

**T.C.
ISTANBUL GEDİK UNIVERSITY
INSTITUTE OF GRADUATE STUDIES**



**THE EFFECTS OF FISCAL AND MONETARY POLICIES ON
STIMULATING PRIVATE ENTERPRISES IN IRAQ**

MASTER'S THESIS

Sura Khalid WADI

Business Administration Department

Business Administration Master in English Program

DECEMBER 2021

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Thesis Advisor: Prof. Dr. Enver Alper GÜVEL

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T.C.
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DECLARATION

I, Sura Khalid WADI, do hereby declare that this thesis titled as “The Effects of Fiscal and Monetary Policies on Stimulating Private Enterprises in Iraq” is original work done by me for the award of the masters degree in the faculty of Engineering Management. I also declare that this thesis or any part of it has not been submitted and presented for any other degree or research paper in any other university or institution. (14/12/2021)

Sura Khalid WADI



DEDICATION

It dedicate my thesis work to my lovely parents. (Father and Mother). My father and mother deserve everything I can give, because I love them so much. They always encourage me to work hard and achieve my dream goals. I also dedicate my thesis work to my dear and lovely friends. They always stands for me and gives support. I feel so greatly privileged to have them in my life.



PREFACE

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Sura Khalid WADI



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ABBREVIATIONS

APP	: Appendix
LRM	: Linear Regression Model
PSE	: Private Sector Enterprises



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THE EFFECTS OF FISCAL AND MONETARY POLICIES ON STIMULATING PRIVATE ENTERPRISES IN IRAQ

ABSTRACT

Iraq is one of the developing countries that started new economic reform after 2003. The important part of this reform was stimulating the private enterprises in Iraq. This study investigates the effects of the fiscal and monetary policies on stimulating the private sector in Iraq. The importance of the study is to investigate the effectiveness of both fiscal and monetary policies in stimulate the private sector can achieve their goals. The results of this study show that the monetary policy has positive and significant impact on private sector. The results show that the fiscal policy in Iraq has negative and insignificant impact on the private sector. Therefore, the first hypothesis of this study is confirmed, while the second hypothesis of this study is not confirmed. The results indicate that trade and the investment policies in Iraq have negative impact on the private sector. However, their impact are not significant. Based on these results, it is suggested that the Iraqi government adopt better economic policies to stimulate the private businesses.

Keywords: *Fiscal policy, Monetary policy, Private sector*

IRAK'TA MALİYE VE PARA POLİTİKALARININ ÖZEL TEŞEBBÜSLERİ CANLANDIRMAYA ETKİLERİ

ÖZET

Irak, 2003'ten sonra yeni bir ekonomik reform başlatan gelişmekte olan ülkelerden biridir. Bu reformun önemli bir kısmı Irak'taki özel girişimleri canlandırmaktı. Bu çalışma, Irak'ta maliye ve para politikalarının özel sektörü canlandırma üzerindeki etkilerini araştırmaktadır. Çalışmanın önemi, özel sektörün amaçlarına ulaşmasını teşvik etmede hem maliye hem de para politikalarının etkinliğinin araştırılmasıdır. Bu çalışmanın sonuçları, para politikasının özel sektör üzerinde olumlu ve önemli bir etkiye sahip olduğunu göstermektedir. Sonuçlar, Irak'taki maliye politikasının özel sektör üzerinde olumsuz ve önemsiz bir etkiye sahip olduğunu göstermektedir. Bu nedenle, bu çalışmanın ilk hipotezi doğrulanırken, bu çalışmanın ikinci hipotezi doğrulanmamıştır. Sonuçlar, Irak'taki ticaret ve yatırım politikalarının özel sektörü olumsuz etkilediğini göstermektedir. Ancak, etkileri önemli değildir. Bu sonuçlara dayanarak, Irak hükümetinin özel işletmeleri canlandırmak için daha iyi ekonomik politikalar benimsemesi önerilmektedir.

