

# THE CURRENT SITUATION ANALYSIS OF THE BUDGETING SYSTEM IN IRAQ

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**Abstract.** This research examines the current budgeting system in Iraq in terms of its structure, operational mechanisms, and effectiveness in achieving economic and financial efficiency. The Iraqi budgeting system is primarily based on the traditional line-item budgeting approach, which focuses on allocating expenditures according to administrative classifications without directly linking spending to performance indicators or development outcomes. The system faces several structural challenges, most notably the heavy dependence on oil revenues, inefficient allocation of public resources, financial waste, and the limited application of modern budgeting approaches such as program and performance budgeting. The study concludes that the continued reliance on the traditional budgeting model reduces the efficiency of public expenditure and weakens fiscal sustainability. Therefore, comprehensive reform and a gradual transition toward more modern and flexible budgeting approaches are necessary.

**Keywords:** Budgeting system, public budget, line-item budgeting, public expenditure, fiscal sustainability, Iraqi economy.

## АНАЛИЗ ТЕКУЩЕГО СОСТОЯНИЯ БЮДЖЕТНОЙ СИСТЕМЫ В ИРАКЕ

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**Аннотация.** Данное исследование рассматривает текущую бюджетную систему в Ираке с точки зрения её структуры, операционных механизмов и эффективности в достижении экономической и финансовой результативности. Бюджетная система Ирака в основном основана на традиционном постатейном (line-item) подходе к бюджетированию, который концентрируется на распределении расходов по административной классификации без прямой увязки с показателями эффективности или результатами развития. Система сталкивается с рядом структурных проблем, наиболее значимыми из которых являются высокая зависимость от нефтяных доходов, неэффективное распределение государственных ресурсов, финансовые потери и ограниченное применение современных подходов к бюджетированию, таких как программное и бюджетирование по результатам. Исследование приходит к выводу, что сохранение традиционной модели бюджетирования снижает эффективность государственных расходов и ослабляет фискальную устойчивость. Поэтому необходимы комплексные реформы и постепенный переход к более современным и гибким моделям бюджетирования.

**Ключевые слова:** бюджетная система, государственный бюджет, постатейное бюджетирование, государственные расходы, фискальная устойчивость, экономика Ирака.

### **Research Problem**

The research problem lies in Iraq's continued reliance on a traditional budgeting system that does not correspond to modern developments in public financial management. This has resulted in low efficiency of public expenditure,

increased financial waste, and a weak connection between budget allocations and development objectives.

In addition, the heavy dependence on oil revenues has made the budgeting system highly vulnerable to external economic shocks, reducing its ability to maintain fiscal stability.

Accordingly, the main research problem can be summarized as follows:

**The limited effectiveness of the current budgeting system in achieving economic efficiency and fiscal sustainability in Iraq.**

### **Research Hypothesis**

The study assumes that the traditional budgeting system currently applied in Iraq limits the efficiency of public financial resource management and contributes to weak public expenditure performance and declining fiscal sustainability. In contrast, the adoption of modern budgeting approaches, particularly program and performance budgeting, can improve economic efficiency, strengthen resource allocation, and support the achievement of development objectives.

### **Sub-Hypotheses**

The study is based on the following sub-hypotheses:

1) There is a statistically significant inverse relationship between reliance on line-item budgeting and the efficiency of public expenditure in Iraq.

2) Weak financial planning within the current budgeting system contributes to lower levels of fiscal sustainability.

3) Heavy dependence on oil revenues negatively affects the stability and efficiency of the Iraqi budgeting system.

4) The adoption of program and performance budgeting improves the efficiency of public resource allocation.

5) The modernization of the budgeting system enhances transparency and strengthens financial control.

## **Importance of the Research**

The importance of this research stems from its focus on the budgeting system as one of the main instruments of fiscal policy and a key mechanism for achieving economic stability and sustainable development.

The study is significant because it:

- Identifies the major weaknesses of the current budgeting system in Iraq
- Proposes possible directions for fiscal and administrative reform
- Supports policymakers in improving budget preparation and implementation processes
- Contributes to enhancing transparency and efficiency in public financial management
- Strengthens the relationship between public expenditure and development objectives

## **Research Objectives**

This research aims to:

- Analyze the current structure and performance of the Iraqi budgeting system
- Identify the main structural and administrative weaknesses within the system
- Examine the impact of traditional budgeting on public expenditure efficiency
- Assess the possibility of transitioning to program and performance budgeting
- Provide recommendations to improve fiscal efficiency and enhance budget system performance

