDI(-1),2)	0.471663	0.190790	2.472154	0.0173
D(FDI(-2),2)	0.471663	0.190790	2.472154	0.0173
D(FDI(-3),2)	0.334082	0.145871	2.290263	0.0267
D(FDI(-4),2)	-0.211967	0.150039	-1.412746	0.1646
D(FDI(-5),2)	0.232851	0.149349	1.559106	0.1260
D(FDI(-6),2)	0.232851	0.149349	1.559106	0.1260
C	57.59309	31.28626	1.840843	0.0722
R-squared	0.456770	Mean dependent var	-1.710377	
Adjusted R-squared	0.372268	S.D. dependent var	237.3235	
S.E. of regression	188.0303	Akaike info criterion	13.44934	
Sum squared resid	1590993.	Schwarz criterion	13.74674	
Log likelihood	-348.4075	Hannan-Quinn criter.	13.56371	
F-statistic	5.405415	Durbin-Watson stat	2.123542	
Prob(F-statistic)	0.000152			

Source: Prepared by the researcher, based on Eviews 10.

**Table (3) test results of the stability of development assistance**

Null Hypothesis: D(DA) has a unit root  
 Exogenous: Constant  
 Lag Length: 6 (Fixed)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-5.557942	0.0000
Test critical values:		
1% level	-3.560019	
5% level	-2.917650	
10% level	-2.596689	

\*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation  
 Dependent Variable: D(DA,2)  
 Method: Least Squares  
 Date: 04/01/20 Time: 12:33  
 Sample (adjusted): 2005Q1 2018Q1  
 Included observations: 53 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(DA(-1))	-0.822492	0.147985	-5.557942	0.0000
D(DA(-1),2)	0.408906	0.137419	2.975605	0.0047
D(DA(-2),2)	0.408906	0.137419	2.975605	0.0047
D(DA(-3),2)	0.408302	0.105669	3.863987	0.0004
D(DA(-4),2)	-0.225982	0.105732	-2.137312	0.0380
D(DA(-5),2)	0.146327	0.108804	1.344872	0.1854
D(DA(-6),2)	0.146327	0.108804	1.344872	0.1854
C	-178.3977	101.3892	-1.759534	0.0853
R-squared	0.691888	Mean dependent var	-84.97208	
Adjusted R-squared	0.643960	S.D. dependent var	1209.060	
S.E. of regression	721.4354	Akaike info criterion	16.13862	

Sum squared resid	23421108	Schwarz criterion	16.43602
Log likelihood	-419.6734	Hannan-Quinn criter.	16.25299
F-statistic	14.43585	Durbin-Watson stat	2.373950
Prob(F-statistic)	0.000000		

Source: Prepared by the researcher, based on Eviews 10.

#### Table (4) Results of the static test for the GDP variable

Null Hypothesis: D(GDP) has a unit root  
Exogenous: None  
Lag Length: 6 (Fixed)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-1.816823	0.0662
Test critical values:		
1% level	-2.609324	
5% level	-1.947119	
10% level	-1.612867	

\*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation  
Dependent Variable: D(GDP,2)  
Method: Least Squares  
Date: 04/01/20 Time: 12:49  
Sample (adjusted): 2005Q1 2018Q1  
Included observations: 53 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GDP(-1))	-0.182693	0.100556	-1.816823	0.0758
D(GDP(-1),2)	0.115740	0.156019	0.741832	0.4620
D(GDP(-2),2)	0.115740	0.156019	0.741832	0.4620
D(GDP(-3),2)	0.091767	0.143655	0.638803	0.5261
D(GDP(-4),2)	-0.235644	0.143881	-1.637771	0.1083
D(GDP(-5),2)	0.070732	0.147649	0.479058	0.6342
D(GDP(-6),2)	0.070732	0.147649	0.479058	0.6342
R-squared	0.167529	Mean dependent var		23791.81
Adjusted R-squared	0.058946	S.D. dependent var		4650792.
S.E. of regression	4511637.	Akaike info criterion		33.60472
Sum squared resid	9.36E+14	Schwarz criterion		33.86495
Log likelihood	-883.5251	Hannan-Quinn criter.		33.70479
Durbin-Watson stat	2.010168			

Source: Prepared by the researcher, based on Eviews 10.

