

THE IMPLICATIONS OF INFORMAL ACTIVITIES IN THE IRAQI ECONOMY FOR THE PERIOD (2019 – 2010)

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Abstract

The role of the negative effects of tax evasion and informal economic activities is increasing, as evidenced by the size of these phenomena regarding their impact on deductible values, ratios, and rates relative to GDP in the official national economy. The significant scale and value of tax evasion and informal activities can be measured through various indicators, which highlight the negative economic effects and instability in the national economy. This instability directly reflects the lagging and slow economic development processes and plans, particularly in Iraq.

Keywords: *Tax Evasion, Informal Activities, Money Laundering, Small Informal Enterprises.*

INTRODUCTION

In every economy worldwide, tax systems play a crucial and complementary role in the operation and integration of financial policies. On one hand, the state utilizes the tax system as a tool to address economic crises; on the other hand, it relies on it to fund the state budget and cover specific aspects of public spending. As a result, social welfare is achieved alongside overall economic balance, and subsequently, the objectives of intended economic development plans are met. State intervention has become a natural duty in all spending or investment policies due to the evolution of the tax system concept and the modern state concept, which views collection systems and fees as fundamental pillars of its success. Since the implementation of this system, several issues have emerged that diminish its effectiveness, such as tax evasion and unofficial business ventures.

Research Importance:

The significance of this research stems from its focus on the critical role that the tax system plays in supplying the general state budget, as well as its importance as a financial policy tool for addressing economic imbalances. Additionally, it is essential to study the phenomena associated with this system that limit its effectiveness and impact the economic and social aspects globally, particularly in Iraq.

Research Problem:

The evident shortcomings of Iraq's tax systems and instruments, the pervasiveness of tax evasion, and the growth of unofficial activity, which upset the country's economic equilibrium and development strategies, define the research problem.

Research Objective:

In order to discover effective methods to reduce the phenomenon of tax evasion and informal activities, the research attempts to identify the key economic variables and forces that contribute to their growth.

Research Hypothesis:

The study attempts to prove or deny the following hypothesis: (The phenomenon of tax evasion and the issue of the growth of informal activities have a significant impact on upsetting Iraq's overall economic balance.)

Spatial and Temporal Dimensions:

The research has interested in studying the reality of some economic phenomena affecting economic activity in Iraq as a spatial dimension, where the study data has included the period from (2010-2019) as a temporal dimension.

Research Structure:

For the purpose of proving the hypothesis of the research or denying it, study has been divided into three main sections: the first dealt with the conceptual framework of the phenomenon of tax evasion, the second dealt with informal activities and their concepts, while the third dealt with the analysis of the reality of the phenomena of tax evasion and informal activities in Iraq.

I. The Conceptual Framework of Tax Evasion

In order to collect money for various expenses and increase the state's economic efficiency in using its resources and attaining high growth rates for all activities and sectors, as well as to achieve a certain level of justice in the distribution of incomes among society members, tax instruments are a crucial component of any nation's fiscal policy. This helps the nation reach its ultimate goal, which is medium- and long-term economic stability. This research will focus on the most significant channels of leakage, represented by the phenomenon of tax evasion, which affects the final tax revenue that is reflected negatively in the implementation of the state's economic and social plans. This is because tax is a monetary deduction or a duty paid by the individual forcibly, permanently, and free of charge to cover the general burdens of society, or it is a monetary amount paid by taxpayers according to their ability permanently, free of charge to cover the state's expenses and achieve its goals: (Napti, 2014, 10).

1.1. Tax Evasion (Concept and Types).

The concepts and definitions of the phenomenon of tax evasion differ depending on the type of phenomenon, some of which are viewed from an economic point of view and definitions proceed accordingly, and some of which are related to legal aspects and thus this phenomenon is defined accordingly, so we will touch on the common concepts and types of this phenomenon according to the economic perspective.

1.1.1. The Concept of Tax Evasion:

Tax evasion is defined as "the situation in which individuals who are liable to pay the tax they owe, whether by providing misleading statements to the concerned departments or by evading payment of the amount of tax they owe using legitimate or illegal methods": (Mehrezi, 2003, 199). In this case the individual taxpayer gets rid of paying the tax amount in full or in part, and tax evasion is defined as "getting rid of the financial burden of tax in whole or in part without entailing the taxpayer legal burdens": (Napti, 2014, 11). As long as the taxpayer or companies have not violated the law in paying the amount of the tax value, they do not incur legal and procedural burdens, taking advantage of some legal loopholes that allow them to do this.

