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The Shadow Economy and its Impact on Sustainable Development in Iraq

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Abstract: The informal private sector, also known as the unregulated economy or shadow economy, poses a significant challenge to the economies of both developed and developing countries. When its size increases substantially, it poses a serious threat to the present and future rights of society as a whole. Therefore, the damage it inflicts on the economy due to its lack of official registration, taxation, legal accountability, and other controls that govern its operations or regulate it in a way that does not negatively impact sustainable development cannot be ignored.

Although the informal sector exists in all centralized and decentralized systems, it is more prevalent in developing countries due to the imbalance in the economic, legal, and regulatory environment, and the resulting problems such as poverty and unemployment. This compels individuals to turn to the informal sector to ensure their survival. All of this has led to the sector's large size and its high contribution to the gross domestic product (GDP).

Iraq, as a developing country, suffers from the same problems as other developing countries, especially after 2003. As a result of the unregulated shift towards capitalism, the unregulated sector has grown to such an extent that it has become more dominant than the newly established organized sector, leading to the emergence of numerous problems that have begun to clearly and seriously affect the requirements of sustainability. However, this issue has remained far from the attention of the state and the institutions concerned in the field of research and studies, for the simple reason that this sector contributes, even if only temporarily, to addressing serious problems in Iraqi society.

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Introduction

The unregulated private sector, also known as the informal economy or the shadow economy, poses a significant challenge to the economies of both developed and developing countries. When its proportion increases significantly, it poses a major threat to the present and future rights of the entire society. Therefore, the damage it inflicts on the economy due to its lack of official records, taxes, legal accountability, and other controls that govern or regulate its work in a way that does not negatively affect sustainable development cannot be ignored.

Although the informal sector exists in all centralized and decentralized systems, it is more prevalent in developing countries due to imbalances in the economic, legal, and regulatory environment, leading to problems such as poverty and unemployment. This compels individuals to turn to the informal sector to ensure their survival. All of this has resulted in the sector's significant size and its high contribution to the gross domestic product.

Iraq, as a developing country, suffers from the same problems as other developing countries, especially after 2003. As a result of the unregulated shift towards capitalism, the unregulated sector has grown to such an extent that it has become more dominant than the newly established organized sector, leading to the emergence of numerous problems that have begun to clearly and seriously affect the requirements of sustainability. However, this issue has remained far from the attention of the state and the institutions concerned in the field of research and studies, for the simple reason that this sector contributes, even if only temporarily, to addressing serious problems in Iraqi society.

Research Problem

The Iraqi economy suffers from a large percentage of economic transactions leaking outside the income stream. National, i.e., outside the scope of official economic transactions, causes a great deal of its resources to be wasted. The internal situation exacerbates the heavy legacy of structural problems and imbalances that have affected the joints. The main focus of the Iraqi economy. Iraq faces challenges when studying the country's economic situation and the amount of data and statistics available when developing appropriate development plans for progress and growth. One of the reasons may be the role of the informal economy, as it is a hidden economy that directly affects the income of individuals, employment, and the market economy, which has caused delays or setbacks in the preparation and implementation of those plans.

Research hypothesis

The transition from the informal sector to the formal sector increases opportunities for growth and development by contributing to job creation and increased output, provided that the state provides safe conditions for achieving a voluntary and gradual.transition. The informal sector is a reality, whether we like it or not

Importance of the research

The importance of this research stems from the fact that the subject of the study reflects the reality of the Iraqi economy and what we are witnessing in The current situation is marked by economic problems and obstacles, which are weakening the economy. And its reduced productivity, and consequently a decrease in GDP, a large proportion of which goes towards Leakage outside the scope of the national income cycle.

Research objectives

The research aims to achieve the following:

a) Referring to the concept of the shadow economy or (The hidden economy) and what are the reasons behind it? Its spread in most countries of the world has become a threat to the economies of most of those countries.

b) Clarifying the mechanisms of the hidden economy, the means by which these areas of it spread, and the means by which this economy operates.

c) Referencing the informal economy in Iraq, especially after 2003, and its methods of operation. The economy and the extent to which it is affected by this type of economic transaction, and what are the economic effects? Social and political aspects of this type of economy.

Research Methodology

researcher relied on the theoretical and analytical methods that attempt to describe the phenomenon of the subject. The study, and a description of the most important data that attempts to give an idea of the subject of the study, and then the analysis The most important direct and indirect factors affecting the phenomenon, and consequently, the most important recommendations that can be drawn. It would address such a phenomenon.