Anahtar Kelimeler: *Maliye politikası, Para politikası, Özel sektör*

1. INTRODUCTION

1.1 The Study Topic

Almost every economy in the world has two main groups of institutions and organizations. These two groups are called the public sector and private sector. There are many differences between these two groups. However, the main difference is that the public sector is owned and managed by governments, while the private sector is owned and managed by independent individuals (McAdam & Reid 2000).

Many studies proved that the private sector could play significant roles in economic development. More specifically, the studies showed that improving the private sector could reduce unemployment, improve skills and lead to economic development. Some studies showed that the private sector especially in the developing countries could lead to positive economic and social changes (Snyman 2017). Therefore, it is important to focus on improving and stimulating the private sector.

The topic of this study became decided on due to the fact Iraq commenced new economic reform. The fundamental and critical part of this reform became changing the monetary system from socialist economic gadget to the capitalist financial machine. Many advanced nations which include the United States and European countries were helping Iraq to do this economic reform. In addition, a few worldwide agencies like the International Monetary Fund and World Bank have been also supporting Iraqi government on planning this reform (Hamilton 2020).

The main aim of that reform turned into stimulating the non-public firms in Iraq. That is because the non-public region in Iraq nevertheless has a constrained position in Iraqi gross home production GDP as shown in table (1.1). Table (1.1) showed that the contribution of the private sector in Iraqi GDP was about 37% in 2017. However, the Public region contribution became 60% (Mahdi 2007). This look at tries to evaluate the consequences of unique economic reform regulations on the private region. This take a look at tries to evaluate the effects of especially, the fiscal and financial regulations at the personal region in Iraq.

Table 1.1: The relative contribution of Iraqi public and private sector in GDP

Year	The relative contribution of Public Sector in GDP %	The relative contribution of Private Sector in GDP %
2015	58	42
2016	57.5	42.5
2017	60.3	37.9

Source: <https://mop.gov.iq>

Many studies showed that fiscal policy and monetary policy are the most effective policies in economic developments. That is because they have many tools that can directly or indirectly affect the economic activities. One of the use of the fiscal policy and monetary policy is to stimulate the private sector (Haque 1988).

Monetary policy can be define as any action taken by the central banks. The common goal of the central bank's actions is to affect macroeconomic activities in an economy. For example, a central bank can change the available credit or the interest rates to motivate the private firms. The monetary policy has many different tools and has been proved an effective policy (Lucas 1986).

The fiscal policy can be define as any action taken by the governments. The common goal of fiscal policy is to affect the economic activities within an economy. For example, if a government decided to change the tax rate or the government spending, that can affect many economic activities.

Usually, the fiscal and monetary policies do not work separately. They both work simultaneously to regulate the economic activities. For example, they are used to affect the growth rate based on the economy situation (Poole & Wheelock 2008).

In general, the main goal of both monetary and fiscal policy is achieve the economic stability including low unemployment and low inflation. Applying these policies can face many challenges. For example, when an economy has frequently economic shocks, many economic cycles, and social and political difficulties. Therefore, these difficulties may affect the effectiveness of these two polices.

1.2 The Study Propose, Importance and Contribution

This have a look at aims to test the effects of specific monetary rules in Iraq on stimulating the personal sector firms. The look at makes use of statistical gear to

examines how can financial and financial policies effect non-public organizations in Iraq.

The importance of the take a look at is to analyze whether or not financial and monetary regulations that designed to stimulate the private region can gain their goals. The study contribution is to help coverage makers in Iraq evaluate the effectiveness in their monetary rules toward the personal quarter.

1.3 The Study Hypotheses

The study has two hypotheses. The first hypothesis is that the monetary policy in Iraq has positive and significant impact on the private sector. The second hypothesis is that the fiscal policy in Iraq has positive and significant impact on the private sector.