Additionally, tax fraud is defined as "the taxpayer dropping the tax burden or reducing it using illegal methods": (Murad, 2001, 7), tax evasion is a global phenomenon its existence is accompanied by the existence of tax and this phenomenon has expanded as a result of the rapid growth of informal economic activities. Due to the important role that tax plays in the financial and economic sphere, and the negative consequences of tax evasion on the stability of the national economy, so most regimes are trying to combat and address this phenomenon and mitigate its economic effects.

1.1.2. Types of Tax Evasion:

The form and term of the phenomenon of tax evasion can be achieved through two methods, which we recall in the following form:

- a) Legitimate tax evasion:** This type occurs when the individual tasked with paying the tax amount takes advantage of particular loopholes in the tax legislation, which is accomplished through the taxpayer's use of legal specialists to evade the payment process. For example, the individual in charge divides his money among legitimate heirs during his lifetime to avoid paying inheritance tax after his death, and another example is the taxpayer's refusal to register real estate in the name of a single person due to high taxes on people who own multiple properties.
- b) Illegal tax evasion:** in this type, the individual who is charged intentionally evades paying the amount of tax imposed on him by refraining from paying the due tax or submitting a false report on his taxable activity, or hides illegally imported goods and goods without recording them in his own records, or through the use of false records. This type is an illegal operation and a crime for which the law is held accountable (Mahrizi, 2003, 207).

1.2. Tax Evasion (Causes and Effects):

There are numerous factors that contribute to the spread of tax evasion, and these factors differ depending on the country, the nature of the economic system, and the availability of economic resources, as well as social factors. As a result, tax evasion has long-term economic, financial, and social consequences in those countries.

1.2.1. The reasons for the expansion of the phenomenon of tax evasion:

This phenomenon is due to several economic, social and legal reasons, including the following:

- a) The existence of loopholes in the drafting of the tax code:** these loopholes allow individuals charged with paying tax amounts to exploit them in legitimate ways.
- b) High tax rates:** there is a direct relationship between the high motives for tax evasion and the increase in tax rates on individuals who are taxpayers, the higher the tax rates, the higher the motivation for tax evasion and vice versa.
- c) The inability of the individual taxpayer to pay double tax:** it refers to the accumulated tax burdens on taxpayers, such as merchants paying transit tax on their goods and then paying customs tax at different transit points on the same goods.
- d) Inequality in the imposition of the amount of tax on taxpayer individuals:** inequality in the taxation with financial differences and differences in income and livelihood lead to the emergence of a state of distrust among members of society in the fairness of the tax which represents a major reason for their resort to tax evasion.

- e) **Administrative procedures:** the complexity of administrative procedures and the annoying routine in the tax payment transaction lead taxpayer individuals to the phenomenon of tax evasion.
- f) **Weak effectiveness of collection institutions:** the lack of efficiency and the absence of effectiveness in the administrative, organizational and control structure of the institutions of the tax system leads to the emergence of cases of financial corruption and bribery, which is reflected in the breadth of the phenomenon of tax evasion.
- g) **Poor tax awareness:** the lack of knowledge of community members about the importance of taxes, the amount of which is due to the final result in the provision of various public services to them.
- h) **Culture of community members:** the more a community has a culture, keenness and responsibility towards their homeland, the less the phenomenon of tax evasion and vice versa: (Murad, 2001, 18).

1.2.2 The Effects of the Phenomenon of Tax Evasion.

The process of tax evasion produces economic and social effects that are directly reflected in the slowing down of the economic plans set by the state in order to achieve development goals, which can be divided into the following:

a) Economic effects:

- Individuals and enterprises are moving to areas where there are more opportunities for tax evasion, even if those areas do not bring public benefit.
- ✓ Tax evasion leads to disruption of the economic balance process and the implementation of development plans as a result of reducing the state's financial receipts, which is reflected in the decrease in the effectiveness of the state in the implementation of production and investment projects and public service projects, as well as reflected in the performance of the state in its inability to address economic crises.
- ✓ Tax evasion leads to the absence of honest economic competition among different projects, as the criterion of competition is the ability of these projects and their efficiency in the illicit gain resulting from tax evasion and not the criterion of the level and quality of productivity.

b) Financial Implications:

- Tax evasion causes significant losses in revenues, which leads to a decrease in the ability of the state to perform its various functions.
- ✓ Tax evasion is a major reason why the state or the government resorts to the process of external borrowing in order to finance and cover its production and operational spending, which pawns the state's capabilities to international financial institutions for long periods.
- ✓ The decrease in revenues due to tax evasion with increased expenditures forces financial institutions in the state to issue new cash to finance the deficit, which will be reflected in raising commodity prices in local markets and higher inflation rates.

c) Social Effects:

- ✓ Tax evasion causes widespread cases of bribery, financial and administrative corruption, which leads to a state of distrust between members of society and state institutions.
- ✓ Tax evasion and lack of control leads to the introduction of expired and poor-quality goods, which directly affects the health of community members through the spread of diseases intensively.
- ✓ The absence of control and tax evasion in customs leads to the introduction of prohibited goods such as alcohol, drugs and cigarettes, and this contributes to the high crime rates and cases of violence among members of society (Sultani, 2001, 50).

1.3. Reform of The Tax System

1.3.1 The Concept of Tax Reform

When a nation's current financial systems fail to meet the goals for which they were created, or when they can't keep up with changes in the national economy or at the regional and international levels, that nation turns to reviewing its tax system by adding or changing paragraphs and procedures that help reduce waste from tax evasion. These procedures can be summed up in the following paragraphs:

- a) Reduce the rates of tax rates and make them fit into the reality of the living society.
- b) Expanding the tax vessels with the exclusion of the poor classes or alleviating them by means of continuous tax exemptions.
- c) Tax reform requires a real government will to reform that stands up to the beneficiaries at home and abroad.
- d) Equating the tax rates on the profits of companies inside according to the capital gains rates of these companies in the home countries: (Al-jawarin, 2011, no page).

1.3.2. Reasons for Tax Reform

The reasons and causes of tax reform are many and numerous, we summarize the most important of them in the following paragraphs:

- a) The high rates of money wasted as a result of the expansion of tax evasion operations arising from the existence of legal gaps in the tax systems.
- b) The weak tax effort and the imbalance of the financial system that most developing countries suffer from.
- c) Low incomes for members of society and frequent tax breaks, especially in developing countries.
- d) The imbalance of the organizational structure of the tax system, the weakness of the administrative, supervisory and executive apparatus and the expansion of the base of the tax base to include all strata of society without discrimination leads to inequality and the need for reform (al-Sultani, 2021, 42).

II. The Conceptual Framework of Informal Economic Activities

The term "shadow economy" has been used to describe a variety of informal economic activities in different countries around the world. Other names for these activities include "hidden economy," "parallel economy," "black economy," "underground economy," and many more. However, all of these terms have one thing in

common: they are unregistered activities that are not included in the records of economic sectors. Additionally, these activities are one of the characteristics of economic underdevelopment in nations where this phenomenon is prevalent.

2.1. Informal Economic Activities (Concept and Characteristics):

2.1.1 The Concept of Informal Activities:

These activities are legally defined as "all activities that generate income and are taxable and are hidden from the tax authorities of the country for the purpose of tax evasion": (Ramzy, 2019, 26). From an economic point of view they are defined as "all activities that contribute to the creation of total economic value but are not calculated in official economic statistics" and "activities that result in income generation, whether these activities are legal or illegal, taxable or not taxable": (Saleh, 2008, 91), While the IMF has defined informal activities as "all forms of income that are not reported or obtained from the production of illegal goods and services, whether from monetary transactions or transactions carried out by the barter system, and therefore all these activities are subject to taxation in general if reported by the tax authorities as well as illegal activities": (Schneider, Anstey, 2002, 2).

2.1.2. Characteristics and Features of Informal Activities:

Informal economic activities are characterized by several characteristics, which we can list in the following:

- a) The majority of workers in these industries have low levels of education, particularly those without university degrees, and there is a discernible rise in the number of workers without formal education, as well as a high proportion of women and children working in textile factories and informal clothing, for instance.
- b) These activities are characterized by a decrease in fixed and operating capital, and most industries specialize in industrial imitation of goods with poor quality.
- c) Informal activities are widespread in developing countries and much less so in developed countries due to several reasons, including economic instability, lack of equity in opportunities, income distribution, high taxation, as well as the widespread phenomenon of financial and administrative corruption in those countries.
- d) Informal activities cover all economic sectors in developing countries with a high concentration in activities of a productive nature such as construction, trade, manufacturing and mining sectors, and a marked decrease in activities of a service nature.
- e) These activities are distinguished by the dominance of labor relations and patronage, which are important aspects of their integration and permanence. On the other hand, they are independent of economic factors like wage rates, experience, economic viability, etc. The first is Al-Rajhi (2021, 21).
- f) Informal activities are more profitable than official activities for several reasons, including their lack of obligation to pay taxes and fees and trading in illegal goods, so they are operated in a big way, especially in countries where law enforcement is weak.
- g) There is no obligation in these activities to the state in terms of paying taxes and fees and these activities are not subject to social and health insurance and protection programs for employees.
- h) Ease of entry into commercial activity and dependence on local resources, in addition, these activities are characterized by the supremacy of family ownership, heavy use of Labor and low capital.

- i) These activities benefit from all the infrastructure services provided by the state and almost free of charge.
- j) Instead than helping to alleviate the nation's economic crises, whether they are caused by internal or foreign reasons, these activities serve to exacerbate them: (Mehdi and Hassan, 2020, 364)

2.2. Manifestations of Informal Economic Activities:

There are many manifestations of informal economic activities , they are divided into illegal manifestations represented by the phenomenon of money laundering, contraband trade, human trafficking, slavery, illegal immigration, and the other section is classified into legitimate manifestations that fall into the field of commercial and industrial activities, agriculture and trade in services, such as rural farming activities and the revenues of landowners, houses, small shops, street vendors and small enterprises, and all these activities are not officially registered, and in this axis the focus will be on two phenomena that are widespread in both developing and developed countries, namely the phenomenon of money laundering and the phenomenon of small informal enterprises .

2.2.1. What is the Phenomenon of Money Laundering?

The phenomenon was described as "the process used by those involved in the drug trade and illicit trafficking to conceal the true source of illegal income or resources and to carry out other financing activities so that the income looks like verification of a legitimate source" by the United Nations Convention Against Illicit Traffic in Vienna in 1988. (Aljard, 2004, 90), while the Basel Convention defined the phenomenon of money laundering "as all banking operations carried out by actors and their partners in connection with the concealment of the criminal source of funds and their owners": (Bunyan, 2004, 4). The phenomenon of money laundering is also defined according to the law on combating economic crimes in Iraq No. 80 of 2002 , and according to the latest amendment issued on March 11, 2020, Article No. 1 "as any behavior involving the acquisition, possession, disposal, management, custody, deposit, guarantee, investment, transfer, transfer or manipulation of the value of funds, as they are obtained from an illegal crime and are not registered in the state financial and commercial statistics in order not to find the source of funds, their owners and the method of disposal."

A) Sources of money laundering

This phenomena is always linked to networks of criminal operations that are outlawed. These networks subsequently return monies and allow them to flow into the economy in a legitimate and acknowledged manner. The sources of these networks are listed below:

- ✓ Financial and administrative corruption within state institutions, which causes the spread of bribery, extortion, damage to public money and encroachment on it.
- ✓ Crimes of fraud, fraud, breach of trust, commercial fraud, Customs smuggling, tax evasion, antiquities and contraband trade, theft of intellectual property rights and patents.
- ✓ Foreign currency auctions, unlicensed goods transactions, suspicious banking operations.
- ✓ Forgery in all its various forms and types.
- ✓ Illegal trade in weapons, drugs, environmentally harmful substances, piracy, slave trade, prostitution, illegal immigration and trafficking in human organs: (al-Moussawi, 2010, 33).

B) Methods Used in Money Laundering Operations:

They are the methods used by the creators of this activity to disguise their illegal actions, these methods include the following:

- Deposit and bank transfer: this process enables those involved in this activity to hide illegal proceeds by depositing them in banks and then transferring them to banks located abroad.
- Re-lending: illegal funds are deposited in any foreign country where there is no control over the transferred funds, no income taxes, and there are facilities for establishing companies and real estate investments, and then a person requests a loan from a local bank to secure those funds and assets deposited in foreign banks.
- The use of non-banking financial institutions: such as banking and brokerage companies that are used in money laundering as if it were a legitimate operation.
- Cash transactions: by making deals to buy real estate, expensive cars, jewelry and trinkets and then re-trading these assets.
- Counterfeit commercial invoices: money is laundered and whitewashed in this way through the import of goods between two companies by means of a fake transaction that is not real and in huge amounts (non-existent goods and with fake invoices): (Barakat, 2009, 224-225).

