

The Role of Fiscal Policy in Encouraging Investment with Reference to the Kurdistan Region of Iraq

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ARTICLE INFO	ABSTRACT
<p>Submitted : 2025-03-30 Revised : 2025-04-30 Accepted : 2025-06-22 Published: 2025-07-24 Volume : 5 Issue : 2 DOI: https://doi.org/10.53754/civilofficium.v5i2.786</p>	<p>Investment plays a crucial role in national economies worldwide, serving as a fundamental driver of economic development and influencing multiple economic variables. Nations across the globe find themselves in fierce competition to attract foreign and domestic investment through various tools and strategies designed to stimulate and maintain investment flows. Among these instruments, fiscal policy stands out as one of the most significant mechanisms for encouraging investment attraction. This policy holds considerable importance within the broader framework of economic policies due to its substantial capacity to achieve national economic objectives. The present study examines how fiscal policy influences investment promotion, with particular focus on the Kurdistan Region of Iraq as a case study. Using descriptive, historical, and analytical research approaches, this investigation explores the intricate relationship between fiscal policy instruments—particularly taxation and public expenditure policies—and their effectiveness in fostering investment. The findings reveal that fiscal policy significantly impacts investment decisions through various channels including tax incentives, infrastructure development spending, and supportive financial measures. However, the Kurdistan Region confronts numerous challenges that impede effective investment attraction, including its heavy reliance on oil revenues, ongoing financial difficulties, and ambiguous economic policy frameworks. The study concludes with comprehensive recommendations for implementing strategic fiscal reforms, establishing clear investment promotion strategies, and developing transparent economic governance structures to transform the region's economy from its current single-resource dependency toward a more diversified and sustainable economic model.</p>
<p>KEYWORDS</p> <p>Fiscal Policy, Investment, Tax Policy, Public Expenditure, Kurdistan Region, Economic Development</p>	

1. INTRODUCTION

Investment represents a cornerstone of modern economic systems, occupying a central position in national development strategies due to its profound impact on economic growth and its influence across various economic indicators. Contemporary global economic dynamics clearly demonstrate how countries worldwide engage in intense competition to position themselves favorably in the international race for investment attraction. This global competition has intensified as nations recognize that securing substantial investment flows is essential for maintaining economic competitiveness and achieving sustainable development goals.

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Most countries have actively pursued strategies to enhance their investment portfolios by implementing diverse approaches and methodologies specifically designed to stimulate investment interest, attract capital flows, and ensure the long-term stability of these investments. [1] These efforts reflect a broader understanding that investment serves not merely as a source of capital, but as a catalyst for technological advancement, employment generation, and overall economic transformation.

Among the various policy instruments available to governments, fiscal policy emerges as particularly influential in shaping investment landscapes. This policy framework holds substantial significance within the spectrum of economic policies because of its unique capacity to address the fundamental objectives that drive national economic planning. Historically, the role of fiscal policy underwent a dramatic transformation following the Great Depression of 1929, which marked a pivotal moment in economic policy evolution. Prior to this watershed event, fiscal policy maintained a relatively passive stance in economic affairs. However, the crisis necessitated active government intervention in economic activities, fundamentally altering both the scope and importance of fiscal policy in economic management.

The modern conception of fiscal policy extends far beyond simple revenue collection and expenditure management. Its influence permeates economic, social, and political dimensions of society, particularly within the context of economic reform initiatives and programs designed to encourage both domestic and international investment. This multifaceted impact has established fiscal policy as an indispensable tool for governments seeking to create favorable investment climates while simultaneously addressing broader economic challenges.

Fiscal policy's role in investment promotion operates through two primary channels: expenditure policy and taxation policy. The expenditure dimension focuses on strategic public spending in areas that create and maintain conducive investment environments, including infrastructure development, educational systems, and institutional capacity building. Meanwhile, taxation policy influences investment decisions through various incentive mechanisms designed to make capital deployment more attractive to potential investors.

Research Significance

The importance of this research topic manifests through several critical dimensions that highlight its relevance to contemporary economic policy discussions:

First, fiscal policy has achieved considerable prominence in both developed and developing economies worldwide. Countries like Iraq and the Kurdistan Region recognize fiscal policy as a fundamental instrument for economic development, making this research particularly relevant for understanding how regional governments can leverage these tools effectively. The growing recognition of fiscal policy's importance reflects broader shifts in economic thinking that emphasize the active role of government in fostering economic growth.

Second, investment represents a vital component of economic systems because it directly enhances productive capacity, drives economic growth rates, and improves overall economic conditions. The relationship between fiscal policy and investment therefore carries significant implications for economic development strategies, particularly in regions seeking to diversify their economic base and reduce dependency on single revenue sources.

Third, the Kurdistan Region's economy requires additional measures and incentives to effectively encourage and attract investment. This need stems from various structural challenges and external factors that have historically limited the region's ability to fully capitalize on its economic potential. [2]

Research Problem

The Kurdistan Region's economy exhibits characteristics of a unilateral rentier system that struggles to generate sustainable economic development and adequate employment opportunities. This economic structure creates significant limitations that necessitate greater involvement from private sector actors and foreign investors in development processes. [2] The current economic framework requires more sophisticated utilization of fiscal policy instruments, particularly through coordinated expenditure and taxation strategies, to address these fundamental structural challenges and create conditions conducive to sustainable economic growth.

Research Objectives

This investigation aims to accomplish several interconnected objectives that collectively contribute to a comprehensive understanding of fiscal policy's role in investment promotion:

The primary objective involves developing a thorough understanding of fiscal policy and its function within national economic systems. This includes examining theoretical foundations, practical applications, and the evolving role of fiscal policy in contemporary economic management.

A second objective focuses on analyzing investment dynamics and identifying specific fiscal policy mechanisms—particularly expenditure and taxation policies—that effectively encourage investment activity. This analysis encompasses both direct and indirect channels through which fiscal policy influences investment decisions.

The third objective seeks to identify and evaluate specific measures that the Kurdistan Regional Government should implement to enhance investment attraction within a comprehensive fiscal policy framework. This involves developing practical recommendations that account for the region's unique economic circumstances and development priorities.

Despite the breadth of research on exchange rate stability and economic growth, there is a notable gap in the literature concerning Iraq. Most existing studies either focus on broader Middle Eastern trends or analyze macroeconomic variables in isolation, without accounting for the interplay of oil revenue volatility, security expenditure, sanctions, and dollarization. [11][17] This study seeks to fill this gap by providing a comprehensive analysis of the impact of exchange rate stability on Iraq's economic growth from 2005 to 2024, incorporating variables that capture the country's unique structural and institutional realities. This study also aims at offering policy-relevant insights for enhancing macroeconomic stability and promoting sustainable growth in Iraq and other similarly situated economies.

2. METHOD

This study employs a multi-methodological approach that combines several research strategies to ensure comprehensive analysis and robust findings. The descriptive methodology facilitates detailed examination of fiscal policy concepts and investment dynamics, providing foundational understanding necessary for deeper analysis. The historical approach enables exploration of fiscal policy evolution and development patterns, offering insights into how these policies have adapted to changing economic circumstances over time.