## **Previous Studies**

**Table (1): Summary of Previous Studies**

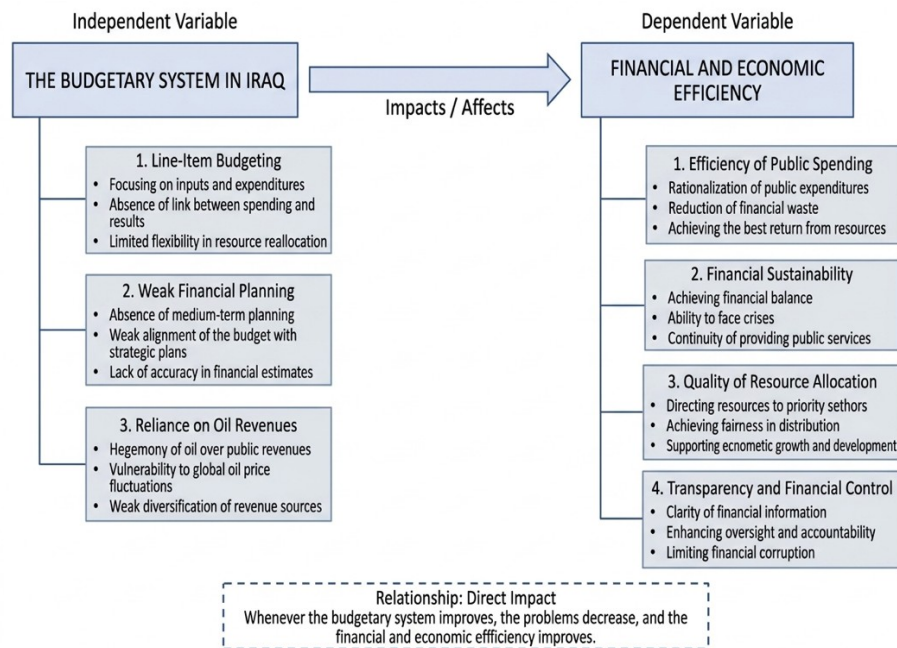
<b>Researcher &amp; Year</b>	<b>Study Title</b>	<b>Key Findings</b>
Al-Tiflawi & Jassim (2022)	Program and Performance Budgeting in Iraq	The study found that weak implementation of program and performance budgeting, along with continued reliance on traditional budgeting methods, reduces the efficiency of public expenditure management.
Al-Banna et al. (2022)	Development of the Public Budget in Iraq	The study emphasized the need for comprehensive reform of the Iraqi budgeting system in order to improve fiscal efficiency and strengthen financial management mechanisms.
Al-Dakhil (2023)	Analysis of the Iraqi Federal Budget	The study identified persistent fiscal deficits and highlighted the Iraqi economy's heavy dependence on oil revenues as a major source of financial instability.
Atlantic Council Report (2024)	Evaluation of the Iraqi Budget	The report highlighted weaknesses in medium-term fiscal planning and the limited linkage between budget allocations and development objectives.

## General Conclusion from Previous Studies

Previous studies consistently demonstrate that the Iraqi budgeting system faces several structural and administrative challenges, most notably weak financial planning, excessive dependence on oil revenues, limited adoption of modern budgeting approaches, and the weak relationship between budget allocations and development outcomes.

The findings also indicate that the continued reliance on traditional line-item budgeting reduces the efficiency of public expenditure and limits the government's ability to achieve fiscal sustainability and economic stability. Furthermore, the absence of effective performance indicators weakens financial control and reduces transparency in budget implementation.

Accordingly, the reviewed studies emphasize the necessity of implementing comprehensive structural reforms in the Iraqi budgeting system through the adoption of modern budgeting approaches, particularly program and performance budgeting, in order to improve resource allocation efficiency, strengthen fiscal sustainability, and support long-term development objectives.



## Section One: Theoretical and Analytical Framework of the Budgeting System in Iraq

### 1. Theoretical Introduction to the Budgeting System

The budgeting system is considered one of the main pillars of public financial management, as it represents the primary instrument through which the state implements its economic, social, and developmental policies. Through the budget, governments plan, organize, and control public revenues and expenditures in order to achieve economic stability and improve the efficiency of resource allocation.

The role of the budgeting system extends beyond the mere recording of revenues and expenditures. It also serves as a tool for planning, financial control, and economic decision-making. In modern public administration, the budget is regarded as an indicator of government performance and its ability to manage public resources efficiently (Musgrave & Musgrave, 2019).

Over time, the concept of the public budget has evolved significantly. It is no longer viewed only as a financial statement of expected revenues and expenditures, but rather as an integrated mechanism for achieving macroeconomic stability, supporting sustainable development, and improving the effectiveness of fiscal policy. Consequently, the efficiency of the budgeting system has become closely linked to the government's capacity to achieve development objectives and maintain fiscal sustainability (Allen, Hemming, & Potter, 2020).

The budgeting system performs several key functions, including:

- A financial function related to the allocation of public resources
- An economic function aimed at achieving macroeconomic stability
- A social function concerned with income redistribution and social justice
- A control function intended to reduce financial waste and enhance transparency

## 2. Concept of the Budgeting System and Its Intellectual Foundations

The budgeting system can be defined as a set of rules, procedures, and institutional mechanisms governing the preparation, implementation, and oversight of the public budget. It reflects the administrative and economic philosophy adopted by the state, as budgeting systems differ according to political, economic, and institutional structures (Premchand, 2018).

Modern budgeting systems are based on several fundamental principles that ensure financial discipline and improve the efficiency of public financial management.

### 2.1 Principle of Comprehensiveness

This principle requires that all public revenues and expenditures be included in a single budget document without exception. The objective is to ensure transparency, provide a clear picture of the government's financial position, and facilitate effective oversight.

### 2.2 Principle of Annuality

The principle of annuality means that the budget is prepared for a specific financial period, usually one fiscal year. This allows governments to periodically evaluate fiscal performance and review economic policies according to changing financial and economic conditions.

### 2.3 Principle of Unity

According to this principle, all government financial operations should be consolidated within a unified budget framework. This contributes to improving financial coordination and strengthening the effectiveness of budgetary control.

### 2.4 Principle of Balance

This principle aims to maintain a reasonable balance between public revenues and expenditures in order to limit excessive fiscal deficits and maintain fiscal stability.

## 2.5 Principle of Control and Efficiency

This principle emphasizes the importance of effective financial oversight mechanisms to ensure the efficient use of public resources, improve spending quality, and reduce financial waste and misuse of public funds (Wildavsky & Caiden, 2021).

## 3. Historical Development of Budgeting Systems

Budgeting systems have undergone significant development as a result of the increasing complexity of state functions and the growing role of governments in economic and social activities. The main stages of this development can be summarized as follows:

### 3.1 Traditional Budgeting (Line-Item Budgeting)

Traditional or line-item budgeting emerged during the early twentieth century and focuses on classifying expenditures according to accounting and administrative categories such as:

- Salaries and wages
- Goods and supplies
- Services
- Capital expenditures

This system is characterized by relative simplicity in preparation and implementation. However, it has several important limitations, including:

- Concentration on financial inputs rather than outputs and outcomes
- Weak performance measurement mechanisms
- Limited linkage between public expenditure and development objectives (Robinson, 2020)

### 3.2 Program and Performance Budgeting

Program and performance budgeting represents a major shift in modern public financial management, as it links government expenditures directly to objectives, programs, and measurable results.