Research boundaries

The research is divided into two parts in terms of its scope: temporal and spatial boundaries, which are:

1. Thetime is the period after 2003.
2. The place is the Iraqi economy.

First Part: The fundamentals concept

Introduction:

The concept of the shadow economy and sustainable development, and the relationship between the shadow economy and sustainable development.

First: The concept and definition of the shadow economy:

Although the shadow economy is an ancient economic phenomenon in human societies-indeed, there is a belief that its emergence predates the state and the formal economy associated with it-historically, when individuals lived in small groups that did not rise to the level of a state, they had to engage in economic and commercial activities such as agriculture, herding, and bartering, and there was no need to obtain a license from any authority to carry out such activities. However, the concept of the shadow economy has undergone historical development due to the renewal of its types with the renewal of human needs. It was initially known as the informal economy, and the first to refer toit was the English humanist)KeithHart. ,1972 p32).

Before proceeding to define the shadow economy or attempting to conceptualize it, it is necessary to point out that the shadow economy emerged as a concept and not a term. This is because a concept is an expression, system, or set of ideas that are disputed and have not crystallized clearly, while a term is a complete, clear, and agreed-upon expression, i.e., precisely and clearly defined. Hence the difficulty in defining the essence of the shadow economy. Therefore, we see researchers using several concepts to express the activities of the shadow economy, the broadest of which is (Thamer, 2005,)p. 23

The informal economy: is a group of productive economic activities that are not included in the national accounting system and are characterized as not being taxable or not subject to the tax system, or as not being registered)such as(activities resulting from work in unregistered shops (and workshops.

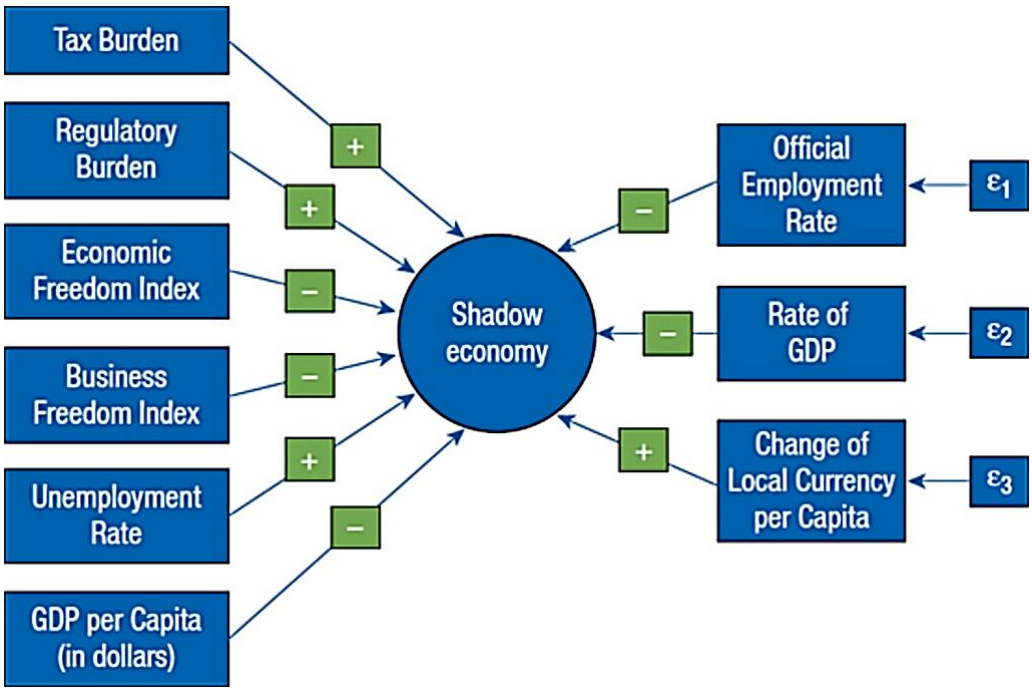
a) The secret or hidden economy or underground economy is defined as (that economy which expresses all aspects of activity that are practiced in secret in an illegal manner and which contradict laws, customs and morals with the intention of achieving private benefit even if this leads to harm to the public interest)Hassanein, 1985, p13).

b) Because this economy coexists with the official economy, it is sometimes called the parallel economy. An example of this is the black market, which is also known as the parallel market for goods and currencies.

c) The other group (Salman, 2010, p. 2) which calls the shadow economy the black economy, believes that the shadow economy includes businesses that are not subject to government control and all the dues due to the activity towards the state, but the goods here are prohibited from trading and forbidden to use and deal with, such as (weapons, drugs, theft of antiquities...etc.. We note that these names looked at one part and neglected the other, so the view was not comprehensive for this economy.