2.2.2. Informal Small Enterprises:

The World Bank defines informal small enterprises as "those projects that employ from 1 to 10 workers and total assets and sales reach 100,000 dollars" (Abdus Salam, 2001, 2), while the United Nations trade and development organization Unctad defines them as "those projects that employ from 20 to 100 workers" (Arab Organization for administrative development, 2007, 5). Informal small enterprises make up the majority of the informal economy and are also known as unorganized activities. Furthermore, some economists have defined "informal small enterprises" as businesses with one to nine employees with machinery valued at less than \$100,000. (Abdulreda ,2014, 59). According to the aforementioned ideas, informal small businesses are projects with one to ten employees, comparatively little capital, and departments without integrated accounting records or regulations governing the owner's relationship with the formal economy. Some of the traits that set small businesses apart from the formal economy are listed below, along with strategies for formally integrating them.

A) Characteristics and advantages of small informal enterprises:

- Easy to join the labor market, such as the owners of small market shops (small shops).
- Relying on local resources and these activities are limited in scope.
- Family ownership of the activity or dependent on relationships and patronage.
- Dealing in irregular competitive markets.
- High labor intensity as well as reliance on home-made Technologies.
- The skills of workers are weak and are obtained outside the educational or training scope.

b) Methods for Combining the Formal Economy with Small Informal Businesses:

- Repealing expensive legislation: Get rid of rules that make it harder to start a business and encourage corruption.
- Simplifying property registration: Simplify ownership transfer and real estate registration processes, or lower related costs.
- Facilitating business licensing: Promote involvement in the formal economy and streamline the application process for business licenses.
- Tax system reform: provide tax exemptions or exemptions from taxes for small businesses.
- Government assistance: Governmental organizations ought to assist local labor movement projects and provide loans and subsidies to small, unorganized businesses (Al-Mousawi, 2010, p. 45).

2.3. Economic and Social Impacts of Informal Economic Activities

Informal economic activities have various economic and social impacts that reduce the efficiency and effectiveness of economic policies, often causing them to diverge from the objectives set in economic development plans. These impacts can be categorized into the following areas:

2.3.1. Economic Impacts:

- The negative impact on the national income due to the leakage of foreign currency and assets abroad caused by tax evasion and money laundering.
- Price instability, increased local consumption, and inflation in the formal economy, which affects the decline in the overall gross domestic savings rate.
- Decreased productivity in some sectors affected by this phenomenon, which reflects in the reduced growth rates at the macroeconomic level.
- Reduction in state revenues due to tax evasion in informal small businesses and in formal sectors, leading to a decrease in the state's investment and consumption spending. This results in poor allocation of resources, concentrating them in certain sectors, which reflects in reduced economic efficiency and effectiveness.
- The expansion of informal activities within the formal economy, particularly among small and marginal projects, leads to the production of low-quality goods that cannot compete with imported goods. This results in an increase in the volume of imported goods, meaning a significant leakage of foreign reserves abroad. (Al-Rajhi, 2021, p.36)

2.3.2. Social Impacts:

- Informal economic activities are a sign of underdevelopment in societies, and one of their most significant drawbacks is the waste of material and human resources. This leads to higher unemployment rates and the spread of various types of crime among members of the community.
- The widening living gap between social classes results from inequality and injustice in income distribution. As a result, wealth becomes concentrated among specific, limited groups in society, which leads to increased social disparities, poverty among the population, the spread of bad habits, and youth migration. (Al-Moussawi, 2010, 53-54).

III. Reality Of Informal Activities in Iraq

For many decades, the Iraqi economy has faced chronic structural imbalances within its production system. These issues have been compounded by unstable economic and political conditions, leading to the emergence of tax evasion and informal economic activities as significant factors. These phenomena exacerbate structural imbalances across various productive sectors. Iraq's heavy reliance on crude oil export revenues to finance its production activities and government spending, coupled with the lack of viable economic alternatives, has allowed informal economic activities to proliferate. Consequently, economic development plans and goals have deviated, steering the Iraqi economy towards a precarious state. Any external economic crisis could rapidly impact the domestic economy. This analysis will explore the current state of tax evasion and informal activities, and assess their impact on the national economy.

3.1. Reality of the phenomenon of tax evasion in Iraq:

The phenomenon of tax evasion was not new, but it did worsen due to the availability of an enabling environment, which was represented by the law's weakness, control, and administrative procedures, as well as the pervasiveness of bribery, financial, and administrative corruption, and the lack of security stability. Table (1) lists the total amounts of public revenues in Iraq as well as the tax reality for the years 2010–2019.