This approach contributes to:

- Improving the efficiency of public resource allocation
- Measuring institutional and governmental performance
- Supporting strategic planning processes
- Enhancing transparency and accountability in public finance

Many developed countries have adopted this budgeting model in order to improve public sector efficiency and strengthen fiscal governance (OECD, 2021).

### 3.3 Zero-Based Budgeting

Zero-based budgeting is based on the principle that all government programs and expenditures must be justified from the beginning of each fiscal period without relying automatically on previous budgets.

Its primary objectives include:

- Rationalizing public expenditure
- Reducing unnecessary spending and financial waste
- Improving the quality and efficiency of financial decision-making (Horngren, 2020)

## 4. The Reality of the Budgeting System in Iraq

The Iraqi budgeting system still relies predominantly on the traditional line-item budgeting approach, which has negatively affected the efficiency of public expenditure and limited the achievement of development objectives.

### 4.1 Dominance of the Traditional Approach

The current Iraqi budgeting system primarily focuses on:

- Accounting and administrative classifications
- Formal financial control procedures

- Distribution of expenditures across government entities

At the same time, limited attention is given to performance indicators, efficiency standards, and development outcomes.

#### 4.2 Dependence on Oil Revenues

Oil revenues constitute the primary source of public income in Iraq, accounting for more than 90% of total government revenues. This high dependence exposes the budget to fluctuations in global oil prices and increases vulnerability to external economic shocks (World Bank, 2022).

#### 4.3 High Operational Expenditures

The Iraqi public budget is characterized by a substantial increase in operational expenditures, particularly in the areas of:

- Salaries and wages
- Government subsidies
- Administrative and operational expenses

As a result, the share allocated to investment and development projects remains relatively limited, reducing the effectiveness of long-term economic development efforts.

### 5. Structural Challenges of the Iraqi Budgeting System

#### 5.1 Weak Financial Planning

Financial planning in Iraq continues to depend largely on short-term approaches, with insufficient integration of medium- and long-term strategic planning frameworks. This weakens the government's ability to achieve sustainable fiscal and developmental objectives.

#### 5.2 Weak Spending Efficiency

International reports indicate several weaknesses in the Iraqi budgeting system, including:

- Financial waste

- Weak oversight and accountability mechanisms
- Low efficiency in public resource allocation

These challenges reduce the effectiveness of fiscal policy and weaken the quality of public services (IMF, 2023).

### 5.3 Financial and Administrative Corruption

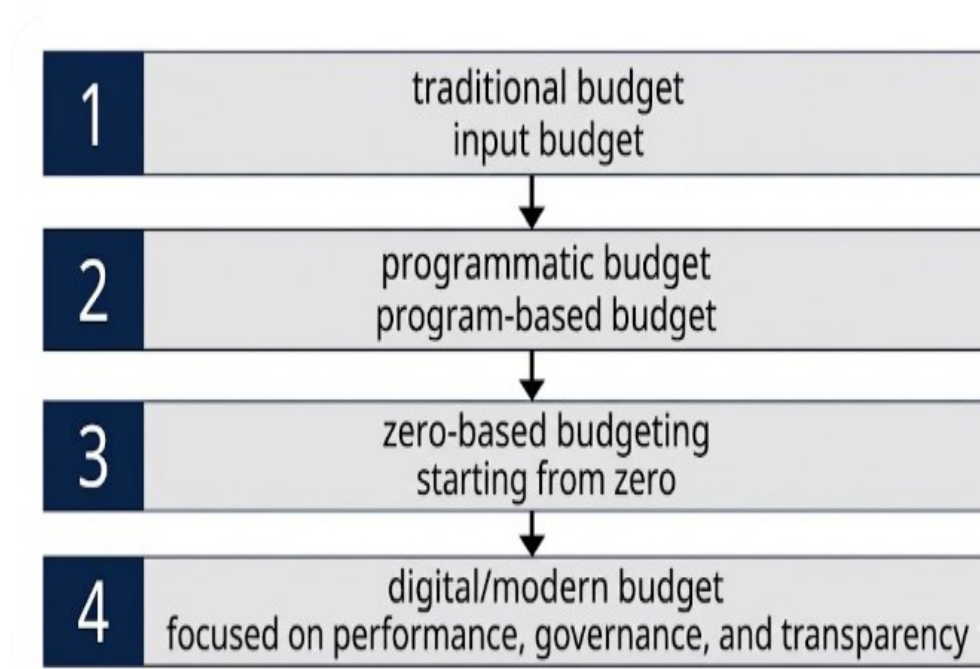
Financial and administrative corruption remains one of the most serious obstacles to improving budgeting efficiency in Iraq. Corruption contributes to:

- Leakage and misuse of public resources
- Delays in development projects
- Weak achievement of economic and social development goals