1.4 Literature Review

This section reviews some studies in the literature that show the impact of fiscal and monetary policies on different economic activities. In addition, it reviews some studies in the literature that test the impact of fiscal and monetary policies on private sector.

1.4.1 The literature that show the impact of fiscal and monetary policies on different economic activities

The paper by Baum, and Koester, (2011) tried to answer several question using statistical analysis. For example, the paper tried to answer whether the fiscal policy has an impact on growth and GDP within business cycles (Baum & Koester 2011).

The study was applied in Germany using VAR (Vector Auto Regressive) approach. The paper contribution is to add a new dimension to the linear regression. The paper shows that adding his dimension can help better testing the effect of fiscal policy shocks on growth and GDP within the business cycle.

The paper used quarterly data from German. The data was time series data from (1976 to 2009).

The results of the study showed that that the increase in public spending can lead to fiscal multiplier of (0.70) in the short run. The results showed that the increase in

social security contributions and taxes could lead to a fiscal multiplier of -0.66 (Eze & Ogiji 2014).

The results showed that the fiscal multipliers resulting from spending are larger than in the times of negative output. However, it is very limited in the times of a positive output.

The paper by Eze and Ogiji, (2014) showed the government in Nigeria adopted some economic policies that focus more on the management sector. The main goal of these policies is to improve the economy by increasing the growth rate.

The paper showed that the fiscal policy was one of the main policies used to improve the economy. More specifically, the government in Nigeria used taxes and public spending to affect the economy activities. The focus was more on the role of fiscal Policy at the output of the manufacturing area in Nigeria.

The paper showed that the manufacturing industries in Nigeria is taken into consideration as the important thing factor of developing the economic system. That is because enhancing the manufacturing in Nigeria can lessen the unemployment and offer product and tools for agriculture. In addition, it can growth the earnings from foreign exchange. The paper tested the impact of fiscal policy on the output of the manufacturing sector in Nigeria. The hypothesis of the paper was that the fiscal could influence the output of the manufacturing sector in Nigeria.

The results of the paper showed that the public spending has a positive and significant impact on the output of the manufacturing sector. The paper suggested that the government in Nigeria should give the fiscal policy more attention to motivate the manufacturing sector. That can lead to increase in economic growth and development.

The paper by Easterly and Rebelo, (1993) tested the statistical relationship between fiscal policy, the development level, and the growth rate. The paper used cross-section data about a group of countries for the period from 1970 to 1988 (Easterly & Rebelo 1993).

This paper provided the empirical model and statistical measures of fiscal policy variables, the development level, and the growth rate. The results of the paper indicated that there is strong relationship between the fiscal policy and the development level. The results showed that the most of the developing countries

depend on international trade taxes. However, the developed economies depend on the income taxes.

The results showed that the structure of the fiscal policy be affected by the economy's scale and the population within that economy.

The results showed that fiscal policy could positively affect the growth rate by motivation the investments. The results showed that taxes have different effects on different economic activities.

The paper via Precious and Makhetha-Kosi, (2014) showed that the economic coverage is considered as one of the key monetary policies which can cause greater economic growth. The paper showed that the monetary policy could impact many economic variables, which can lead to increase the growth rate. The paper indicated that the increasing the growth rate can reduces the poverty and improve the economy (Precious & Makhetha 2014).

The paper indicated that even the effects of monetary policy could be different from country to another; there is an agreement that monetary policy has significant effect on the economy. The paper showed that the monetary policy is used to affect the value and the supply of money within an economy. It is used to achieve the price stability, low unemployment and high output growth.

This paper tests the impact of monetary policy on economic growth in the South African. The study used time series data for the period from 2000 to 2010. The results of the study showed that there is a long run relationship between monetary policy variables and the other economic variables.

The results of the paper showed that the money supply and the exchange rate are not good monetary policy instruments. In other words, these monetary policy instruments can not affect the growth rate in South Africa. However, these monetary policy instruments are good when they used to affect the inflation rate in South Africa.