Diagram (1) shows that calling the undeclared economy the shadow economy is the most accurate and familiar term with the concept.

Diagram (1)
The shadow economy and its parts



Reference: https://www.elibrary.imf.org/display/book/9781513575919/ch002.xml

From the above, the researchers know that the shadow economy is a set of activities that generate income that is not officially recorded in the national product accounts, either because it is deliberately hidden to evade the legal obligations associated with disclosing these activities, or because these income-generating activities, by their nature, are considered to be in violation of the prevailing laws in the country**.**

Types of the shadow economy First :

Several types of shadow economy can be identified, depending on the types of transactions in the comes (Al-Rajhi, 2021, Page 22) economic sector. And as:

A. Cash Transactions: These transactions encompass all economic activities that produce goods and services using money as a medium of exchange within the formal economy. This includes counterfeit medicines, the trade in hallucinogenic pills and drugs, embezzlement of public funds, smuggling, bribery, political corruption, arms trafficking, fraud, prostitution, and gambling, which are considered non-taxable activities. Taxable activities, on the other hand, include all small professions and industries that are not registered with the tax authorities, or are registered but where the taxpayer submits a tax return for less than its true value, conceals part of their business, or intentionally destroys records to mislead the tax authorities into believing that profits are low.

B. Non-Monetary Transactions: This type of transaction includes economic activities that produce real goods and services which are not consumed or exchanged within the formal economy but are bartered or consumed internally by the producing units, such as bartering stolen or smuggled goods for personal use, and the trafficking and cultivation of drugs. These are considered non-taxable and illegal activities. Transactions of family-run businesses producing legal goods, including bartering legal goods and services, and production for self-consumption such as farming, raising poultry, or providing assistance to others, are also included. These activities are not officially registered with the tax authorities and are used to avoid paying taxesMahmoud and (Salah al-Din. 2011, p. 5)

Second: The concept and definition of sustainable development

The concept of sustainable development emerged in the early 1980s and began to attract renewed scientific and intellectual attention. This was highlighted in the 1981 report by the International Union for Conservation of Nature (IUCN), which was entirely dedicated to sustainable development and titled "International Strategy for Environmental Conservation." The report provided a specific definition of sustainable development as "the continuous pursuit of improving the quality of human life while taking into account the capacities and potential of the ecosystem that sustains life." The 1987 final report, titled "Our Common Future," marked the true birth of the concept of sustainable (continuous) development, which some economists call green development. This is because, for the first time, we observed an integration of economic, social, and environmental needs into a single definition. This definition included two essential elements: needs, specifically the basic needs of the world's poor, and the constraints imposed by technology and social organization on the environment's ability to respond to present and future needs. (Aref, 1989, p. 83) defines it as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". This entails intergenerational participation and equity.

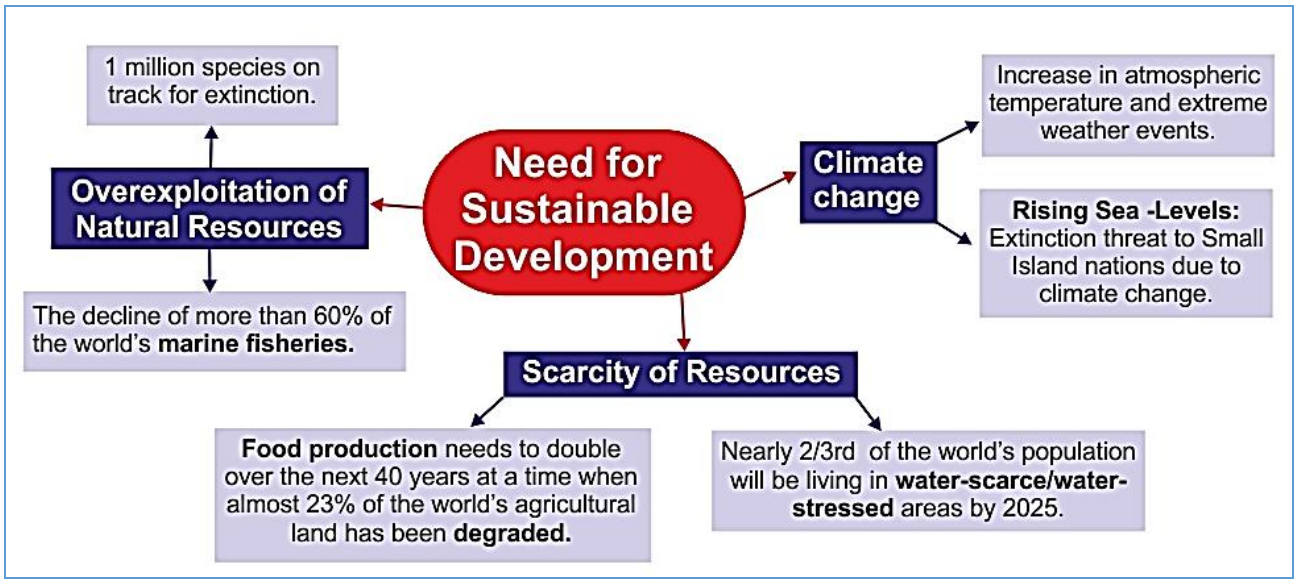
The Brundtland Report highlighted the link between the environment and the economy when it defined (Economic and Social Commission for Western Asia - ESCWA 2005, p. 2). Sustainable development is defined as (a concept that aims to achieve a balance between economic and social pillars and environmental protection).