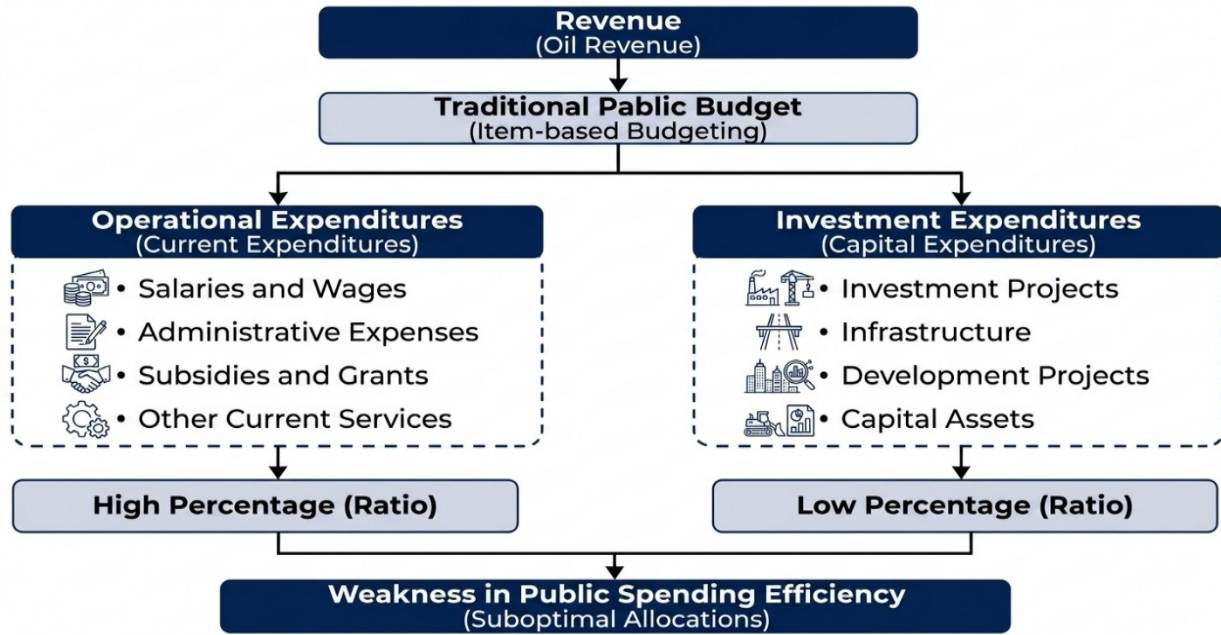
### 5.4 Limited Digital Transformation

The adoption of electronic systems and digital technologies in budget preparation, implementation, and monitoring remains limited compared to modern international standards. This negatively affects transparency, financial control, and administrative efficiency.

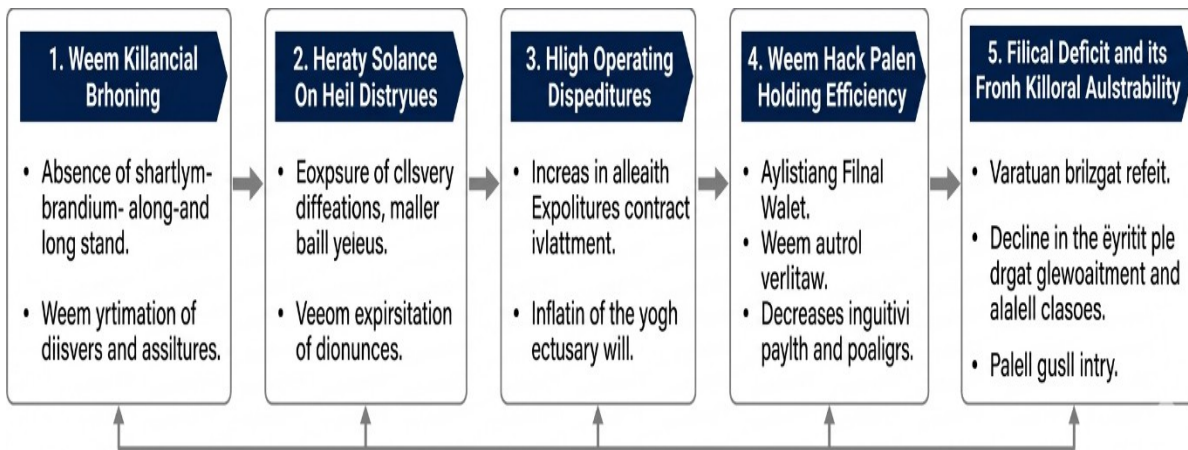
**Figure (1): Evolution of Budgeting Systems**



**Figure (2): Structure of the Traditional Budgeting System in Iraq**



**Figure (3): Main Challenges of the Iraqi Budgeting System**



### 6. Modern Trends in Budgeting System Reform

Modern governments are increasingly adopting reform-oriented approaches to improve budgeting systems in order to enhance efficiency, transparency, and fiscal sustainability. These reforms aim to modernize public financial management and strengthen the relationship between public spending and development outcomes. The most important reform trends include:

- Transition toward program and performance budgeting

- Expansion of financial digitalization systems
- Adoption of e-government applications
- Strengthening financial transparency and accountability mechanisms

These reforms reflect a transition from traditional input-based budgeting toward results-oriented financial management, where the effectiveness of public spending is evaluated according to achieved outcomes rather than the volume of expenditures alone.

#### Institutional Requirements for Successful Fiscal Reform

International institutions emphasize that successful fiscal reform requires several institutional and administrative foundations, including:

- Updating financial legislation and regulatory frameworks
- Developing human capital and administrative competencies
- Building integrated and accurate financial databases
- Implementing electronic control, monitoring, and auditing systems (OECD, 2021)

These requirements demonstrate that budgeting reform is not merely a technical adjustment, but rather a comprehensive institutional and governance transformation aimed at improving the efficiency and sustainability of public financial management.

#### Analytical Summary

The analysis indicates that the Iraqi budgeting system continues to rely predominantly on traditional budgeting methods that emphasize accounting and administrative classifications rather than performance measurement and spending efficiency. This situation has contributed to weak public expenditure effectiveness and recurring fiscal imbalances.

In addition, excessive dependence on oil revenues, the expansion of operational expenditures, and weak financial planning have collectively reduced fiscal sustainability and limited opportunities for economic diversification.

At the same time, contemporary trends in public financial management strongly emphasize the importance of transitioning toward program and performance budgeting, supported by financial digitalization and modern governance systems, as essential mechanisms for improving the efficiency of public financial management and achieving sustainable development objectives.