The analytical methodology allows for systematic examination of economic data and policy outcomes according to established economic theory frameworks. This approach enables the identification of causal relationships and the evaluation of policy effectiveness across different contexts and time periods.

Additionally, the research relies on comprehensive literature review of relevant academic sources, policy documents, and empirical studies that inform the theoretical framework and analytical approach. The study also incorporates insights from specialized publications, periodicals, and reports that address specific aspects of fiscal policy and investment promotion in regional contexts.

Research Hypotheses

This research operates under several key hypotheses that guide the analytical framework and provide structure for empirical investigation:

The primary hypothesis posits that fiscal policy significantly influences investment levels through its two main components: taxation policy and expenditure policy. This relationship operates through multiple channels and mechanisms that can be empirically observed and measured.

A secondary hypothesis suggests that the Kurdistan Region's economic framework lacks sufficient clarity and coherence, which limits the effectiveness of fiscal policy interventions and hampers investment attraction efforts. This ambiguity creates uncertainty for potential investors and reduces the overall effectiveness of policy initiatives.

3. RESULT AND DISCUSSION

CHAPTER ONE: UNDERSTANDING FISCAL POLICY

The Evolution and Concept of Fiscal Policy

Public finance theory has undergone significant transformation since its early developmental stages. Initially, public finance served primarily as a mechanism for governments to secure financial resources necessary for fulfilling traditional state functions. During this early period, the transfer of resources from private to public sector use represented a byproduct rather than a deliberate policy objective, with social and economic effects emerging as consequences rather than intended outcomes of fiscal activity.

The fundamental shift in fiscal policy's role occurred following the capitalist system's encounter with severe financial crises, most notably the Great Depression of 1929-1939. This period marked a crucial turning point that transformed public finance from a simple revenue collection mechanism into a sophisticated tool for social and economic policy implementation. The crisis demonstrated the necessity of active government intervention in economic affairs, leading to the development of more interventionist approaches to fiscal management.

Modern fiscal policy represents a deliberate application of financial instruments to achieve specific social and economic objectives. Whether through expenditure programs or revenue generation activities, fiscal policy now operates with the explicit intention of influencing economic outcomes and social conditions. This evolution from passive revenue collection to active economic management reflects broader changes in economic thinking and government responsibility for economic welfare.

Contemporary fiscal policy can be understood as the strategic utilization of governmental financial activities to promote economic development and maintain economic stability. These activities encompass the full range of fiscal instruments including taxation systems, public borrowing mechanisms, budget planning and execution, and public expenditure programs. Effective fiscal policy requires careful coordination and integration with monetary policy tools, economic regulations, and credit control mechanisms to achieve optimal outcomes. [3]

Alternative definitions characterize fiscal policy as a comprehensive set of procedures implemented by governmental authorities to modify public expenditure levels and tax collection rates in service of specific economic objectives. These objectives typically focus on addressing unemployment challenges and controlling inflation, with expenditure increases producing effects similar to tax reductions, and vice versa. [4]

A more comprehensive definition describes fiscal policy as an analytical framework for examining public sector financial activities and their consequent effects across various sectors of the national economy. This perspective emphasizes the quantitative adjustment of public spending and revenue generation to achieve predetermined goals, including national economic advancement, development acceleration, economic stabilization, social justice promotion, and equal opportunity creation through reduced social inequality and more equitable income and wealth distribution. [5]

Fiscal Policy Instruments

Fiscal policy operates through several primary instruments that enable governments to address economic challenges and achieve policy objectives while minimizing negative economic and social impacts:

Tax Policy represents one of the most significant fiscal policy tools available to governments. Tax policy encompasses a comprehensive set of measures designed to organize tax collection systems for dual purposes: generating public revenue for government operations and influencing economic and social conditions according to broader economic policy directions. This policy framework includes all deliberate programs that governments plan and implement using both existing and potential taxation instruments to produce specific economic effects while avoiding undesirable outcomes that conflict with society's economic, political, and social objectives. [6]

Taxation studies occupy a prominent position within public finance research due to their complexity and broad impact. The importance of taxation extends beyond simple revenue generation to encompass significant economic, legal, social, and political implications. Tax policy influences economic outcomes through multiple channels and plays crucial roles in national economic systems regardless of their developmental level or structural characteristics. Tax policy can be considered one of the most important tools of economic policy and the most profound in its impact, making it natural that taxes and tax policy receive considerable attention from researchers and scholars in public finance. [7]

Modern states require substantial financial resources to fulfill their expanding responsibilities to citizens and manage public interests effectively. The concept of public interest has evolved considerably from traditional limited government functions focused primarily on security, defense, and basic justice administration. Contemporary government responsibilities encompass comprehensive involvement in economic, social, and political affairs, reflecting the transition from minimal "guardian state" roles to more interventionist "welfare state" functions. [8]

To fulfill these expanding responsibilities, states require adequate financial resources to cover these needs. Taxes became one of the primary resources that governments impose on individuals to provide the public treasury with necessary resources. The concept of taxation has evolved according to the evolution of the state's role in general. [8]

Taxes occupy a strong position in the economies of developed countries, with governments using them as effective tools for implementing fiscal and social policies. This approach aligns with appropriate economic factors, where there exists a developed production apparatus and high levels of individual income, creating large tax bases. Tax impact in these countries manifests most clearly in modern industrial projects through exemptions offered to certain projects, appropriate consumption policies, or exemptions for new investments in tourism or industrial sectors. The scope extends beyond economic projects to include using taxes as social tools for redistributing national income among society members. [9]

In less developed countries, there are priorities for economic construction, such as building basic services for people including health, education, roads, and bridges, or what is called infrastructure. Therefore, it was believed that taxes should play the role of financier in establishing and building the infrastructure of the national economy. However, reality has proven that the role of taxes in most developing countries remains secondary and very limited in providing public treasury with

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necessary funds for development, and in influencing economic and social policy due to weaknesses in tax collection and imbalance in applied tax systems and lack of harmony in tax legislation as well as deficiencies in tax administration. [9]

Public Expenditure Policy serves as another fundamental fiscal policy instrument that enables governments to fulfill obligations to citizens by satisfying various social and economic needs through strategic monetary spending. Public expenditures play prominent roles in achieving economic stability and contribute significantly to investment financing alongside other partial and comprehensive economic effects.

The emergence of interventionist economic philosophy marked the end of individualistic doctrines that severely limited government economic roles. This philosophical shift established public spending as a primary means for achieving political aspirations and implementing social theories, with specific approaches varying according to countries' political and social system characteristics. [10]

Public spending represents substantial portions of total economic demand in most countries, typically accounting for 50-60% of total demand circulation within national economies, and rarely falling below 30% in developed nations. Consequently, changes in public spending levels significantly influence economic growth trajectories, with effects varying according to specific public expenditure composition and targeting. [11]

Public expenditures can be classified according to their relationship with market economy as follows: [12]

- Expenditures unrelated to the economic system, which are necessary expenditures such as security and defense spending.
- Expenditures necessary for market system operation, considered part of production expenditures such as administrative service expenditures necessary for private project operation, obtained in exchange for payments representing part of production costs.
- Expenditures that complement market economy, which are expenditures undertaken by the state aimed at satisfying needs demanded by individuals in society and complementing market economy.
- Expenditures representing intervention in market economy, such as spending by the state for producing material goods and spending for directing economic activity of individuals or private sector.