Finally, in 1989, the Food and Agriculture Organization of the United Nations (FAO) defined sustainable development as “the management and protection of the natural resource base and the guidance of technological and institutional change in a way that ensures continuity and satisfies the human needs of present and future generations.”

The 1990s played a major role in completing the concept of sustainable development through the Earth Summit, which is an international declaration of the necessity of adopting the principle of sustainable development at the international level and as a real path to achieving well-being, preserving natural resources, and eliminating poverty and hunger.

In general, we can trace the conceptual evolution of the term through Figure (2), which shows the roles that sustainable development has played from the 1990s to the present day.

Figure **(2)**



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Third: Sustainable development, its principles and goals

Sustainable development, through its mechanisms and content, seeks to achieve a number of goals (Tattoos, 2011, p. 3).

a) Achieving a better quality of life for the population: focusing on the relationships between population activities and the environment, and dealing with the natural system and its contents on the basis of human life, through measures for preserving environmental quality and restoration, and working to ensure that the relationship in the end is one of integration and harmony.

b) Enhancing public awareness of existing environmental problems, fostering a sense of responsibility towards them, and encouraging active participation in finding appropriate solutions through involvement in the preparation, implementation, monitoring, and delivery of sustainable development programs and projects.

c) Respect for the natural environment: This is achieved by focusing on the relationship between human activities and the environment, and by dealing with the natural system and its contents in relation to human life. Therefore, sustainable development is that which understands the delicate relationship between the built environment and works to develop this relationship into one of integration and harmony.

d) Achieving rational exploitation and use of resources: Here, development deals with resources as limited, therefore preventing their depletion or destruction and working to use and employ them rationally.

e) Linking modern technology to societal goals: Sustainable development seeks to utilize modern technology to serve societal goals by raising awareness among the population about the importance of various technologies in the development field, and how to use existing and new technologies to improve the quality of life and achieve desired goals, without causing negative environmental risks or impacts, or at least ensuring that these impacts are controlled through appropriate solutions.

Bringing about appropriate changes in the needs and priorities of society: by following a method that suits the capabilities and allows for achieving the balance through which economic development can be activated, and all environmental problems can be controlled.

f) Achieving technological economic growth: This should preserve capitalism, which includes natural and environmental resources. This, in turn, requires developing institutions and management structures suitable for risks and fluctuations in infrastructure, and ensuring equality in the distribution of wealth between successive generations and within the same generation (Mahmoud et al., 2015, p.15).

Its principles: The fundamental relationship between growth on the one hand and the environment on the other led to the identification of the principles upon which the concept of sustainable development was based, and they were represented as follows: (Al-Quraishi, 2011, p. 22)

a) Using a systems approach in preparing and implementing sustainable development plans: The systems approach is a prerequisite for preparing and implementing sustainable development plans. This is because the human environment is a subsystem of the overall system, and therefore, sustainable development, through this approach, works to achieve subsystems in a way that leads to a balance in the Earth's environment as a whole. This approach is an integrated method that aims to preserve the lives of societies in all economic, environmental, and social aspects without negative and conflicting impacts between these aspects. Among the environmental problems associated with economic development is the agricultural policies implemented in many countries around the world, which primarily contribute to soil degradation.

b) Popular participation: Achieving sustainable development requires providing an appropriate form of decentralization that enables official, popular, civil bodies and the population in general to participate in the preparation, implementation and follow-up of its plans. This concept is called bottom-up development and the role of local governments can be summarized as follows:

- To limit the increase in the Earth's temperature.
- Management and treatment of environmental, commercial and industrial waste.
- Reducing the emission of gases that affect the ozone layer.
- Reducing consumption of petroleum products.

c) The principle of dynamic optimal utilization of economic resources.