The paper suggested that monetary policies in South Africa should be directed to motivate the local and foreign investments. Doing that can lead to sustainable economic growth.

The paper by Nouri and Samimi, (2011) showed that the monetary policy and economic growth are strongly connected. The strong relationship between them is coming from the nature connection between the money stock and real economic variables. For example, the changes in the money stock can lead to significant effect on real economic variable.

The paper tested the effect of money supply GDP in Iran. It is also tested the connection between money supply and the growth rate in Iran (Nouri & Samimi 2011).

The paper used data from the central bank of Iran. The data is time series data from 1974 to 2008. The study used the regression model as the statistical analysis model. The results of the paper showed that that monetary policy (money supply) has a positive and significance impact on the growth rate and GDP in Iran.

The paper by Hameed, (2010) indicated that the monetary policy has different instruments that can be used to control or change one or all of the economic variables. These economic variables could be growth rate, the inflation, the exchange rates, and unemployment (Hameed 2010).

The paper indicated that the monetary policy is that used by tool central bank to achieve the stability of the economy. For example, in Pakistan, the monetary policy and financial stability are two main goal of the State Bank of Pakistan. The State Bank of Pakistan has used the money supply as the intermediate variables of monetary policy.

This paper tested the impact of monetary policy on GDP in Pakistan. The paper used time series data for 30 years. The results of this study indicated that the monetary policy (interest rate) has limited impact on the GDP of Pakistan. However, the increase in money supply has large impact on the GDP of Pakistan.

1.4.2 The literature that test the impact of fiscal and monetary policies on private sector

The paper via Shabani, (2016), examined the effect of monetary coverage on non-public region in Iran. The paper targeted on the rural in Iran. The paper used time series information for the length from 1978 to 2011 (Shabani et al. 2016).

The results of this paper indicated that the economic coverage has a wonderful and extensive impact on non-public area. The results confirmed that the fishing personal investments have been primarily effected by way of the economic coverage. The results confirmed that the hobby charge has bad and extensive impact on the pliability of investment. However, the trade fee and price index have high quality and considerable impacts on the pliability of investment. The consequences also indicated that the investments of the authorities in agriculture have negative and huge affects on the personal zone funding. The paper counseled that that coverage makers must focused extra on the providing credits float to the rural. The paper by Olweny and Chiluwe, (2012) showed that the private sector investments have a significant impact on economic development and poverty. That is because, private sector investment can increase the employment and increase the incomes (Olweny & Chiluwe 2012).

The paper showed that the two main factors that affect the private sector investment in developed countries are the changes in demand and the relative prices of capital and labor. However, in the developing countries, the private sector investment depends on the change of GDP, the foreign direct investment, the exchange rates, and the government investment.

The paper confirmed that monetary policy is one of the important gear which could used to enhance the financial overall performance. That is due to the fact economic coverage has the ability to resolving the financial troubles quicker than different regulations which includes economic policy.

The paper exams the impact of financial coverage on the non-public zone funding in Kenya. The technique of the paper is tracing the effect of financial coverage via the transmission method. Then, explaining the reaction of private region investments to the changes in monetary policy.

The paper used quarterly time series facts from the length from 1996 to 2009. The effects of this paper confirmed that the authorities treasury bill charge and the home debt have negative and extensive impact on the private sector investment. The results showed that the economic coverage (money deliver) and home financial savings have fine and extensive affects at the personal quarter investment. The results indicated that tightening the monetary policy by -1% could reduce the private sector

investment by -2.63. However, the loose of monetary by 1% policy can increase the private sector investment by 2.63.

The study by Omojolaibi, et al, (2016) tested the impact of fiscal policy on the private sector investments in five of West African countries. The paper used time series annual data for the period from 1993 to 2014 (Omojolaibi et al. 2016).

The results of this paper showed that the fiscal policy (public spending) and taxes have significant impacts on private sector investments. The results also indicated that the external debt has insignificant impact on the private sector investment.