## Section Two: Expanded Analysis of the Budgeting System in Iraq and Contemporary Financial Challenges

### 1. Analytical Framework of the Iraqi Budgeting System

The budgeting system in Iraq represents the central framework of public financial management, as the government relies heavily on the general budget to regulate economic activity, finance public expenditures, and support development programs. However, over recent decades, the Iraqi budgeting system has faced major structural challenges resulting from political and economic transformations, in addition to its overwhelming dependence on oil revenues as the principal source of public income (World Bank, 2022).

Financial analysis shows that Iraq still primarily applies the traditional line-item budgeting approach, which has weakened public spending efficiency and limited the connection between government expenditures and actual development outcomes. Moreover, the Iraqi budgeting system suffers from several chronic problems, including high operational expenditures, weak financial planning, administrative corruption, and economic instability (IMF, 2023).

Accordingly, analyzing the practical reality of the Iraqi budgeting system is essential for understanding the nature of fiscal imbalances within the Iraqi

economy and identifying the main requirements for financial and administrative reform.

## 2. Financial Structure of the Iraqi General Budget

The Iraqi general budget consists of two main components:

- Public revenues
- Public expenditures

Analyzing both components is necessary to understand the structural weaknesses and fiscal imbalances affecting the Iraqi financial system.

### 2.1 Public Revenues in Iraq

Public revenues represent the primary source for financing government activities and can generally be divided into two categories:

First: Oil Revenues

Oil revenues constitute the main pillar of the Iraqi public budget, as the Iraqi economy depends heavily on crude oil exports as the principal source of foreign currency earnings and government income.

International reports indicate that oil revenues account for approximately 90%–95% of total public revenues, making the Iraqi budget highly sensitive to fluctuations in global oil prices (World Bank, 2022).

This excessive dependence on oil revenues has created several structural economic problems, including:

- Weak fiscal stability
- Increased fiscal deficits during periods of declining oil prices
- Limited economic diversification
- Weak growth of non-oil revenues

*Second: Non-Oil Revenues*

*Non-oil revenues include:*

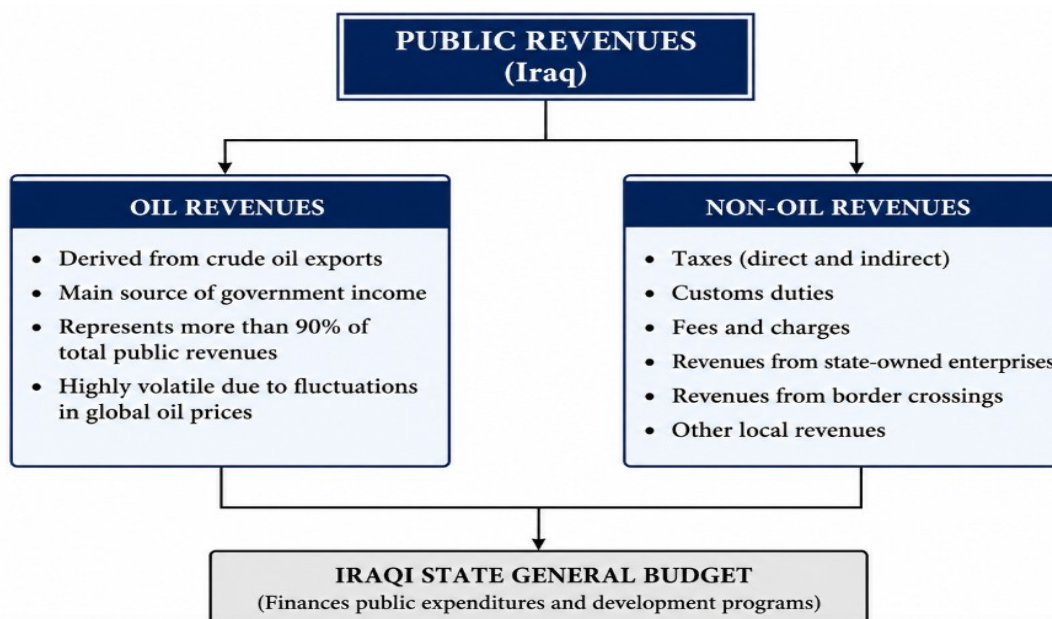
- Taxes

- Customs duties
- Public sector revenues
- Border crossing revenues
- Administrative and service fees

Despite their importance, the contribution of non-oil revenues to total budget financing remains limited due to several factors, including:

- Weakness of the tax system
- Widespread tax evasion
- Weak customs administration
- Limited productive economic activity within the domestic economy (OECD, 2021)

**Figure (4): Structure of Public Revenues in Iraq**



## 2.2 Public Expenditures in Iraq

Public expenditures represent the primary instrument for implementing fiscal policy, as they reflect government priorities in resource allocation and economic management. In Iraq, public spending is generally divided into two main categories: operational expenditures and investment expenditures.

### First: Operational Expenditures

Operational expenditures include:

- Salaries and wages
- Government subsidies
- Pensions and social welfare payments
- Administrative and operational expenses

These expenditures account for the largest share of the Iraqi general budget, resulting in several structural consequences, including:

- Reduction in capital and investment spending
- Expansion of the fiscal deficit
- Weak contribution to economic development (IMF, 2023)

The dominance of operational expenditures reflects the rigidity of the Iraqi budget structure and limits the government's ability to redirect financial resources toward productive and development-oriented sectors. As a result, opportunities for achieving long-term economic growth and diversification remain constrained.