d) The principle of extending the lifespan of economic resources, and strategic planning for these resources.

e) The principle of ecological balance and biodiversity.

f) The principle of preserving the characteristics and features of nature, as well as defining and developing the structures of production, investment and consumption. (Muhammad et al., 2015, p. 342)

Third: The impact of the unregulated private sector on sustainable development

It is well known that achieving the Sustainable Development Goals requires the full and efficient use of society's material and human resources, including improving the quality of life now and in the future. Achieving this requires adopting development strategies based on building institutions, improving markets, and applying regulatory, economic, and preventive tools to raise awareness in line with achieving these development goals that take into account all aspects of life. The absence of the rule of law and the registration of transactions encourages economic activity

based on rules other than those established by the state. The informal economy or unregulated sector is fundamentally based on profit and the pursuit of quick gains at the expense of the public interest, leading to imbalances at the economic, social, environmental, and even cultural levels, thus becoming the primary obstacle to sustainable development.
The existence of one leads to the elimination of the other. The larger the informal sector becomes, the more it indicates the state's limited ability to govern and its weakness in maximizing the economy.
The reasons for the spread of informal employment fall into two categories: the first is forced due to the lack of job opportunities resulting from declining growth rates, and the second is voluntary due to the desire for financial independence (Abdul-Azim, 1997, p. 207)
And as long as we are talking about sustainable development, the negative impacts of the unregulated private sector must be divided into:

1. Economic effects:

It is extremely difficult to discuss or calculate something that is statistically determined and quantified. Therefore, the lack of accurate data on the number of workers in the informal sector renders data on unemployment rates, growth, inflation, spending, and income distribution inaccurate. This, in turn, affects future planning and the economic stability of the country. This also leads to difficulties in prescribing appropriate solutions to the economic problems the country is facing. This is what E. Feige discussed when he argued that the recession of the mid-1970s, accompanied by a rise in the general price level, was in reality a statistical illusion resulting from the growth of the informal economy.

Inaccurate statistics can influence policy decisions and their outcomes. For example, if the actual GDP is higher than reported, and employment levels are inaccurate, the government may implement expansionary policies that lead to increased inflation rather than higher output or employment. The negative impact of the informal economy is also evident in the loss of government revenue due to tax evasion, which leads to an unfair distribution of the tax burden, favoring those working in the informal sector who evade taxes. Furthermore, lower production costs in the informal sector create unfair competition with the formal sector, resulting in a shift in resource allocation towards the informal sector and consequently lower efficiency. (Abdul Salam, 1999, p. 53)

2. Social effects

The existence of the private or informal sector causes some negative social effects, the most important of which are the following: Al-Khaliq, 1998, pp. 28-30):

- The unequal distribution of income in society is a major problem, as certain groups operating within the economy, such as brokers, middlemen, land and real estate dealers, smugglers, black market traders, and others with undeclared incomes, experience significant increases in their earnings. Meanwhile, those with fixed incomes suffer, leading to the upward mobility of some groups with undeclared incomes due to increased income and wealth, while the relative income position of middle and lower-income groups diminishes. This results in a shift in overall consumption patterns, which is often accompanied by the misallocation of resources and related irrational consumption patterns that conflict with the requirements of development.
- The private sector contributes to generating new social structures, the most important of which relates to deepening the consumer society within society, which is characterized by deviating from the rules of economic rationality in spending, the growth of demand for consumer and durable goods, the increase in luxury consumption, and the growth of new social classes that contribute a fundamental role in the consumption process and a lesser role in the production process. The emergence of these classes has resulted in a modification of the relative positions

of members of society and an impact on economic and social relations, which threatens economic and social stability.

- There is also a close link between shadow economy activities and economic crimes, as there is a feedback loop or circular relationship that works in both directions in a multiplied manner. Criminal activities represent the main source of money and illicit income that finds its way to investment and employment in the shadow economy. Then this money and illicit income returns to finance new criminal activities, and thus crime infiltrates and corruption spreads in society.

3. Environmental impacts:

Population pressure on cities as a result of migration to them for the purpose of practicing unregulated activities leads to the spread of slums and pressure on infrastructure, especially when homes are turned into centers for practicing their work, which increases the severity of risks, the spread of diseases, and the emergence of problems of sanitation, water and electricity. All of this leads to a decline in the work environment. In addition to that, there is the important role played by the unregulated private sector and its environmental impact, which is represented by the recycling activities practiced in the unregulated private sector, which play an important role in reducing environmental pollution (Abdul Razzaq Maraghi, 2001, p. 126). Population growth, unemployment, the spread of slums, pressure on infrastructure, and environmental pollution.