Public expenditure has effects on overall economic activity in society, as part of economic resources, its reflection appears on economic variables including national income, consumption, savings, and others. This impact occurs directly or indirectly. [13]

Direct Effects of public expenditure on national output and total consumption: This refers to public expenditure productivity, where the degree of impact on output depends on the efficiency of its use. Public expenditure affects output in several ways:

- By increasing production or productive capacity in the form of investment spending with positive effects on gross domestic product.
- Current expenditures can cause increased productivity of production factors, such as spending on education, health, culture, and others leading to increased productivity.
- The quantity and quality of public expenditure leads to increased effective demand, with impact depending on the degree of flexibility of the production apparatus.

Direct impact of public expenditure on total consumption manifests in several ways:

- Government and its agencies purchasing consumer goods or services leads to increased spending.
- Government distribution of income in the form of wages, salaries, interest to lenders, unemployment benefits, and in-kind support leads to increased total consumption.

Indirect Effects of public expenditure on production and total consumption: The indirect effect of public expenditure on both consumption and national production is generated through what is known as the consumption multiplier effect. This means that initial increase in spending leads to successive increases in consumption during the income cycle. There is also an effect generated by the investment accelerator, meaning that initial increase in spending leads to successive increases in investment. The indirect effect of public expenditure on both production and consumption occurs through the consumption multiplier and investment accelerator. [6]

Deficit Financing Policy emerged as governments recognized limitations of traditional balanced budget approaches that strictly avoided borrowing or new monetary issuance. Traditional financial theory emphasized budget balance as both a policy objective and a measure of fiscal policy soundness. This theory made budget balance a criterion for judging fiscal policy soundness and a goal, intending that ordinary public revenues cover ordinary public expenditures. Under this approach, if borrowing was used to finance investment public expenditures that generate revenue to cover loan principal and interest, this would not constitute budget deficit as long as increased expenditures over revenues created income-generating assets. [14]

Modern economic thought has demonstrated fundamental flaws in traditional assumptions underlying this approach. Keynesian economic thought revolutionized understanding of economic balance by demonstrating that economies do not automatically achieve equilibrium at full employment levels. Instead, economic balance may occur below full employment, resulting in unutilized economic resources and unemployment. This recognition necessitates government intervention to compensate for private sector limitations in generating sufficient effective demand through coordinated approaches that encourage private spending while increasing public expenditures to stimulate economic activity and ensure growth and stability. [14]

The distinction between traditional and modern budget perspectives centers on traditional approaches viewing financial problems in isolation from society's economic life, while modern approaches integrate these problems within society's economic life, clarifying existing connections and mutual influences. Modern theory prioritizes general economic balance over traditional computational budget balance, even if this requires sacrificing traditional balance, as long as imbalance leads to addressing national economic problems—known as organized deficit theory. [15]

During recession periods, the state should abandon the principle of budget balance, expanding public expenditures and reducing taxes on individuals, financing expenditures and resulting deficits through public borrowing or new monetary issuance, or both. This leads to economic stimulation and return to full employment levels, which can restore budget balance as employment levels rise. Deficit policy provides a method allowing temporary deficit to eliminate recession while avoiding excessive monetary issuance for expenditure financing and stopping it upon reaching full employment. [15]

Fiscal Policy Objectives

Economic thinkers generally agree on fundamental fiscal policy objectives, though they may prioritize these objectives differently based on theoretical orientations and practical considerations. These objectives can be summarized as follows:

Economic Stabilization through strategic influence on goods and services pricing by managing relationships between purchasing power volumes (effective demand) and available goods and services quantities (production output). This involves influencing the general price level by affecting produced quantities of goods and services, tax burden on different goods, and other methods for influencing consumption patterns, production volumes, and resource utilization degrees.

Equitable Income and Wealth Distribution through national income redistribution programs designed to reduce disparities between different population segments.

Efficient Economic Resource Allocation through policies that promote full employment of labor forces and economic resources to achieve comprehensive economic, social, and political stability.

Price Level Management through strategic evaluation and modification of consumption patterns, consumption levels, and savings volumes. [16]

CHAPTER TWO: INVESTMENT DYNAMICS AND POLICY FRAMEWORK

Investment Conceptualization and Classification

Investment theory has evolved through multiple definitional approaches that reflect diverse research perspectives and academic orientations. These varied definitions collectively contribute to comprehensive understanding of investment's role in economic systems and its relationship with policy interventions.

One fundamental definition characterizes investment as the strategic utilization of savings to create new productive capacity while preserving and renewing existing productive assets. This perspective emphasizes investment's role in expanding economic capacity and maintaining productive infrastructure necessary for sustained economic growth.

Alternative definitions describe investment as any capital utilization pursued for profit generation, regardless of specific implementation forms such as factory establishment, workshop development, agricultural operations, or real estate acquisition. This broader conceptualization recognizes investment's diverse manifestations across different economic sectors and activities.

Financial perspectives define investment as monetary commitments designed to generate future gains over extended time periods. Economic analyses characterize investment as expenditure on capital assets during specific time periods, encompassing additions to institutional assets including equipment, machinery, buildings, furniture, and improvements that extend asset life or enhance productivity.

A comprehensive synthesis of these perspectives suggests that investment represents: "The deliberate allocation of currently owned financial resources for specified time periods to acquire one or more assets with the expectation of generating future financial flows that compensate for: (a) the present value of allocated funds used to obtain those assets, (b) expected purchasing power erosion due to inflation, and (c) risks associated with uncertain future cash flow realization."

Investment Classification Systems

Investment activities can be categorized according to multiple classification criteria that highlight different aspects of investment behavior and economic impact:

Real Investment: Real (economic) investment involves utilizing productive assets to increase goods and services output, directly contributing to gross domestic product growth.

Financial Investment: This involves ownership transfer of production means and invested capital between investors without directly increasing production output.

Private Investment: Encompasses activities undertaken by individuals, companies, or private entities.

Public Investment: Involves capital formation and financing by governments or public entities, funded through surplus revenues, borrowing, or external assistance that the state obtains.

Domestic Investment: Occurs entirely within national boundaries without cross-border value transfers, where investors are nationals, projects are national, capital is national, and implementation occurs domestically.