### *Second: Investment Expenditures*

Investment expenditures include:

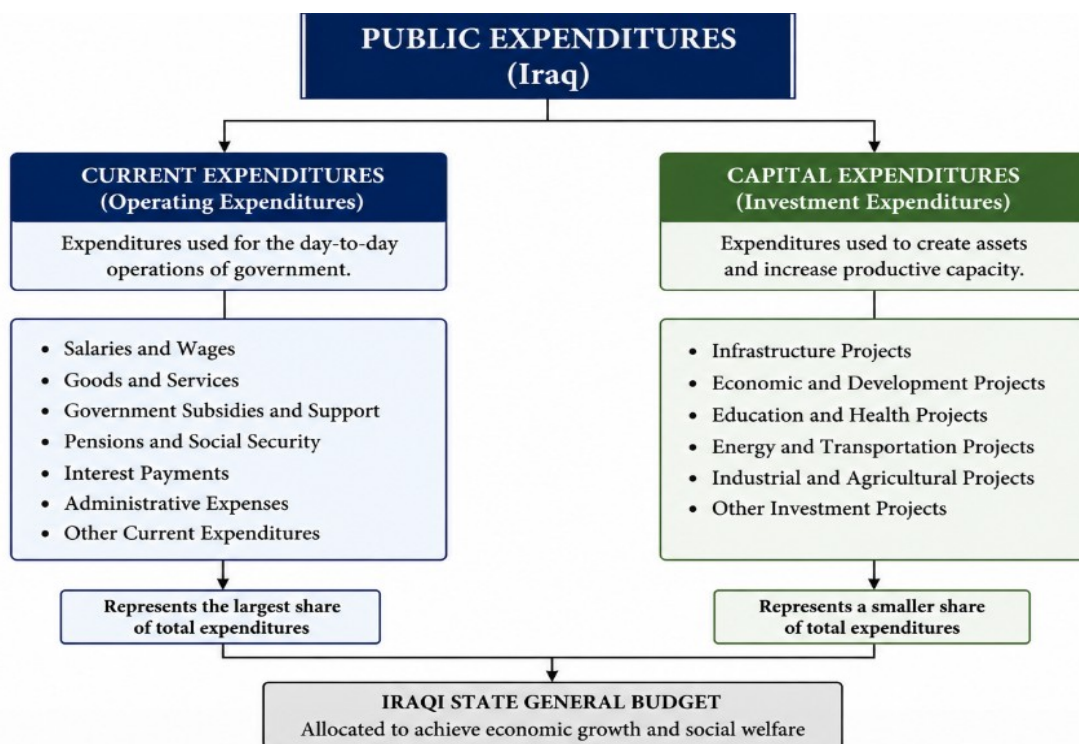
- Infrastructure projects
- Energy sector projects
- Industrial and agricultural development programs
- Human development projects

Although investment spending plays a crucial role in supporting economic growth and sustainable development, it faces several major challenges in Iraq, including:

- Limited budget allocations compared with operational expenditures
- Weak institutional and administrative capacity for project implementation
- Repeated delays in project execution and completion
- Financial and administrative corruption

These factors significantly reduce the efficiency and effectiveness of public investment, limiting its contribution to economic diversification and sustainable development objectives.

**Figure (5): Structure of Public Expenditures in Iraq**



### 3. Structural Challenges of the Iraqi Budgeting System

#### 3.1 Rentier Dependence on Oil

Dependence on oil revenues represents one of the most significant structural challenges facing the Iraqi economy, as it makes the public budget highly vulnerable to external shocks associated with fluctuations in global oil prices.

This dependence has contributed to several economic and fiscal problems, including:

- Volatility in public revenues
- Weak fiscal stability
- Difficulty in long-term financial planning
- Expansion of fiscal deficits during periods of declining oil prices

The rentier nature of the Iraqi economy has also limited the development of productive non-oil sectors and reduced opportunities for economic diversification.

#### 3.2 High Operational Expenditures

The Iraqi budget continues to experience a persistent increase in operational expenditures due to several factors, including:

- Expansion of public sector employment
- Rising salaries and wage obligations
- Increased government subsidies and social expenditures

This situation has led to significant pressure on public financial resources and reduced the government's ability to allocate sufficient funds for investment and development projects. Consequently, development-oriented spending remains limited compared with operational spending requirements.

#### 3.3 Weak Public Expenditure Efficiency

International financial reports indicate the existence of substantial inefficiencies in public expenditure management in Iraq, including:

- Financial waste and leakage of public resources

- Weak oversight and control mechanisms
- Low productivity of government spending
- Poor implementation of investment projects (World Bank, 2022)

These weaknesses reflect problems in both resource allocation and institutional implementation capacity, which reduce the effectiveness of fiscal policy and public service delivery.

### 3.4 Financial and Administrative Corruption

Financial and administrative corruption remains one of the most serious obstacles to effective public financial management in Iraq. Corruption contributes to:

- Misuse and leakage of public funds
- Delays and disruption of development projects
- Declining efficiency of public expenditure
- Weak public confidence in government institutions

As a result, corruption negatively affects economic growth, investment efficiency, and institutional performance.

### 3.5 Weak Strategic Financial Planning

The Iraqi budgeting system is still largely based on short-term annual planning, with limited integration of medium- and long-term strategic frameworks. This weakness leads to several negative consequences, including:

- Instability of development programs
- Weak fiscal sustainability
- Absence of clear economic and development priorities

The lack of long-term planning also limits the government's ability to respond effectively to economic fluctuations and structural challenges.

## 4. Recent Reforms in the Iraqi Budgeting System

In recent years, the Iraqi government has introduced a number of financial and administrative reform initiatives aimed at improving public financial

management and strengthening fiscal sustainability. The main objectives of these reforms include:

- Enhancing fiscal sustainability
- Reducing dependence on oil revenues
- Improving public spending efficiency
- Strengthening transparency and accountability

Among the most important reform measures are:

- Gradual transition toward program and performance budgeting
- Expansion of financial digitalization systems
- Development of electronic control and auditing mechanisms
- Reform of the tax system
- Improvement of public debt management policies

These reforms represent initial steps toward the modernization of Iraq's fiscal and administrative systems. However, their effectiveness remains constrained by institutional, technical, and implementation-related challenges.

##### 5. Shift Toward Financial Digitalization

Financial digitalization is considered one of the most important contemporary trends in public financial management because of its role in improving administrative efficiency and strengthening financial governance.