SecondPart

The reality of the shadow economy in Iraq after 2003

Introduction:

The Negotiation and Strategic Studies Organization and the Iraqi Business Council, with support from the Center for International Private Enterprise (CIPE), conducted an applied study on the shadow economy in Iraq entitled "The Informal Sector in Iraq: An Exploratory Study." The study employed a field survey methodology and generalized its findings to the broader Iraqi context. The results of the survey revealed that approximately 32% of the study sample indicated that the government is indifferent to the shadow economy. A smaller percentage (14%) believed that government entities are behind its emergence, while 30% stated that the government lacks a clear stance on the shadow sector. Twelve percent indicated that the government has adopted a strict position, and 10% considered it a problem the government is trying to address. The smallest percentage (2%) described it as an unregulated, competitive sector (Center for International Private Enterprise, The Informal Sector in Iraq, Erbil, p. 19).

It is clear that these disappointing results indicate an unjustified neglect of studying the reality of the shadow economy in Iraq at the governmental level. This is represented by the lack of quantitative research and studies that should be undertaken by the centers, studies, sectors, and ministries related to the economic field to address the phenomenon of the shadow economy in Iraq in terms of its causes, spread, and economic and social effects, so that effective executive procedural conclusions can be drawn to address the phenomenon and its repercussions on sustainable development.

Over the past decade and a half, the Iraqi economy has witnessed several manifestations of the shadow economy, perhaps the most prominent being tax evasion, which is one of its most significant forms. Successive increases in tax costs have provided a strong incentive for the growth of tax evasion and a decline in what can be accurately termed tax collection. This decline manifests itself in tax collectors either removing certain activities from the tax base or drastically reducing their prices, in exchange for taxpayers fulfilling purely personal desires for the collector

by soliciting bribes, the value of which is determined by the extent to which the activities are excluded or their prices are reduced. (Same source, p. 67)

Not to mention the pattern of flourishing foreign exchange activities, especially the dollar, at a pace that exceeded other shadow economy activities, resulting from The daily foreign currency auction, conducted by the Central Bank of Iraq, along with the expansion of current spending allocated to salaries and wages, Expenses for providing subsidies for basic commodities and investment spending to finance the reconstruction of what was destroyed by the war waged by the United States of America In the year 2003.

Furthermore, there is the flight of capital and its negative impact on investment activity within Iraq. This is compounded by the transfer of foreign currency abroad, the smuggling of machinery, heavy equipment, livestock, and other assets, and the absence of data on these illicit economic activities from national accounts statistics. Consequently, they are not considered when planning national development indicators or formulating general economic policies. Another prevalent form of the shadow economy in Iraq is parallel commodity production outside the framework of existing laws and regulations. Examples include the emergence of home-based industrial activities such as the processing of grains and their derivatives, food products, cigarettes, textiles, and sweets, among others. These activities do not appear in national accounts and all occur outside the purview of health and environmental oversight bodies, or through collusion with business owners. (Hamad, 2013, p. 10)

A study by the Economic and Social Commission for Western Asia (ESCWA) has shown that one of the most distinctive features of the Iraqi labor market is the high rate of growth of labor supply, resulting from the increasing rate of population growth, which is met with a slowdown in the rate of growth of demand for labor (ESCWA, Social Impacts of Restructuring with Special Focus on Unemployment, 2000, p. 32).

This has implications for the growing phenomenon of unemployment, which, according to the Ministry of Planning, has become a natural result of the oversupply of labor and the significant decline in demand for it (Ministry of Planning and Development Cooperation. Central Statistical Organization and Information Technology. Population and Labor Force Statistics Directorate. Employment and Unemployment Survey in Iraq for the year 2006, p. 121). The imbalance between labor supply and demand has created a wide gap between the outputs of educational institutions and the inputs, resulting in blatant unemployment. The unemployed have turned to looking for informal job opportunities, due to the inability of the formal sector to absorb them, which has contributed to strengthening the shadow economy phenomenon in Iraq. These informal activities undertaken by the shadow economy provide employment opportunities, paying workers wages below the minimum wage stipulated by labor laws. This situation is exacerbated by rising unemployment and the high cost of living in Iraq, where minors and retirees are often employed at low wages. Furthermore, employers evade income tax, value-added tax, and sales tax, as well as social security contributions for their employees, engaging in tax evasion, which has become synonymous with the shadow economy.

easuring the size of the shadow economy in Iraq:

The simple currency ratio can be calculated by dividing changes in the exchange rate (the rate of liquid money) by changes in the rate of demand deposits (current accounts). This method is based on the premise that transactions in the formal economy are partly conducted using currency in circulation and partly using demand deposits. In contrast, transactions in the informal economy are conducted using currency in circulation (liquid money).\

The required data were collected from the annual economic reports prepared by the General Directorate of Statistics and Research at the Central Bank of Iraq for the years under study (2003-

2016) and the Ministry of Planning, Central Statistical Organization and Information Technology, National Accounts Directorate, for different years, as shown in Table (1).