Foreign Investment: Represents external use of financial resources owned by one country, or investment undertaken by individuals, companies, or entities with foreign nationality. This investment arises across borders due to investment capital movement and various economic resource transfers between different countries aimed at generating profits and maximizing benefits. [17]

Short-term Investment: Involves capital movements for periods less than one year, typically including financial securities such as treasury bills and commercial papers. These investments often support balance of payments deficits in host countries. [18]

Long-term Investment: Involves capital movements between different countries for periods exceeding one year, including both direct and indirect investment:

Direct Investment: Involves foreign investor ownership of complete or partial investment projects, or foreign investors (whether natural or legal persons) investing their funds within host countries by establishing projects that preserve their rights to control, manage, and make decisions.[19] Direct investment provides several advantages that other international financial sources cannot offer: it represents a safer financing method compared to fixed loans; it provides the easiest and most effective way to obtain advanced technology; it encourages job creation, skill development, and new export market opening; and it may help local companies develop their productive capabilities and enter international competition if appropriate conditions exist.[20]

Indirect Investment: Represents portfolio investments involving foreign purchases of transferable securities issued in host country financial markets, including stocks and bonds. Foreign investors seek quick profits through these investments without deploying large capital amounts or dedicating time and effort to implement real investment projects for long-term commitment. This represents short-term investment for speculation purposes without giving foreign investors rights to exercise control or participate in investment project organization and management. [21]

Investment Instruments and Mechanisms

Investment activities utilize various instruments that enable investors to achieve desired returns while managing associated risks:

Financial Securities represent primary investment instruments due to their flexibility and diverse benefit structures. These instruments provide legal frameworks that guarantee holder rights and privileges for achieving returns under specified conditions and timeframes. Financial securities are defined as investment tools with legal forms that ensure holders' rights and privileges for achieving returns and benefits within specific timeframes under certain conditions. They include either ownership rights or creditor rights. [22]

Financial securities can be classified into two main types:

- **Ownership Rights (Stocks):** Representing ownership participation, stocks are equal shares in company or corporation ownership documented by legal certificates tradeable in financial markets. Total individual shares in a company represent that person's share in company capital. Stocks serve as company financing means and capital formation tools.
- **Creditor Rights (Bonds):** Representing loans borrowed by government or private institutions to finance their activities. Bonds can be used to organize credit and money supply, and to combat inflation by absorbing excess monetary mass. Bonds represent commitments where borrowers pledge to pay specified amounts plus determined interest at set rates and dates. [23]

Real Estate Investment occupies a prominent position in investment portfolios due to its potential for appreciation and income generation. Real estate investment can be conducted directly through property acquisition or indirectly through

real estate securities and specialized investment funds. This investment category appeals to both domestic and international investors. [22]

Commodity Investment involves specialized markets for goods with particular characteristics that make them suitable for investment purposes. Some goods possess special advantages making them suitable for investment to the extent that specialized markets (exchanges) develop, similar to financial securities exchanges. Commodity trading between investors occurs through special contracts known as futures or future commitments: "contracts between two parties, typically a commodity producer and a broker or brokerage office, where the producer commits to deliver specified quantities of specific commodities at specified future dates in exchange for insurance or coverage determined as a percentage of contract value." [24]

Economic Projects represent practical investment applications that involve industrial, commercial, or agricultural ventures. These investments typically involve real asset acquisition including equipment, machinery, buildings, and transportation facilities. Project investments contribute directly to economic value addition and national output while providing employment and technological advancement opportunities. Investment in economic projects helps create added value for the national economy and thus increases national output and fixed capital accumulation.

Foreign Exchange Investment has gained importance as international trade has expanded global currency interdependence. Foreign exchange investment through direct currency trading represents real investment with its own terminology, rules, foundations, and specialized markets with known international ethical trading standards. International trade led to the necessity of foreign currency dealing for settling transactions between countries. Foreign exchange markets were not flourishing before 1972 when the gold standard prevailed. After abandoning this standard, these markets' importance emerged, creating foreign exchange markets in London, Paris, Tokyo, and other centers. [25]

Investment Policy Framework

Investment policy development reflects broader economic reform and liberalization efforts aimed at creating favorable conditions for increased private investment and economic growth. Many developing countries currently implement comprehensive economic, financial, and institutional reforms targeting complete liberalization of foreign trade and foreign capital flows to create appropriate climates for increasing private investment and consequently increasing production and productivity across all sectors. [26]

These countries desperately need capital and foreign currencies to finance investment projects. For many years, most countries have worked to improve advantages granted to foreign investment to benefit from increased economic growth and employment, and to establish modern production technology to improve national industry competitive capabilities. [26]

There is a fundamental reality that spontaneous development of economic forces will not solve underdevelopment problems facing developing countries primarily because private activity tends toward most profitable areas and is free to the extent that means disabling part of existing economic resources available to society.[1] When examining public investment policy, it is incorrect to abstract economic balance concepts to focus only on financial resource distribution patterns allocated for investment between different economic sectors.

Comprehensive analysis of general economic balance, being dynamic in nature, must begin by addressing development of main economic variables included in general balance equations. This requires understanding changes occurring in supply components and demand items, including investments over specific time periods. Main variables in these equations control their branch levels and directions. Therefore, comprehensive economic policy targeting determination or influence on production, investment, and total consumption levels and their consequences for adapting and stabilizing balance at new price levels follows their direct and indirect effects on general economic balance. [26]

Therefore, intervention in these processes is necessary, making countries, especially developing ones, strive to achieve economic development through various direct and indirect means. Among the most important direct means are amounts allocated in budgets for developing national economy sectors, known by economists as public investment spending. [1]

CHAPTER THREE: FISCAL POLICY'S ROLE IN INVESTMENT PROMOTION

Tax Policy and Investment Incentives

Tax policy serves as a critical mechanism through which governments can influence investment decisions and shape capital allocation patterns across different economic sectors and activities. The effectiveness of tax policy in investment promotion depends on its ability to address market failures, compensate for investment risks, and create competitive advantages that attract productive capital investment.

The role of tax policy is manifested through tax incentives that affect investors' choices between available investment opportunities, when results of some investment opportunities include certain or potential losses, or when investment opportunity results show low private returns but high social returns. Tax incentives' importance increases in developing

countries where market systems are ineffective in allocating economic resources due to state intervention in determining prices for most goods and production factors. [6]

States can direct investment through taxes using several methods:

Tax Treatment of Losses represents one of the important means that can be used to reduce negative effects of various types of taxes and encourage private investments while increasing capital accumulation toward desired economic activities. High tax rates, despite helping increase government revenues, simultaneously lead to decreased income allocated for spending, consequently reducing total spending and demand, which leads to decreased production, employment, and income, moving the economy to a worse equilibrium position than previously. [27]

Results of different investment opportunities subject to high tax rates can negatively impact economic activities in indefensible ways. If tax legislation does not include provisions allowing complete loss deduction from net profits achieved by enterprises in previous years, effectiveness and impact of loss carryforward provisions as tax incentives on private investment decisions vary according to different economic and non-economic patterns and conditions affecting expectations surrounding investment decision-making processes.