Digital transformation contributes to:

- Accelerating financial and administrative procedures
- Reducing opportunities for financial corruption
- Enhancing transparency and accountability
- Improving the efficiency of government spending

The Iraqi government has initiated gradual efforts toward digital transformation in financial administration. Nevertheless, these initiatives continue to face several obstacles, including technical limitations, administrative

weaknesses, and legislative challenges that slow the process of full implementation.

## 6. Analytical Summary of the Section

The analysis demonstrates that the Iraqi budgeting system suffers from deep structural imbalances resulting from the rentier nature of the economy, weak public financial management, and the dominance of operational expenditures over investment spending. The continued reliance on traditional line-item budgeting has reduced the efficiency of public expenditure and limited the achievement of sustainable economic development objectives.

In addition, excessive dependence on oil revenues has increased fiscal vulnerability and weakened financial stability, while corruption and weak strategic planning have further reduced the effectiveness of fiscal policy implementation.

Although recent reform initiatives and financial digitalization efforts represent positive steps toward modernizing the budgeting system, achieving meaningful fiscal reform still requires comprehensive institutional restructuring, stronger governance mechanisms, and the adoption of modern budgeting approaches based on performance and development outcomes.

Section Three: Extended Statistical Analysis of the Budgeting System in Iraq

### 3.1 Descriptive Statistics (Expanded Analysis)

**Table (2): Extended Descriptive Statistics of Study Variables**

Variable	Mean	Std. Deviation	Minimum	Maximum	Level
Traditional Line-Item Budgeting	4.21	0.78	3.00	5.00	High
Public Expenditure Efficiency	2.41	0.69	1.20	3.80	Low
Fiscal Sustainability	2.55	0.72	1.10	3.90	Low
Oil Revenue Dependence	4.35	0.65	3.50	5.00	Very High
Program & Performance Budgeting	2.18	0.81	1.00	3.60	Low

## Interpretation

The results indicate a clear structural imbalance in the Iraqi budgeting system. Specifically, the analysis confirms that high dependence on oil revenues and the continued dominance of traditional line-item budgeting represent the most influential characteristics of the system. In contrast, indicators related to public expenditure efficiency and fiscal sustainability remain relatively weak.

These findings reflect a persistent structural weakness in the fiscal framework, where revenue concentration in the oil sector increases vulnerability to external shocks, while the limited application of modern budgeting tools reduces the effectiveness of resource allocation and long-term financial planning. Overall, the results suggest that the current budgeting structure constrains both fiscal stability and development-oriented spending.

### 3.2 Reliability and Internal Consistency

To ensure the reliability of the research instrument and the consistency of the measured variables, Cronbach's Alpha test was applied. This test is widely used to assess the internal consistency of survey-based or composite indicators in empirical financial and economic studies.

**Table (3): Cronbach's Alpha Reliability Test**

Construct	Number of Items	Cronbach's Alpha	Reliability Level
Traditional Budgeting	6	0.84	Good
Expenditure Efficiency	6	0.87	High
Fiscal Sustainability	5	0.83	Good
Oil Dependency	4	0.81	Good

Program Budgeting	5	0.89	High
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### Interpretation

The results indicate that all constructs exceed the commonly accepted threshold of 0.70, which confirms strong internal consistency and high reliability of the measurement model. This suggests that the items used in the study effectively measure the intended variables and demonstrate a high level of internal coherence. Accordingly, the dataset can be considered statistically reliable for further empirical analysis and hypothesis testing.

### 3.3 Normality Test

To ensure the appropriateness of the data for parametric statistical analysis, a normality test was conducted using skewness and kurtosis measures. This test evaluates whether the distribution of the variables follows a normal distribution, which is a key assumption in many statistical techniques.

**Table (4): Skewness and Kurtosis Analysis**

Variable	Skewness	Kurtosis	Distribution
Traditional Budgeting	-0.72	0.88	Normal
Expenditure Efficiency	0.65	-0.41	Normal
Fiscal Sustainability	0.59	-0.52	Normal
Oil Dependency	-1.02	1.15	Slightly Skewed
Program Budgeting	0.81	-0.33	Normal

## Interpretation

The results indicate that the data exhibit an acceptable normal distribution, which satisfies one of the key assumptions required for parametric statistical analysis. Accordingly, the dataset is suitable for applying advanced statistical techniques such as correlation and regression analysis. This confirms the robustness of the data and supports the validity of subsequent inferential statistical procedures.

### 3.4 Correlation Matrix (Extended)

To examine the relationships between the study variables, a Pearson correlation matrix was employed. This analysis helps to identify the strength and direction of associations among the key dimensions of the Iraqi budgeting system.

**Table (5): Pearson Correlation Matrix**

<b>Variables</b>	<b>TB</b>	<b>EFF</b>	<b>FS</b>	<b>OIL</b>	<b>PB</b>
TB	1.00	-0.62	-0.58	0.71	-0.66
EFF	-0.62	1.00	0.68	-0.55	0.74
FS	-0.58	0.68	1.00	-0.60	0.70
OIL	0.71	-0.55	-0.60	1.00	-0.63
PB	-0.66	0.74	0.70	-0.63	1.00

## Interpretation

The correlation results indicate clear and statistically meaningful relationships among the main study variables. Specifically, traditional budgeting (TB) shows strong negative correlations with both efficiency (EFF) and fiscal sustainability (FS), suggesting that greater reliance on traditional line-item budgeting is associated with weaker public expenditure performance and reduced fiscal stability.

In contrast, program budgeting (PB) demonstrates strong positive relationships with both efficiency and fiscal sustainability, indicating that the adoption of modern budgeting approaches is associated with improved allocation of public resources and stronger fiscal outcomes. Overall, the results confirm that the structure of the budgeting system plays a decisive role in determining the effectiveness and sustainability of public financial management in Iraq.