#### Table (5) Results of the external lending variable sleep test

Null Hypothesis: D(LOANS) has a unit root  
Exogenous: None  
Lag Length: 6 (Fixed)

	t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic	-2.878316	0.0048
Test critical values:		
1% level	-2.609324	
5% level	-1.947119	
10% level	-1.612867	

\*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation  
 Dependent Variable: D(LOANS,2)  
 Method: Least Squares  
 Date: 04/01/20 Time: 12:59  
 Sample (adjusted): 2005Q1 2018Q1  
 Included observations: 53 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LOANS(-1))	-0.362291	0.125869	-2.878316	0.0060
D(LOANS(-1),2)	0.209675	0.154039	1.361181	0.1801
D(LOANS(-2),2)	0.209675	0.154039	1.361181	0.1801
D(LOANS(-3),2)	0.170758	0.108185	1.578392	0.1213
D(LOANS(-4),2)	-0.231142	0.109327	-2.114217	0.0399
D(LOANS(-5),2)	0.111895	0.113321	0.987414	0.3286
D(LOANS(-6),2)	0.111895	0.113321	0.987414	0.3286
R-squared	0.375366	Mean dependent var		19.37217
Adjusted R-squared	0.293892	S.D. dependent var		280.3553
S.E. of regression	235.5832	Akaike info criterion		13.88451
Sum squared resid	2552975.	Schwarz criterion		14.14473
Log likelihood	-360.9394	Hannan-Quinn criter.		13.98458
Durbin-Watson stat	2.053471			

Source: Prepared by the researcher, based on Eviews 10.

**Table (6) results of the joint integration limits test**

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
			Asymptotic: n=1000	
F-statistic	2.723209	10%	2.37	3.2
k	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66
			Finite Sample: n=60	
Actual Sample Size	59	10%	2.496	3.346
		5%	2.962	3.91
		1%	4.068	5.25
			Finite Sample: n=55	
		10%	2.508	3.356
		5%	2.982	3.942
		1%	4.118	5.2

Source: Prepared by the researcher, based on Eviews 10.

**Table (7) Results of the error correction test according to the ARDL model**

ARDL Error Correction Regression  
 Dependent Variable: D(GDP)  
 Selected Model: ARDL(2, 0, 0, 0)

Case 2: Restricted Constant and No Trend  
Date: 04/01/20 Time: 13:14  
Sample: 2003Q1 2018Q4  
Included observations: 59

ECM Regression				
Case 2: Restricted Constant and No Trend				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GDP(-1))	0.776967	0.065592	11.84548	0.0000
CointEq(-1)*	-0.071006	0.018555	-3.826705	0.0003
R-squared	0.712124	Mean dependent var		3653666.
Adjusted R-squared	0.707073	S.D. dependent var		7038435.
S.E. of regression	3809393.	Akaike info criterion		33.17715
Sum squared resid	8.27E+14	Schwarz criterion		33.24757
Log likelihood	-976.7259	Hannan-Quinn criter.		33.20464
Durbin-Watson stat	2.043296			

\* p-value incompatible with t-Bounds distribution.

F-Bounds Test		Null Hypothesis: No levels relationship		
Test Statistic	Value	Signif.	I(0)	I(1)
F-statistic	2.723209	10%	2.37	3.2
k	3	5%	2.79	3.67
		2.5%	3.15	4.08
		1%	3.65	4.66

Source: Prepared by the researcher, based on Eviews 10.

### Table (8) ARDL Assessment Results

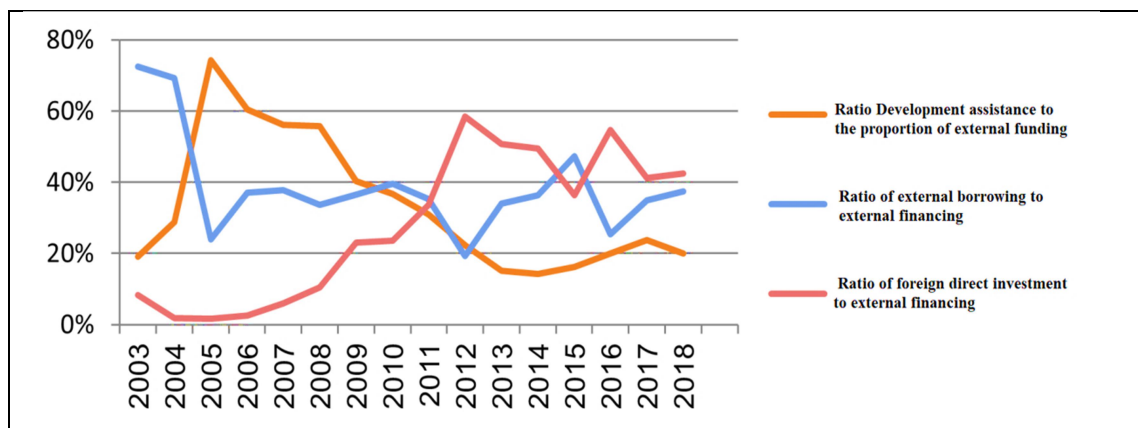
Dependent Variable: GDP  
Method: ARDL  
Date: 03/28/20 Time: 22:14  
Sample (adjusted): 2003Q3 2018Q1  
Included observations: 59 after adjustments  
Dependent lags: 2 (Fixed)  
Dynamic regressors (0 lag, fixed): FDI DA LOANS  
Fixed regressors: C