The increase in output growth showed insignificant impact on private sector investments for all selected countries.

The rest of the study includes four sections. The next section will be chapter one which is the concepts and theories of private sector. Next is chapter two, which represents the economic policies with more focus on monetary policy and fiscal policy. The third chapter will discuss the reform system in Iraq and its economic policies that targeting the private sector. In addition, it has the empirical work that includes data, model, methodology, and the results. The final section will be the conclusion.

2. THE PRIVATE SECTOR ECONOMIC

2.1 An Overview

The personal area is described as all of the business which can be owned via people, and not linked to the government. It can be defined as a group of professions and corporations wherein an character or a group of individuals works separately from governments. It can described because the businesses that may be formed with the aid of an unbiased individuals and have extraordinary organizational alternatives. For example, they can be in the shape of restricted corporations, joint inventory corporations, and union of businesses (Gold 1982). The main objective of the private sector is the economic benefit through providing products and services within a market. The economic benefit is the primary goal of the private sector, but not the only one. The private sector creates many jobs, which has a clear social rather than exclusively economic dimension (Parhizgari & Gilbert 2004).

Another relevant issue of the private sector is its social responsibility. In recent years, some companies have incorporated non-economic criteria to guide their activity. For example, the certain of morals and values can be part of entrepreneurship. The essential characteristic of these companies is that their social dimension such as their commitment to the environment is voluntary.

In most developed economies, the private sector represents the large part of the economy compared to developing countries. The developing countries usually have more government control over their economies (mostly have public sector). For example, the United States has a strong private sector because it has a free economy while the Chinese government controls many of its companies (Gold 1982).

The private sector must obey the state laws even it is operating under the government control. The private businesses have a desire to get more profits, but they must follow the rules and regulations to achieve that. For example, Microsoft, McDonald's and Coca-Cola are big private sector companies that get billions of yearly profits. These companies are operating under their state laws.

The private zone can play an vital role inside the development of any economic system and society. Therefore, the economic activity of the u . S . Need to enjoy the personal quarter. The private sector has the ability to do some activities that the public sector cannot do. For example, it can make significant local and foreign investments. In addition, it can encourage the introduction and adopting new technologies. It can provide different industrial production (Handley 2015).

The role of the private sector is closely related to the creation of jobs for the population of their country. That can reduce the unemployment which consider one of the serious economic problems. It has also an important role in countries development. In addition, it has a role in promotion of renewable resources.

Today, the private sector is considered as the centerpiece of the local development process especially in the developing countries. That is because of its advantages including the spirit of initiative, taking risks, and heading towards creativity and innovation. These advantages have made the private sector to be qualify for playing significant role in development. Based on that, the private sector is the best option for any economy, and it must be motivated (Snyman 2017).

In truth, depending on the personal zone in monetary development is not constantly the nice choice. There has been an awful lot talk approximately the vital position of the private quarter in achieving development dreams. However, some practical experiences showed that the private sector could not play the expected role in economic development. Many specialist have tried to investigate the reasons of that. In other words, they are investigating which sector is the best option for economic development.

The true meaning of the private sector that associated with development is not clear. The reason of that is the common view of the private sector, which indicates that anyone outside public (government) jobs falls under the private sector. Therefore, it is necessary to clarify this confusion of the concept (Hayter 2015).

The concept of private sector must include the owners of wealth, money, actual experience, and development tools. They are the basis for development because they constitute the largest proportion of human resources. Therefore, the view of the private sector should be wide.

In addition, it is necessary to determine the responsibility of the real private sector. The real private sector depends on its money and experience to achieve development, but not on state loans only. For example, the private businesses that work on state payments usually fail. The reason is that they do not keep on money unlike owners of capital who are more eager to develop their money, and their projects succeed.

Based on that, the private sector that can play significant role in development should include the owners of money and the owners of immigrant money. Those two types of owners are the only ones who are able to make development.