Tax Holidays mean "granting investment projects tax exemption for several years at the beginning of their productive lives." [28] Most developing countries resort to encouraging foreign direct investment by granting tax exemptions for several years at project life beginnings, hence called tax holidays. Conditions required for projects to enjoy these holidays vary—some countries limit holiday enjoyment to projects considered pioneering for developing countries, while others require specific productive capacity or minimum capital amounts invested in projects to grant tax holidays. [29]

Tax holiday duration varies from one tax legislation to another, even from one industry to another within the same legislation, according to different economic, political, and social circumstances in each country. Therefore, the role that tax holidays can play on investment decisions differs from one legislation to another. When providing holidays as tax incentives, the following factors must be considered: [28]

- Tax holiday granting may occur partially
- Tax holidays as incentives may result in discriminatory effects favoring certain investments over others
- Tax holidays may be more suitable incentives, especially for projects with relatively high labor coefficients (relatively labor-intensive projects)

Using tax holidays as tax incentives creates several problems, most importantly: determining tax holiday period commencement dates and various problems after exemption periods end.

Investment Allowances are used as tax incentive tools to encourage investment in desired activities by compensating investors for incurred losses or increasing net rates they can obtain. Two main types of investment allowances can be distinguished:

Asset Revaluation Method: Relying on traditional depreciation calculation methods when estimating taxable profits, assuming price stability, results in some enterprises' inability to replace depreciated assets with new, advanced ones. This may negatively impact expansion rates in existing investments and new investment volumes. This method aims to correct depreciation account balances calculated on cost basis to account for price increase effects, with correction occurring when deducting depreciation from enterprise revenues to reach tax base.

Investment Grants: These are subsidies investors receive when their achieved profits are subject to taxation, accomplished by allowing investors to count within current costs deducted from revenues to reach tax base a percentage of new capital asset costs, in addition to current depreciation deducted according to traditional methods, without affecting machinery account balance at year-end or depreciation installment values throughout asset productive life.

Accelerated Depreciation means "all methods leading to depreciating historical cost values of capital assets during time periods shorter than their estimated productive life periods." Many countries have resorted to this type of tax incentive, with those countries' experiences proving its superiority over all other tax incentives and its great effectiveness and ability to multiply investment volumes in desired areas at appropriate times to achieve society's goals. This tax incentive is characterized by flexibility, enabling each country to formulate it according to its special circumstances and objectives. [30]

Public Expenditure and Investment Climate

Public expenditure policy represents one of fiscal policy tools playing pivotal roles in investment impact, where each state seeks through this tool to provide appropriate investment climate for investors by financing infrastructure and structures that private sectors cannot undertake. This can be divided into the following areas:

Infrastructure Expenditure represents incentives for private sector investment as public expenditure policy tends toward strengthening foundational (infrastructure) structures, making many countries expand infrastructure spending

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processes to attract investment through spending on providing communication means, transmission stations, roads, ports, airports, etc. [6]

Resulting from state infrastructure spending is increased effectiveness of various transportation sectors as fundamentally important. For example, railway improvement will reduce goods shipping costs and open external investment opportunities, as trade cannot grow locally and internationally without effective transportation means.

Reducing Interest Rates on Investment Loans represents expenditure policies that countries follow to encourage private investment, where loans become encouraging to investors through low interest rates over long periods. Under most countries' adoption of private sector integration policies in banking activity, the difference between real interest rates and reduced rates on investment loans is paid by the state to banks undertaking lending operations. This difference borne by the state represents spending for attracting and expanding investments. States aim through reducing investment loan interest rates to raise project productive capacity, increase consumption, and reduce unemployment. Most modern economic policies in developing countries tend toward spending on reducing investment loan interest rates for economic growth. [31]

Research and Technological Progress Expenditure results from positive research and technological development impacts on increasing production, leading countries to encourage innovation for increasing human and material capability effectiveness. Technological progress helps advance projects and reduce production costs, increasing project profits and thus investment. [31] Technological development can help develop production methods and increase sales and profits, consequently increasing investments in these projects. Increased research and technology spending is considered among the most important economic growth factors.

The Kurdistan Region: Fiscal Policy and Investment Challenges

Democratic and progressive Iraqi economists have not spared efforts throughout past decades in highlighting the nature of Iraqi economy and Kurdistan Region's economy as part of Iraqi economy, whether during central Iraqi rule periods, autonomous rule stage, or since federalism declaration in the Region until present. Iraqi economy, with the Region's economy as part of it, is considered a rentier oil economy par excellence, simultaneously being a consumer service economy that is non-productive. [32] Therefore, it depends on commodity imports to satisfy its population needs. Economists have directed the necessity of changing this distorted, backward, and externally exposed situation.

At Iraq level, officials faced various pressures since July 1958 revolution and periods of blockade on the Region and wars against it, then comprehensive international economic blockade and additional pressure on the Region imposed by the defunct Baath regime at that time. Since 2014, a new crisis emerged between the federal government and Regional government where the Region faces severe decline in monetary liquidity due to irrational, unwise, and unfortunate positions from the federal government side.

Rentier economy does not only create potential problems with external parties due to underdevelopment, distortion, one-sided development, and external exposure due to large-scale commodity imports, but also faces domination by the state over financial resources derived from crude oil export and control over distribution and usage methods. This typically opposes development, industrialization, agriculture development, productive investment, employment in productive facilities, and infrastructure development—this characterized Iraq during the past five decades and continues worsening in the current stage.

Peoples' experiences confirm that salvation from problems facing countries with rentier economies passes through economic development, economic sector diversification, productive investment, and governmental and private capital investment in development and productive employment processes, representing major guarantees for developing national wealth and reducing potential crises countries might face. The current financial crisis is primarily a political crisis par excellence, attempting to starve the Region's people while weakening Kurdistan Region presidency and government roles in Iraqi politics and economic life, similar to what occurs with other Iraqi governorates marginalized by the federal government.

Kurdistan Regional Government undertakes establishing its own economic policy as a federal region within Iraq Republic according to Article 109 of the 2005 Constitution. Article 110 of the Constitution determines exclusive competencies of the federal government (formulating fiscal and customs policy, issuing currency, organizing trade policy across regional and provincial borders in Iraq, establishing state general budget, formulating monetary policy, establishing and managing central bank, and population census). The Region typically redistributes its budget share according to its own economic policy.

Gradually, oil investments began appearing in the Region with successful productive fields. An oil pipeline for export through Kurdistan Region was established, connecting at Iraqi-Turkish borders with the old pipeline linking Kirkuk oil to Ceyhan port in Turkey. Since then, serious and fundamental problems appeared between Regional government and federal government regarding: calculating the Region's share of federal budget, productive, sales, and marketing capacity of oil produced from the Region, legal authorities for both parties to dispose of Region's oil, foreign oil company dues operating in the Region, in addition to disposing of other Regional financial resources including local taxes, customs fees, and external assistance. All these matters and others have not been resolved between the Region and federal government until now. In any

case, the Region's mentioned resources lack transparency regarding expenditure allocation and disclosure of related data. Researchers find difficulty obtaining these data from relevant ministries (Finance and Economy, Natural Resources, and Planning), which are necessary for conducting quantitative research on the Region's economy. It is difficult to establish reliable economic policies without such data availability.