Table 1: Values and ratios of the amounts of tax evasion from the total public revenues for the period (2010-2019)

Year	The value of general revenues (1000 \$)	The value of tax revenues (1000\$)	Value of tax evasion (1000\$)	The percentage of tax evasion from tax revenues
2010	64,887,637,1	64,887,637,1	326,824,1	23,06
2011	90,739,267,7	90,739,267,7	314,069,1	20,18
2012	99,210,383,5	99,210,383,5	533,239,5	24,45
2013	92,741,821,4	92,741,821,4	552,719,9	23,58
2014	84,039,544,3	84,039,544,3	403,089,8	26,81
2015	46,256,286,2	46,256,286,2	523,021,9	32,11
2016	43,288,064.1	43,288,064.1	1,287,645,1	41,13
2017	62,304,183,9	62,304,183,9	1,532,204,8	30,85
2018	82,711,342,5	82,711,342,5	1,337,969,7	30,31
2019	83,126,858,4	83,126,858,4	1,069,747,1	34,48

reference: prepared by researchers based on:

- 1) Central Bank of Iraq, General Directorate of Statistics and research, annual statistical bulletins (2010-2019), various pages.
- 2) Iraqi Chronicle, federal budget law, for the years 2010-2019, numbers (4420-4430), various pages.

According to Table (1), Iraq's total public revenues have been on the rise since 2010, starting at \$64.9 billion and reaching \$83.1 billion by 2019. This increase is primarily due to the continuous improvement in global oil prices, which positively impacted Iraq's crude oil export revenues. The highest revenue was recorded in 2012 at \$99.2 billion, with crude oil prices at \$109 per barrel. Conversely, the lowest revenue was recorded in 2016 at \$43.3 billion, attributed to unstable political conditions and military operations against terrorist groups, which directly impacted crude oil exports and global oil prices, reducing them to less than \$54 per barrel.

The table data also indicate that tax revenues increased alongside public revenues, rising from \$1.4 billion in 2010 to \$3.1 billion in 2019. The highest tax revenues were recorded in 2017 and 2018, with values of \$4.9

billion and \$4.4 billion, respectively. However, 2017 also saw the highest recorded tax evasion amounting to \$1.5 billion, which represented 30.35% of total tax revenue. This significant leakage in public revenues due to tax evasion is a serious concern.

As it is clear from the data of Table (2) that there is another outlet for financial leakage in Iraq, through the currency window of the central bank's sales of foreign currency dollars, as it is possible to compare between the actual central bank sales of dollars to banks and the private sector to cover imports and the actual import values of those entities during the years of study.

Table 2: Total values of currency window spreads and trade operations for imported goods for the period (2010–2019)

Year	Central Bank of Iraq's Dollar Sales (Million USD)	Growth Rate of Central Bank's Dollar Sales %	Value of Total Private Commercial Sector Imports (Million USD)	Total Differences (Million USD)
2010	36,171	--	27,772	8,399
2011	39,798	10,1	34,877	4,921
2012	48,649	22,2	34,819	13,830
2013	55,678	14,4	37,239	18,439
2014	51,728	(7,1)	32,930	18,798
2015	44,304	(14,4)	30,147	14,157
2016	33,524	(24,3)	28,834	4,690
2017	42,201	25,9	32,150	10,051
2018	47,133	11,7	32,600	14,533
2019	51,127	8,5	38,550	12,577

Reference: prepared by researchers based on:

1. The Iraqi Ministry of planning, the Central Bureau of Statistics, the Directorate of trade statistics, the annual reports of imports 2010-2019 different pages.
2. Central Bank of Iraq, General Directorate of Statistics and Research, Annual Reports 2010-2019, various pages.

** Numbers inside the brackets represent negative values.

The data in Table (2) indicate a continuous growth in the Central Bank of Iraq's dollar sales throughout the study period. The primary economic goal of these operations is to stabilize the dollar exchange rate against the Iraqi dinar at a fixed rate and to cover the costs of imported goods and services for both the public sector and the private commercial sector. As a result, sales values rose from \$36.1 billion in 2010 to \$51.1 billion in 2019.