There are some requirements to encourage this kind of private sector, which are the following (Hayter 2015):

- It is necessary to support the local private sector who have known for their success.
- Form good related laws and legislations, and provide safe investment environment.
- Protect the local products and services, and adopt rational trade and import policies.
- Encourage immigrant capital to return. That can happen when the owners of immigrant capital find good investment environment, and protection to their businesses.

Without the availability of these requirements, there is no useful role of the private sector in development, or no development can be achieved.

2.2 The Characteristics of the Private Sector

The characteristics of private sector can be summarized as following (Solomon 1986):

1. The profit motivation

The primary goal of the private sector is making high profits. The businesses in the private sector usually earn more profits than businesses in the public sector.

That high amount of profits is a result of risk taken and the capital return.

2. The private ownership

The main characteristic of private sector is the private ownership. In other words, the businesses of the private sector are responsible for owning and managing the private sector. These businesses can be managed by an individual or by a group of individuals.

3. No participation of governments

The governments do not participate in any of private sector activities. There are no governments participation in both ownership and control of a private sector.

4. The management is independent

The private sector management depends on its owners. The managers of private businesses makes their decisions and acts independently and under legal rules.

5. Private financial resources

The financial resources of the private sector are obtained from its owners or shareholders. There are many types of private financial resources such as partners invest capital.

In some case, some of the private sector businesses receive financial support from the government. Specifically, if the private business is large and has significant role in the economy, it may get financial support from the government. In general, the private businesses that have stronger financials can obtain more funds from the market.

6. Active work environment

The private sector has an active work environment that includes competitive work culture. It also includes career growth and good compensations. Private businesses create good work environment for their employees to obtain competitive advantage.

2.3 The importance of the Private Sector

The importance of private sector is coming from the following (Khojasteh 1993):

1. It is considered as the second one birthday celebration after the public zone that could have an effect on the financial system of every united states.
2. It is an essential factor of balance within the nearby and worldwide economies.

3. It is considered as one of the elements which have direct affects at the staff. As any non-public quarter enterprise wishes a particular percent employees who have enough capability to perform its features.

4. It presents salaries and profits alternatives at excessive costs, and it's far suitable for employees in diverse fields of work.

5. It has the ability to expand precise strategies for making choices some distance away from any recurring techniques.

6. It enables adopting many modern assignment ideas, or re-designing and imposing present projects. That contributes to the development and improvement of the labor market and boom its performance.

2.4 The Differences between the Private and the Public Sectors

There is a debate between economists and decision makers approximately the importance of the non-public and the general public sectors. Some of them awareness only on the private and with very restrained function to the general public zone. This group of economists considers it the best economic solution to achieve development. They provide evidences that the public sector is inefficient and too costly. Therefore, the private sector must be the real driver of the economic development (Karnani 2017).

However, some of them believe that public sector should play an important role in development. This group believes that public sector must be preserved and strengthened. They believe that it can ensures equality and social justice.

In general, the proponents of the private sector are usually the liberal or neoliberal political formations. The proponents of the public sector are the social democratic political formations. In practice, the two sectors are related to the economic environment. For example, some public services are managed by private agencies through subcontracts.

Reviewing the differences between the two sectors can help better understanding the role of each one in economic development. In addition, it can help decision makers determine which one is the best option for their economy at specific period.