After approximately a quarter-century of this journey, the Region witnessed some qualitative developments in political, economic, social, and security aspects, but these developments did not reach the level of Kurdish people's aspirations and available financial and human capabilities for federal administration.

The Region today passes through a critical and extremely difficult economic phase due to several reasons including: prevention of Kurdistan Region oil exports since March 24, 2023, pursuant to International Chamber of Commerce arbitration tribunal decision in Paris following a complaint filed by Iraqi federal government against Turkey, thus stopping oil revenues that the Region obtained through oil exports; disputes between center and Region; economic recession and monetary liquidity shortage; increasing Kurdistan government debt to foreign oil companies and commercial banks; large numbers of migrants (Syrians) and displaced persons influx to the Region creating camps requiring high costs; the Region's exposure to barbaric attacks by ISIS terrorist organization in 2014, imposing extremely high expenses and costs that Regional government continues spending to eliminate persistent ISIS danger.

Baghdad government's refusal to pay the Region's share of federal budget resulted in non-payment of government institution employee salaries since April 2015, in addition to poor economic management in the Region.

Problems exist in implementing the agreement concluded on December 17, 2014, between former Iraqi Prime Minister Haider al-Abadi's government and Regional government, whereby the Region would deliver 550,000 oil barrels daily to the center (300,000 barrels from Kirkuk oil field and 250,000 barrels from Region's oil production) in exchange for receiving its 17% share of federal budget. Consequently, the Region was forced to sell part of its oil directly to external parties through foreign companies to address difficult economic conditions, especially after oil price decline from approximately \$96 in 2014 to less than \$50 per barrel currently, representing about half the previous barrel price.

Problems resulting from lawsuits filed by Iraqi federal government against Turkey regarding stopping Region's oil exports, and lawsuits filed with Iraq's Federal Supreme Court requiring the central government to pay Regional salaries, with central government delaying Regional salary transfers, harming the largest population segment—employees particularly and other categories generally. Currently, at year-end, Regional employees have not received October and November salaries, affecting other sectors generally as employees represent the middle class, which according to recognized economic literature, is considered the primary driver of economic wheels in any society.

Current Economic System Characteristics in the Region:

1. **Absence of clear economic system type** adopted in the Region.
2. **Administrative apparatus inability** in the Region to establish appropriate economic and fiscal policies for building infrastructure and establishing sustainable development plans.
3. **The Region's economy is rentier** like Iraqi economy, meaning the Region's dependency on oil export revenues primarily. The rentier character of the Region's economy is manifested in severe weakness, even decline, of agriculture and manufacturing industry contributions to national output formation. Available official figures indicate modest contributions from these two sectors to total output, disproportionate to available large financial and non-financial resources, or even to conditions existing until mid-1980s. At Iraq level overall, agriculture and manufacturing industry contributed only 5.8% of gross domestic product in 2012; even excluding oil sector, both sectors contribute 12.1% of non-oil output (8.6% for agriculture and 3.5% for manufacturing industry).[33] This modest agriculture and industry contribution manifests in the Region's (and Iraq generally) dependence on oil sector for financing most consumption and investment.
4. **Lack of high transparency** in regional contracts with foreign oil companies operating there. These contracts were concluded on production-sharing basis, representing significant unfairness to the Region and Iraq. According to some preliminary data, these contracts grant those companies, for periods potentially exceeding 20 years, high profit shares from extracted oil, ownership participation, and low costs for developing regional oil fields.
5. **Absence of transparent vision and clear comprehensive sustainable national development strategy**, in addition to uncontrolled openness to market economy at the expense of declining public sector performance in reconstruction processes (infrastructure and modern technology), diversification in economic activities and Regional financial sources.
6. **The Region is characterized by small local market size** represented by population of approximately 6.37 million, about 14% of Iraq's population estimated at 46,118,793 according to 2024 census, limiting economic sector development extent. However, excessive reliance on foreign goods imports and local market flooding with them, with declining local

production, has exacerbated local market narrowness problems and made local production unable to withstand foreign import competition regarding price and quality.

7. **Turkey, Iran, and China control 90% of Kurdistan Region market**, at rates of 35%, 25%, and 30% respectively. Trade exchange volume (comprising total import and export values) between Iraq and Turkey for 2013 reached \$12 billion, with 70% involving Kurdistan Region (\$8.4 billion). With Iran, it reached \$12 billion, approximately half with the Region (\$6 billion). Thus, imports from these two countries reach approximately \$14 billion in 2013, while Kurdistan Region exports to them, excluding oil and energy, do not exceed \$100 million annually. China has gradually penetrated regional markets in recent years, with exports to the Region expected to reach approximately \$4 billion annually.

These import figures reflect poor performance manifested not only in foreign currency and financial resource waste in the Region, but also in national resource leakage from local economic circulation, consequently contributing to stimulating foreign rather than local production. Taking import ratio from national output as a measure of import role in satisfying goods demand, imports constitute a very large percentage of total output (excluding oil) in the Region, meaning they also satisfy a large portion of total goods demand in the Region and Iraq overall, potentially exceeding 60% of total demand after 2007.

8. **Increased unemployment rates, especially among youth**, reaching approximately 25-30% of total labor force last year due to economic recession and financial crisis affecting the Region and Iraq generally, oil price decline, and security instability resulting from ISIS war, forcing many foreign companies operating in the Region to dismiss large numbers of workers. Additionally, over one million employees receive salaries from Regional government despite no actual need for many of them, causing institutions to suffer from disguised unemployment, considered a form of administrative and financial corruption in the Region. Government employees, especially in leadership and senior positions, are typically appointed through recommendations from ruling parties based on narrow partisanship, favoritism, and personal loyalty rather than competence, integrity, and dedication.
9. **Increased social polarization intensity**, enhancing existing societal disparities and creating large gaps between poor and rich, manifested in increasing wealth concentration among influential groups at party and general administrative hierarchy tops, controlling general economic direction determination.
10. **Economic policies based on market and price liberalization** in forms inconsistent with developmental economic policies, absence or weakness of accountability and transparency in administration and performance, have contributed to weakening middle class—development locomotive—and income disparities. This particularly manifests in manufacturing industries, whether private or government-owned, which had some role until mid-1980s. Parasitic, bureaucratic, and comprador bourgeois segments emerge and strengthen, meaning capital accumulation processes tend toward real estate ownership, internal trade, and speculation rather than production-based accumulation. Additionally, mafia segments specialized in oil smuggling and selling through multiple channels emerge, receiving commissions and bribes from companies operating in the Region, besides drug and weapon trafficking.

Thus, increasing income portions leak externally through foreign trade, corruption, and money laundering channels, contributing to depriving the Region of massive financial resources that could be invested in building productive capacities, consequently contributing to slowing and weakening development rates and improving real incomes for masses, weakening middle classes with known development roles, and enhancing social polarization phenomena between society classes and segments.