Table (1) Monetary indicators and non-oil GDP in Iraq For the years (2003-2016) at current prices

Years	Monetary Indicators and Non-Oil GDP			
	Currency in Circulation C	Demand Deposits D	Non-Oil GDP Minimum $GDP_{non-oil}$	Supply C+D, M1
2003	4629794	1143807	9201180	5773601
2004	7162945	2985681	22643246	10148626
2005	9112837	2286288	31371936	11399125
2006	10968099	4491961	43036264	15460060
2007	14231700	7489467	52868893	21721167
2008	18492502	9697432	70922383	28189934
2009	21775679	15524351	75068438	37300030
2010	24342192	27401297	86223919	51743489
2011	28287361	34186568	102618422	62473929
2012	30593647	33142224	128501394	63735871
2013	34995453	38835511	146154208	73830964
2014	36071593	36620855	147366112	72692448
2015	34855256	30580169	168397000	65435425
2016	28658000	42025000	185368000	70683000

Source:

- Central Bank of Iraq, General Directorate of Statistics and Research, Annual Economic Reports (2003-2016).
- Republic of Iraq, Ministry of Planning, Central Statistical Organization, National Development Plan (2013-2017), Baghdad, 2013.
- Republic of Iraq, Ministry of Planning, Central Statistical Organization and Information Technology, National Accounts Directorate, various years

Choosing the post-2003 timeframe for this research is justified by objective reasons, as Iraq witnessed significant structural shifts during that period, beginning with the events following 2003, which represent a turning point. In the history of modern Iraq, this has resulted in structural economic changes, not to mention political and social ones, the first of which was the initiation of managing the Iraqi economy, according to the American vision, based on the principles and mechanisms of the free market. Based on competition, complete economic, financial and trade openness, and abandoning the policy of government intervention, Table (2).

Table (2) the size of the shadow economy has fluctuated in accordance with the fluctuation in the velocity of money

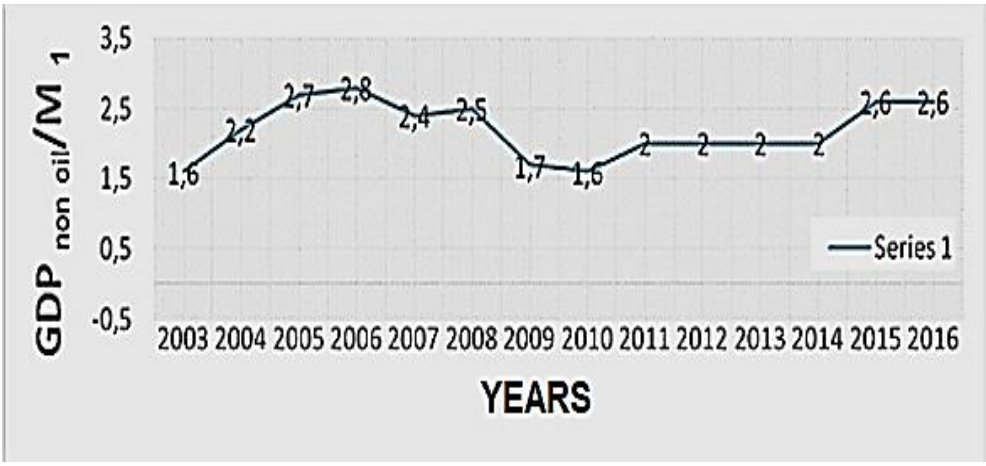
Years	Monetary Indicators				
	Velocity of Money GDP non-oil /M1 N	Ratio of Currency in Circulation Annual Rate of Change C/ M1 k1	Ratio of Currency in Circulation C Money Supply K-k2016 Rk	Shadow Economy Percentage of Shadow Economy to ND	GDP nonoil/M1 to Money Supply
2003	1.6	80.2	39.7	18300912	19.9
2004	2.2	70.6	30.1	65684982	29.0
2005	2.7	79.9	39.4	61729776	19.6
2006	2.8	70.9	30.4	125774908	29.2
2007	2.4	65.5	25.0	179747208	34.0
2008	2.5	65.6	25.1	24243580	34.2
2009	1.7	58.4	17.9	263913967	34.0
2010	1.6	47.0	6.5	438420752	50.8
2011	2.0	45.3	4.8	68373136	66.6
2012	2.0	48.0	7.5	66284448	51.6
2013	2.0	47.4	6.9	77671022	53.1
2014	2.0	49.6	9.1	73241710	49.7
2015	2.6	53.3	12.8	795084394	47.2
2016	2.6	40.5	0.0	109265000	58.9

Source: Central Bank of Iraq, General Directorate of Statistics and Research, Annual Economic Reports (2003 - 2016).