The total value of commercial operations involving imported goods was \$27.7 billion in 2010, reflecting a difference of \$8.3 billion from the central bank's sales. By 2019, this amount had increased to \$38.5 billion, with a difference of \$12.5 billion. These discrepancies are indicative of financial leakage, fraud, and commercial forgery perpetrated by certain influential parties within the state.

This is particularly concerning as many of the import bills are fraudulent transactions with no actual imported goods, thereby exacerbating the financial leakage crisis. This situation contributes to the instability of the Iraqi economy.

3.2. The reality of unofficial activity in Iraq

3.2.1. The money laundering phenomenon

It is commonly recognized that the desire for dealers in both official and informal activities to conceal monies obtained illegally and attempt to recirculate them in a legitimate manner leads to the emergence of money laundering and laundering operations. Because the right conditions are present for it to thrive and spread, the Iraqi economy is negatively impacted by this issue. As an added value utilized in economic growth processes, this phenomena implies a substantial leak in state funds, which Iraq sorely needed. The overall amounts and percentages of laundered funds from the total GDP values at current prices are displayed in Table (3).

Table 3: Total money laundering values of the total value of GDP for the period (2010-2019)

year	The total value of money laundering at current prices (USD)	GDP value at current prices (USD)	Percentage of money laundering relative to GDP (%)
2010	197,974,640,7	1,396,337,088	14,2
2011	228,068,591,3	1,865,058,269	12,2
2012	320,281,449,8	2,195,590,986	14,6
2013	333,093,083,7	2,364,056,127	14,1
2014	369,098,979,5	2,301,549,116	16,1
2015	334,739,250,4	1,707,092,879	19,6
2016	439,359,111,1	1,735,459,886	25,3
2017	356,041,011,8	1,946,356,440	18,3
2018	384,040,631,2	2,261,418,766	16,9
2019	460,233,184,6	2,322,551,825	19,8

Reference: Prepared by the researchers based on:

- 1) Iraqi Ministry of Planning, Central Bureau of Statistics, Directorate of National Accounts, Annual Reports 2010-2019 different pages.
- 2) Central Bank of Iraq, General Directorate of Statistics and Research, Annual Reports 2010-2019, various pages.

According to Table 3, the GDP at current prices increased from \$1.2 billion in 2010 to \$2.3 billion in 2019. During this period, the estimated value of laundered funds rose from \$197.9 million (14.2% of GDP) to \$460.2 million (19.8% of GDP). This highlights a significant rise in the proportion of smuggled and laundered funds, exacerbated by Iraq's deteriorating political and economic conditions and the absence of effective deterrent laws and measures. Given the growing threat this issue poses to national sovereignty and its impact on all aspects of social and economic life, it is critical to criminalize such activities and impose the harshest possible penalties on those involved.

3.2.2 The phenomenon of informal microenterprises

Even though informal activities have a significant impact on every aspect of the national economy, they can be legitimately classified as small informal projects. Because large projects were the main pillar for the success of development plans during the 1970s and 1980s, Iraqi governments paid little attention to these projects. However, in the 1990s, the scope of small informal projects began to expand, and they continue to do so today because they are an economic burden and an imbalance that slows down and delays development plans. Table 4 displays the high values of these informal activities and projects as well as their percentages of GDP during the study period.

Table 4: Total values of informal activities and small enterprises from GDP for the period (2010–2019)

Year	The GDP value at constant prices (USD)	The value of informal activities and projects at constant prices (USD)	Growth rate of projects (%)	Percentage of projects relative to GDP (%)
2010	1,498,456,827,7	35,636,432,1	--	23,7
2011	1,896,331,043,1	39,126,432,7	9,5	20,6
2012	2,154,969,341,7	51,480,609,2	31,6	23,8
2013	2,228,891,891,7	52,538,953,1	1,9	23,5
2014	2,124,633,331,1	56,964,994,1	8,3	26,8
2015	1,614,582,541,1	51,839,690,6	(9,9)	32,1
2016	1,595,998,131,2	67,972,262,2	30,7	42,5
2017	1,779,876,281,3	54,980,237,9	(17,1)	30,8
2018	1,948,625,071,4	59,074,085,9	8,7	30,3
2019	2,057,092,210,2	70,931,941.1	20,8	34,4

Reference: Prepared by the researchers based on:

- 1) Iraqi Ministry of Planning, Central Bureau of Statistics, Directorate of National Accounts, Annual Reports 2010-2019 different pages.
- 2) Central Bank of Iraq, General Directorate of Statistics and Research, Annual Reports 2010-2019, various pages.