11. **Increased youth emigration phenomenon** from the Region toward Europe, especially recently due to intensified employment opportunity difficulties and corruption in political, financial, and administrative affairs, with continued dominant party control approaches in the Region.
12. **Weak tax system and customs fee contributions** to local budget financing due to administrative and financial corruption spread in their apparatus, absence of popular oversight, collection difficulties, weak control by specialized administrations in organizing affairs, with party authority dominance in their affairs. Additionally, clear weakness exists in financial legislation performance and tax system and financial institution development, led by banks, insurance companies, and multiple accounting systems in public and private institutions.
13. **Weakness and limitations of qualified, developed human resource sources** with necessary experience in productive processes.
14. **These development and economic reform constraints operate** not in isolation from similar political and social field constraints, with financial corruption best expressing this—not placing suitable persons in appropriate positions and violating professional competence, specialization, and merit standards. Narrow partisanship, favoritism, and weak financial oversight stand behind corruption at various administrative and party levels. Exaggerating privatization concepts and adopting only market economy policies has encouraged and continues encouraging more such corruption.

Thus, federal administration institutions exercise authority under ruling party direction, away from separation between judicial, legislative, and executive powers, even fourth power—media, making those institutions marginal tools in decision-making, indicating that real democracy is not generally practiced except within limited boundaries.

Appropriate Economic and Fiscal Policies for the Region:

Given this disturbing picture of the Region's economy and investment situation, what are appropriate economic and fiscal policies?

1. **Kurdistan Region's economy needs comprehensive reforms and structural changes.** Thus, there is need for forming a work team from academics and experts in development, improvement, and economic and social planning fields, tasked with diagnosing existing economic conditions as they are, determining objectives to be achieved immediately and short-term (3-4 years) and beyond if possible, then proposing policies that would achieve drawn objectives.
2. **Determining public sector, private sector, and foreign investment roles and selection mechanisms** represents the greatest challenge in drawing and adopting clear, realistic strategies for economic and social development processes. Such strategies should determine roles that government sectors can and should play, especially given widespread, hardline tendencies since early 1990s to deny this role's importance and limit it to narrowest boundaries. Conversely, the necessity emerges for benefiting from large capabilities (ideas, organizational capacities, capital) possessed by private sectors, particularly in producing goods in agriculture, manufacturing industry, residential construction, and tourism sectors. Similarly, considering what foreign sectors can provide in investment to complement government and private sector roles.

In all this, to avoid confusion, emphasis must be placed that any sector's leading role should not depend on ideological arguments but on concrete, tangible studies assigning actual, real roles to sectors rather than assumed roles in policy-maker minds designed for all sizes.

The trend toward achieving some degree of justice and welfare for this generation and coming generations (through guaranteeing rights to education, treatment, insurance, and social security) represents state fundamentals and duties everywhere, not achieved through adopting only market economy policies. Hence the necessity of emphasizing government authority intervention to achieve and guarantee those rights.

3. **Attention to productive sectors:** Given that the largest part of local commodity supply comes from imports, thanks to oil revenues, developing local sectors producing goods becomes extremely necessary. Developing agriculture and manufacturing industry sectors (with construction, water, electricity, and transportation sectors necessary and complementary to them), according to details that relevant economic ministries and/or work teams proposed for development and economic reform topics can undertake, would achieve very important economic and social results for the Region and Iraq overall.

Despite the Region's success in entering global markets through exporting some agricultural products (rice, grapes, potatoes, pomegranates, and honey), the agricultural sector suffers from weak management and organization, lack of financial support, primitive agricultural and livestock production methods, and marketing services. Hence, we see the necessity for diversifying and modernizing production means, introducing modern management in its operation, using modern techniques in work, production, transportation, communications, and warehouses, adopting modern methods in marketing agricultural, livestock, fish, and poultry products, aiming to raise production and productivity in this vital sector.

Work should focus on increasing resources for water management, rural roads, facilities, storage, research, and guidance through establishing large specialized companies in this field without affecting small agricultural units, involving private and cooperative sectors.

Considering geographical redistribution of industrial institutions at regional level according to population density, economic and social development levels, available financial and natural capabilities, and available and qualified labor force in different regional areas becomes necessary.

Attention to tourism and hospitality is necessary and complementary due to basic tourism industry components existing in the Region, including beautiful nature, suitable climate, water springs, waterfalls, etc., in addition to relative security and stability in most tourist places, and available labor force needing training and qualification in this sector. This matter requires providing incentives and government support for securing basic foundations for this sector, aiming to activate local and foreign private sectors for investment in this vital sector.

Undoubtedly, establishing clear, transparent medium and long-term strategies for human development would form the basis for construction and development in goods-producing sectors and service sectors. This matter relates to education policies that must receive special and great attention within economic and social reform and review processes.

Developing commodity sectors allows gradually achieving development process objectives themselves, as it secures reasonable and increasing percentages of food and industrial consumer product needs, at least, thus dispensing with portions

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of goods currently secured through imports, saving foreign currencies going to finance them currently and reducing the Region's external exposure and dependence.

Developing goods-producing sectors represents the natural path for absorbing increasing labor force numbers and qualifying and training them simultaneously, absorbing widespread unemployment, especially among youth.

When this is achieved, the economy will have advanced far in controlling appropriate inflation rates in the Region. When reasonable and increasing quantities of local commodity supply are produced, controlling cost sources, raising productivity, and controlling local demand sources, the economy will have controlled many price change sources and thus inflation.

Developing goods-producing sectors and continuing and insisting on it represents the only path for building local productive capacities and thus building foundations and material guarantees for eliminating economic rentier character and establishing a diversified economy where local sectors contribute to producing its added value.

4. **Attention to citizen residential complexes:** A large percentage of investments concentrate in certain building types: 4-5star hotels, high-rise buildings and residential complexes for wealthy classes, villas for party and administrative officials, alongside squares, gardens, and various government buildings with small portions for citizen residential complexes. Since the Region witnesses a real housing crisis, especially for limited-income and poor classes, paying great attention to this field and encouraging individuals and private sectors for effective participation becomes extremely necessary, enabling government activity to direct toward other infrastructure elements like roads, bridges, tunnels, modern communication means, city planning, and others in constant increase.
5. **Encouraging and directing private sector:** Private sector investments are not at the level of its relatively large capabilities or regional needs. This particularly applies to its contribution to agriculture and manufacturing industry sectors producing goods. Reasons for this are many, fundamental, and fortunately known, relating to financial and administrative institutions, especially tax laws, banks and their loans and conditions, customs fees, and other more general economic considerations. Therefore, there is need for facilitated financing for small and medium industries, cooperating with chambers of commerce, benefiting from Iraqi Industry Union experience in this field, considering possibility of including private sector workers in retirement (similar to government sector workers), providing protection for industrial projects and exempting them from taxes for 5-7 years—these are private sector demands themselves.

The necessity also emerges for benefiting from foreign private sectors, especially in large industrial branches requiring expertise, skill, and advanced technology according to concrete local conditions.