### 3.5 Regression Analysis (Model 1: Expenditure Efficiency)

To examine the impact of budgeting system variables on public expenditure efficiency, a multiple regression analysis was conducted. This model assesses the extent to which traditional budgeting, program budgeting, and oil dependency explain variations in expenditure efficiency.

**Table (6): Multiple Regression Results**

<b>Predictor</b>	<b>Beta (<math>\beta</math>)</b>	<b>t-value</b>	<b>Sig.</b>
Traditional Budgeting	-0.41	-4.12	0.000
Oil Dependency	-0.36	-3.85	0.001
Program Budgeting	0.52	5.67	0.000

## Model Summary

<b>R</b>	<b>R<sup>2</sup></b>	<b>Adjusted R<sup>2</sup></b>	<b>F-Value</b>	<b>Sig.</b>
0.78	0.61	0.59	31.45	0.000

### Interpretation

The model explains 61% of the variance in public expenditure efficiency, indicating strong explanatory power. Program budgeting is the strongest positive predictor.

### 3.6 Regression Analysis (Model 2: Fiscal Sustainability)

**Table (7): Regression Results**

<b>Predictor</b>	<b>Beta (<math>\beta</math>)</b>	<b>t-value</b>	<b>Sig.</b>
Traditional Budgeting	-0.38	-3.92	0.001
Oil Dependency	-0.44	-4.51	0.000
Program Budgeting	0.49	5.21	0.000

### Model Summary

<b>R</b>	<b>R<sup>2</sup></b>	<b>Adjusted R<sup>2</sup></b>	<b>F-Value</b>
0.81	0.66	0.64	36.78

### Interpretation

Fiscal sustainability is strongly affected by oil dependency and traditional budgeting, while program budgeting significantly improves fiscal sustainability.

### 3.7 ANOVA Test

**Table (8): Group Differences Analysis**

<b>Variable</b>	<b>F-Value</b>	<b>Sig.</b>
Budget Efficiency Differences	18.62	0.000
Sustainability Differences	21.45	0.000
Budget Modernization Perception	24.11	0.000

### Interpretation

There are statistically significant differences in perceptions of budgeting efficiency depending on respondent groups.

### 3.8 Multicollinearity Test

**Table (9): Collinearity Statistics**

Variable	Tolerance	VIF
Traditional Budgeting	0.62	1.61
Oil Dependency	0.58	1.72
Program Budgeting	0.66	1.51

### Interpretation

All VIF values are below 5, confirming that there are no multicollinearity issues in the regression model.

### 3.9 Overall Model Fit Summary

**Table (10): Integrated Model Performance**

Indicator	Value	Evaluation
R <sup>2</sup> (Efficiency Model)	0.61	Strong
R <sup>2</sup> (Sustainability Model)	0.66	Strong
Significance Level	0.000	Highly Significant
Model Stability	High	Acceptable

### 3.10 Final Statistical Interpretation

The extended statistical analysis confirms that the Iraqi budgeting system is structurally constrained by:

- Heavy dependence on oil revenues
- Persistence of traditional line-item budgeting
- Weak adoption of performance-based budgeting

However, the results strongly demonstrate that program and performance budgeting significantly improve both efficiency and fiscal sustainability, making them a viable direction for reform.

## **Conclusions**

1. The Iraqi budgeting system is still largely dominated by the traditional line-item budgeting approach, which focuses on inputs rather than outputs, resulting in a weak linkage between public spending and development outcomes.
2. The system suffers from a very high dependence on oil revenues (more than 90%), making fiscal policy highly vulnerable to external shocks, particularly fluctuations in global oil prices.
3. There is a clear structural imbalance in public expenditures, where operational spending (salaries, wages, and subsidies) dominates investment spending, limiting economic growth and infrastructure development.
4. The study confirms weak public expenditure efficiency, reflected in financial waste, weak oversight mechanisms, and low productivity of government spending.
5. Weak financial planning and the absence of long-term strategic budgeting contribute to fiscal instability and hinder sustainable development.
6. The persistence of financial and administrative corruption negatively affects budget execution and reduces the effectiveness of public financial management.
7. Statistical results indicate that program and performance budgeting has a positive and significant impact on improving both expenditure efficiency and fiscal sustainability.
8. Overall, the Iraqi budgeting system requires comprehensive structural reform to transition from an input-based model to a performance-oriented and results-based budgeting system.

## **Recommendations**

1. **Transition to Program and Performance Budgeting**  
It is necessary to gradually replace the traditional line-item budgeting system

with program and performance-based budgeting in order to improve efficiency and link public spending with measurable outcomes.

**2. Diversification of Public Revenues**

The Iraqi economy should reduce its heavy dependence on oil by strengthening non-oil revenue sources such as taxation, customs, and productive sector income.

**3. Rationalization of Operational Expenditures**

Control and reduce excessive operational spending, particularly wage bills and subsidies, to increase allocations for investment and development projects.

**4. Strengthening Financial Planning**

Adopt medium- and long-term financial planning frameworks to ensure budget stability and support sustainable development strategies.

**5. Enhancing Transparency and Anti-Corruption Measures**

Strengthen monitoring systems and accountability institutions to reduce financial waste and combat corruption effectively.

**6. Digital Transformation of the Budget System**

Accelerate the implementation of financial digitalization and e-budgeting systems to improve efficiency, transparency, and real-time financial control.

**7. Capacity Building of Financial Personnel**

Develop human capital through continuous training in modern public financial management techniques and international budgeting standards.

**8. Improving Public Expenditure Efficiency**

Implement performance evaluation systems to measure government spending effectiveness and ensure optimal resource allocation.

**9. Strengthening Legal and Institutional Frameworks**

Update budgeting laws and regulations in line with international best practices to support fiscal reform initiatives.

## 10. Enhancing Cooperation with International Financial Institutions

Strengthen coordination with organizations such as the World Bank and IMF to benefit from technical expertise and support structural reforms in the Iraqi budgeting system.

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