*The numbers in parentheses represent negative values.

The data in Table 4 indicate that informal projects exhibit significant growth rates and contributions to the economy. The value of informal activities and small businesses increased from \$35.6 million in 2010—representing 23.7% of the estimated GDP of \$1.5 billion—to \$70.9 million in 2019, accounting for 34.4% of the estimated GDP of \$2.1 billion. Notably, the highest growth rate for informal small businesses occurred in 2012, reaching 30.6%, while their highest contribution to GDP was recorded in 2019 at 34.4%. This trend underscores the growing challenges of poverty, unemployment, and income inequality, highlighting the lack of substantive economic or social progress.

3.3. The relationship of informal activities with the phenomenon of tax evasion in Iraq

The economic motives and factors that contribute to the emergence and expansion of the phenomenon of informal activities in turn lead to the spread and expansion of the phenomenon of tax evasion, and the relationship between the two phenomena and their interrelation can be clarified according to the following reasons:

- a) The tendency of institutions and individuals to engage in informal activities or tax evasion often arises due to insufficient individual incomes and the financial losses suffered by organizations. These issues stem from the government's neglect of wage and salary legislation on one hand, and the inequitable distribution of gross national product (GNP) outputs across various economic sectors on the other.
- b) Ineffective financial policies implemented by the state contribute to a reduction in gross domestic product (GDP) and exacerbate inflation. This typically occurs when the state allocates funds to non-productive sectors or increases public spending beyond the limits established in the national budget.

- c) The extensive scope of government projects and the substantial funds allocated to them serve as a significant incentive for employees, workers, and investors to seek illegal profits. This is further exacerbated by financial and administrative corruption and weak enforcement of regulatory laws in project implementation.
- d) A lack of transparency and financial disclosure within financial institutions, particularly in developing countries, facilitates the growth of informal activities and tax evasion operations (al-Mousawi, 2010, p. 61).

CONCLUSIONS

- 1) While there are various perspectives on the phenomenon of tax evasion, the prevailing understanding focuses on how individuals subject to tax liabilities exploit legal loopholes to avoid paying taxes, or how they employ various strategies to circumvent tax laws or engage in tax fraud.
- 2) It was found that the state's failure to meet its economic obligations to institutions and individuals within society is a primary driver of tax evasion in Iraq.
- 3) The study revealed that informal activities are most prevalent in developing countries, where underdevelopment, unemployment, poverty, and weak law enforcement are widespread.
- 4) It was noted that the phenomenon of money laundering has both social and economic consequences, with small, unofficial businesses directly contributing to the nation's economic instability.
- 5) The study indicated that, during the period under review, tax evasion rates and their share of total tax revenues in Iraq rose significantly. These rates increased from 23% to 34%, while money laundering as a percentage of GDP grew from 14.2% to 19.8%. Similarly, the proportion of informal activities and projects increased from 23.7% to 34.4% of GDP between 2010 and 2019.

RECOMMENDATIONS

- 1) Addressing tax evasion and financial leakage resulting from informal activities requires strengthening the state's role in fulfilling its obligations toward individuals. This includes ensuring equitable income distribution, reducing unemployment by creating job opportunities, addressing structural imbalances in the Iraqi economy, and diversifying the productive base. Collectively, these measures can help mitigate tax evasion and informal economic activities.
- 2) Implementing modern electronic systems in tax institutions and customs outlets is crucial. Establishing an integrated database and a comprehensive information bank on citizens and their assets, as well as promoting electronic transactions in commerce, can significantly reduce tax evasion.
- 3) Enacting new legislation to align with the continuous evolution of informal economic phenomena is essential. Additionally, developing innovative mechanisms to regulate informal activities in all their forms will help formalize these sectors.
- 4) Combating financial and administrative corruption is imperative, given its substantial role in increasing money laundering rates. This includes criminalizing those involved in such activities with severe penalties and emphasizing the ethical values of Islamic society, which strongly discourage such behaviors.
- 5) Enhancing coordination between educational sector outputs and labor market demands across various sectors is necessary to absorb graduates and reduce unemployment. Additionally, prioritizing scientific

research institutions and encouraging them to develop solutions for the root causes of tax evasion and informal activities is vital.

- 6) Supporting small informal enterprises through the provision of low-interest loans and formally registering these projects within official economic statistics will integrate them into the formal economy, fostering growth and reducing informality.

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