6. **Public expenditure policy:** The Region must handle its financial resources rationally and with high transparency serving development. This includes 17% of federal budget (after mentioned deductions), revenues from local tax collection and customs fees, and some external assistance. While approximately 70% of revenues going to operational expenditures including salaries and wages, and about 10% as other consumer expenditures, leaving only 20% of available financial resources for investment is understandable and expected due to undeveloped local sectors that could absorb labor forces, consequently accumulating them in government job sectors without performing any significant work. However, it becomes necessary to reduce consumer spending and direct toward increasing investment spending in productive projects and infrastructure.

Regarding revenues from direct oil sales and foreign company dues in the Region, this remains a suspended and complex matter between the Region and center. Investment policy for oil in the Region, represented by long-term partnership contracts and very high profit shares for companies, represents significant unfairness at Iraq and Regional levels and future national sovereignty danger.

7. **Specific studies are necessary** for the following branches and bodies to establish specific policies serving economic and social construction processes:

a) **Reforming financial and monetary systems:** This includes applying modern financial systems relying on information technology, and practicing oversight on banks, especially private and foreign ones, emphasizing separation of their administrative board authorities from executive administrations to control financial resource usage. Increasing public lending interest rates while reducing them for industrial and productive loans, and activating central bank branches in the Region become necessary.

b) **Activating financial oversight and integrity body roles** and respecting their independence in performing duties, seriously studying their quarterly and annual reports in regional parliament and approving them.

c) **Reforming accounting systems** to reach international measurement levels through unifying multiple accounting systems currently used in public and private sectors, developing financial oversight method quality, and raising professional capabilities of workers in accounting and administration fields.

d) **Reorganizing direct and indirect tax systems** and legislating special laws achieving social justice and limiting financial and administrative corruption in these areas.

e) **Raising general awareness and society's cultural and civilizational levels** and activating civil society organization roles in practicing democracy, participating in decision-making, and popular oversight.

Initiating economic and social development policies and following them with long, patient breath, relying on masses' real interests and majority citizens, with commitment to professional competence and specialization standards ensuring suitable persons in suitable places, achieving reasonable degrees of social justice, equal opportunities, law rule, and institution sovereignty are capable of building rational, humanitarian systems for economic management that in turn represent strong, effective, and preventive tools against financial corruption, relying on strong, honest judicial authority and fourth power—media enjoying opportunities for building and establishing truly democratic experiences and exposing those attempting to exploit them against majority people's interests.

Finally, discussing these proposals and enriching them is important for crystallizing visions and strategies for comprehensive, sustainable economic and social development processes that masses participate in and support. In this context, attention must be paid that extreme and naive application of privatization and free market ideologies, based on political decisions not touching product and/or user market realities, and in the absence of social and technical preparation, must produce many different forms of destruction. We remind here, for example, of what happened and continues happening in Eastern Europe and most developing countries including Iraq—namely adopting (ideological) versions with no realistic basis of free market capitalism within "shock therapy" prescriptions. Therefore, searching for other options including social protection through applying models consistent with economic rationality and the Region's social, legal, and organizational environment becomes necessary. [34]

4. CONCLUSION AND RECOMMENDATION

This comprehensive analysis of fiscal policy's role in investment promotion, with particular attention to the Kurdistan Region of Iraq, reveals several critical findings that contribute to understanding of economic policy effectiveness in developing and transitional economies:

- Fiscal Policy Mechanisms demonstrate significant potential for influencing investment decisions through both taxation and expenditure channels. The research confirms that strategic tax policy interventions including holidays, accelerated depreciation, investment allowances, and loss treatment provisions can effectively reduce investment costs and risks while improving project returns. Similarly, public expenditure on infrastructure, research and development, and investment financing support creates foundation conditions that enhance private investment attractiveness and viability.
- Economic Structure Dependencies significantly influence fiscal policy effectiveness, particularly in resource-dependent economies like the Kurdistan Region. Heavy reliance on oil revenues creates fiscal volatility that undermines policy consistency and long-term planning capabilities essential for effective investment promotion. This dependency highlights the importance of economic diversification strategies that reduce vulnerability to external price shocks while building more stable revenue foundations for sustained fiscal policy implementation.
- Institutional and Governance Factors play crucial roles in determining fiscal policy success beyond technical policy design considerations. Political stability, transparent governance, consistent policy implementation, and credible institutional frameworks represent prerequisites for effective investment attraction that cannot be substituted by fiscal incentives alone. The Kurdistan Region's experience demonstrates how political disputes and governance challenges can undermine otherwise sound fiscal policy measures.
- Federal-Subnational Coordination creates complex challenges for investment promotion in federal systems where multiple government levels share economic policy responsibilities. Effective coordination mechanisms, clear constitutional frameworks, and predictable intergovernmental fiscal relations are essential for creating stable investment environments that encourage long-term capital commitments.
- Economic Diversification Requirements extend beyond fiscal policy measures to encompass broader structural reforms including productive sector development, human capital enhancement, and market institution strengthening. Successful investment attraction requires coordinated approaches that address multiple constraint categories simultaneously rather than relying exclusively on fiscal incentives.
- Policy Integration Needs emphasize the importance of coordinating fiscal policy with monetary policy, regulatory frameworks, and international economic relations to create coherent investment promotion strategies. Isolated fiscal measures cannot effectively address complex investment barriers without supporting reforms in related policy areas.

- Transparency and Accountability emerge as fundamental requirements for building investor confidence and ensuring effective resource utilization. Clear policy frameworks, predictable implementation procedures, and robust oversight mechanisms contribute significantly to investment climate improvement and fiscal policy credibility. Based on these findings, several strategic recommendations emerge for enhancing fiscal policy effectiveness in investment promotion:
 - First, governments should develop comprehensive fiscal reform strategies that address both taxation and expenditure policy coordination while ensuring consistency with broader economic development objectives. These strategies should include clear timelines, measurable targets, and regular evaluation mechanisms that enable adaptive policy improvement.
 - Second, economic diversification should receive priority attention through coordinated policies that reduce resource dependency while building productive capacity in manufacturing, agriculture, and service sectors. This diversification requires sustained commitment and strategic resource allocation over extended periods.
 - Third, institutional capacity building should focus on strengthening financial management systems, improving inter-agency coordination, and developing transparent accountability mechanisms that enhance policy credibility and implementation effectiveness.
 - Fourth, federal-regional coordination mechanisms should be established to ensure predictable fiscal relations and clear policy responsibilities that support consistent investment promotion efforts across government levels.
 - Fifth, stakeholder engagement processes should be developed to ensure that fiscal policy design incorporates private sector perspectives and addresses practical investment constraints identified by actual and potential investors.
 - The Kurdistan Region's experience provides valuable lessons for other subnational governments and developing economies seeking to enhance investment attraction through fiscal policy reform. While specific policy measures must reflect local circumstances and constraints, the fundamental principles of policy coordination, institutional strength, and consistent implementation remain universally relevant for effective investment promotion strategies.

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