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
GDP(-1)	1.705962	0.080438	21.20849	0.0000
GDP(-2)	-0.776967	0.077092	-10.07843	0.0000
FDI	1073.608	577.3429	1.859567	0.0685
DA	-138.1282	158.1598	-0.873346	0.3864
LOANS	-1047.881	393.6977	-2.661637	0.0103
C	15450966	4428585.	3.488917	0.0010
R-squared	0.997047	Mean dependent var		1.75E+08
Adjusted R-squared	0.996769	S.D. dependent var		69497676
S.E. of regression	3950529.	Akaike info criterion		33.31274
Sum squared resid	8.27E+14	Schwarz criterion		33.52402
Log likelihood	-976.7259	Hannan-Quinn criter.		33.39521
F-statistic	3579.347	Durbin-Watson stat		2.043296
Prob(F-statistic)	0.000000			

\*Note: p-values and any subsequent tests do not account for model selection.

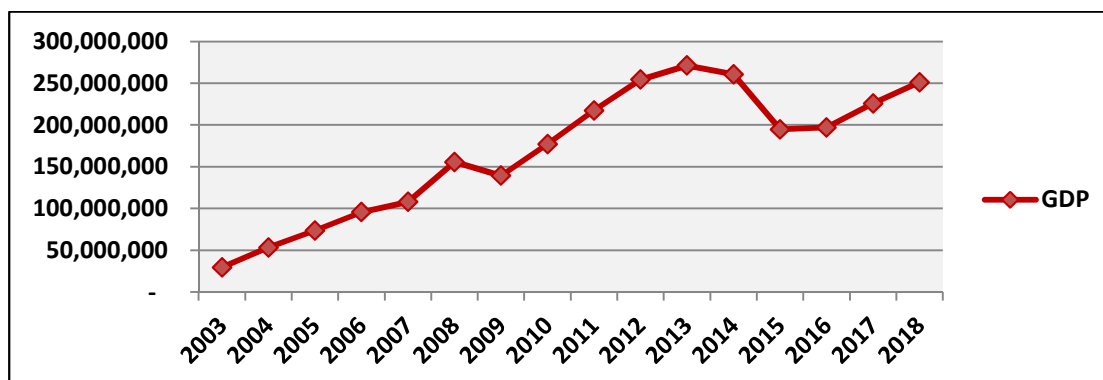
Source: Prepared by the researcher, based on Eviews 10.

**Figure (1): Ratios of external financing to the total financing provided to Iraq for the period 2003-2018 (million dollars)**

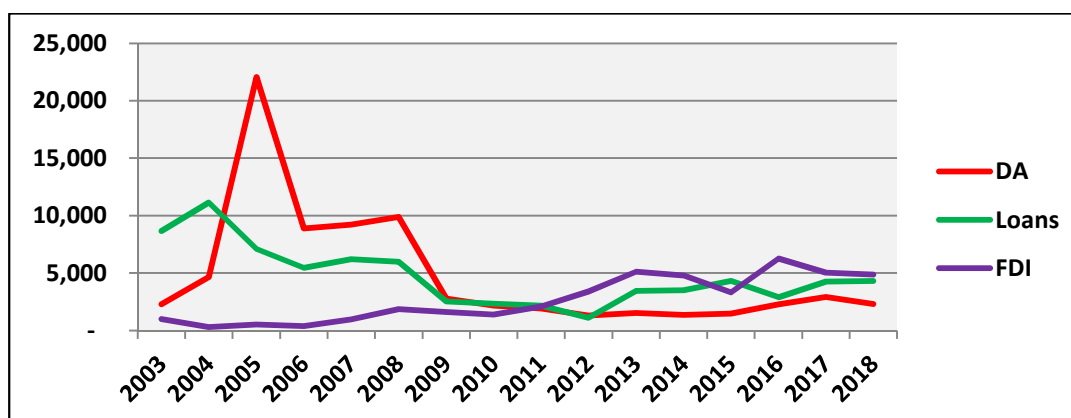


Reference: Prepared by researcher based on Table(1)

**Figure (2) GDP in Iraq for the period (2003-2018)**



**Figure (3) indicators (FDI, Loans, DA) in Iraq for the period (2003-2018)**



Source: Prepared by the researcher, based on Excel 2010

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