Table (2) shows that the size of the shadow economy has fluctuated in accordance with the fluctuation in the velocity of money, reaching (1.6) in 2003, and witnessing a significant increase in subsequent years. 2004, 2005, 2006 It reached (2.2), (2.7) and (2.8) respectively. It then decreased to (2.4) in 2007, and fluctuated between highs and lows in 2008 Until 2010. It witnessed relative stability, reaching (2) in the years 2011 until 2014, and then it rose to (2.6) in the last two years 2015 and 2016.

This fluctuation in the velocity of money during the study period is attributed to the high marginal propensity to save among members of society, as a precaution against the unstable conditions that Iraq has witnessed since 2003 and the subsequent security instability and its repercussions on the economic situation. Furthermore, the decrease in the velocity of money is explained by the growing confidence of Iraqis in their national currency as a store of value, and by Iraq's liberation from the economic sanctions that had plagued it for over a decade. This coincided with the rise in the price of oil exported to global markets and the increase in oil exports, as shown in Figure (3).

Diagram(3)



Source: Central Bureau of Statistics, p. 30.

The increase in the size of the shadow economy reveals the spread of administrative and financial corruption, and the weakness of regulatory bodies.
These figures, which at first glance might appear low compared to developing countries, are actually high in an economy still largely managed by public sector institutions, despite near-complete economic, financial, and trade openness to the outside world. The private sector's contribution remains largely limited to marginal economic activities.
The relatively large size of the shadow economy in Iraq is attributed to the decline in domestic production levels in the public sector. This decline stems from the shutdown of most production lines due to the extensive destruction inflicted on state-owned enterprises, not to mention the technological obsolescence of the production lines that survived the destructive war machine. The shortfall in both public and private national production was compensated for by the parallel market for importing goods, utilizing the increased circulation of foreign currency outside the banking system, thus expanding the size of the shadow economy.

Conclusions and recommendations:

A. Conclusions:

1. Grand corruption often afflicts senior officials and decision-makers in the country in order to achieve "rent surplus," and this type of corruption is associated with major deals in the world of contracting, arms trade, and the acquisition of commercial agencies for multinational companies, meaning domination over the state’s assets and properties.
2. The Iraqi economy has witnessed several patterns of the shadow economy phenomenon during the past decade and a half, perhaps the most prominent of which is the phenomenon of tax evasion, and the regression of what we can call the integrity of tax collection, which is summarized by the tax collection employee deleting some activities covered by the tax, or a sharp reduction in their prices, in exchange for the taxpayer fulfilling purely personal interests, by requesting a bribe and determining its value according to the extent of restricting activities or reducing their prices.
3. The fluctuation in the velocity of money during the study period is attributed to the high marginal propensity to save among members of society, in order to hedge against the unstable conditions that Iraq has witnessed since 2003.
4. The relatively high size of the shadow economy in Iraq is attributed to the low levels of domestic production of goods in the public sector, as a result of the shutdown of most production lines due to the massive destruction inflicted on government companies.

5. The shadow economy has economic and social effects that impact sustainable development in Iraq, both negatively and positively.

B: Recommendations:

1. Inviting relevant research bodies to develop a unified definition and standards for the informal sector at the level of Arab countries, in line with international definitions and standards, while taking into account the specificities of each country.
2. The government should take measures that would restrict the activities of the shadow economy and prevent its expansion, by reducing tax rates and easing the tax burden on .taxpayers, in order to encourage increased tax compliance
3. Formulating tax legislation laws in a sound, precise and clear manner and reviewing them periodically, so that no opportunity is left for taxpayers to take advantage of any legal loophole in them, and use them as a pretext for tax evasion and fleeing to work towards the shadow economy.
4. The government should develop a national strategy to combat the shadow economy, or include it within the national strategy to combat corruption, given that corruption and the shadow economy operate in an integrated manner in the absence of the rule of law, and in an interdependent manner under good governance.
5. The government must direct economic research centers in universities and ministries concerned with economic affairs, and urge researchers to conduct experimental research to determine the size of the shadow economy and its future trends

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