2.4.1 The differences between the private and the public sectors

There are some important differences between the two sectors that can be summarized as following (Buelens & Broeck 2007):

1. The private sector employees are non-governmental agencies. The private sector's jobs include manufacturing, financial services, hospitality, and any other non-governmental jobs.
2. The employees in the private sector are paid with a portion of their businesses' profits. They tend to have more wage increases, greater jobs opportunities for promotions, and more career options. However, they have less job security, and less jobs' benefit plans than the employees in the public sector.
3. The employees in the private sector are working in competitive market. That means they work longer hours in an environment that requires a lot of work.
4. The employees of the public sector work for the government. Their work is related to for civil service, health care, emergency services. In addition, they work in the armed forces, and various regulatory and administrative agencies.
5. The public sector's employees are paid through a portion of government revenues. Public sector employees tend to have more jobs' benefit plans and job security than those in the private sector.
6. The public sector allows its employees to move between different positions while maintaining the same benefits. In addition, they have vacation entitlements, and sick pay. However, receiving pay increases and promotions is challenging.
7. Working in public sector provides more stable working environment and less market pressures than working in the private sector.
8. Job opportunities in the public sector are limited, while many job opportunities are available in the private sector especially for those with special skills.
9. The creativity in the public sector are very limited because of the daily routine of work, unlike working in the private sector.
10. In most developing countries, the retirement system is applied only on employees in the public sector. It is possible for them to receive a full retirement salary after serving specific years. As for the private sector, that is not always the case.

2.4.2 Types and examples of private and public businesses

The private sector has two common types of work. The first type is the individual work, which is defined as a group of activities carried out by an individual without any assistance of other. This type is one of the oldest private work since individuals have sought to find a job of their own. Examples of this type of private work are industrial, craft, and commercial professions. Many families were known by their occupations in which they worked, such as carpenter, blacksmith, tailor, barber, perfumer, and others. These jobs have contributed positively in the economic development, and in changing the society (Chen et al.2009).

The second type of private work is the teamwork. It is one of the most common areas of private work, which depends on a group of individuals. Those individuals are responsible for operating the business. Recently, this type is more common because it keeps pace with modern production, industrial, commercial, and service developments. The private companies have become one of the most important elements of the private sector. They have been contributing to the provision of many products, services. Examples of private companies are big banks, telecommunications companies, insurance institutions, cell phone manufacturers, and others.

The types of the private sector can be classified using businesses' sizes. The first type is the small and medium size private businesses. They usually represent the big share of private sector. The small and medium businesses provide most jobs in the developed economies. Some of them have single employee, while the others are companies that have more than 500 employees. Examples of small businesses are doctors, technicians, contractors, and designers. The medium private companies can be a hospitality, and retail companies (Diéguez et al. 2015).

The large private companies usually have more than 500 employees. These companies are considered the most important part of the private sector. That is because they have considerable economic contribution. Examples of this type of companies are the big cars manufacturing companies such as Ford, Toyota, and others.

There is other type of private businesses, which is the nonprofits organization. This type participates in activities that provide social services. For example, they provide

education and green environment conservation. Their goals is to serve the community.

As mentioned before, the public sector is defined as all companies that are controlled and owned by governments. The businesses of public sector are usually large companies and linked to central planning.

In general, there are two types of public businesses. The first type are the businesses that fully owned and fully financed by the government. The financing resources are the collected revenues and taxes and fees. The second type of public businesses are partially owned by government. In other words, the government owns more than 51% of the total companies' capital.

The public businesses focus mostly on providing public services. In addition, they can provide services that private sector cannot provide. Furthermore, the works of the public businesses are usually related to national resources and the country security. For example, most public businesses are related to postal services, educational and health facilities, general security, and railway service (Avidar 2017).

The most common example of the public businesses are the public schools. Even this type of businesses need big financial resources, they provide education services to citizens with no or very limited fees. Their main goal is to educate people and invest in the human resources. In some countries, the education costs can be relatively high, but governments usually provide many types of students' loans and financial support (Lane 2000).

The military institution is another example of public businesses. The military services are related to the national security, which must be owned and managed by government. The private sector could have a role in military services, but this role is only to support the logistics needs. The armed forces of most countries consist of Army, Marines, Air force, and Border Guards. Their jobs is to keep the country secure from any foreign attacks.

Another example of common public businesses is the group of companies that deal with countries' natural resources such as oil and natural gas. Oil and gas companies are the most important and largest companies that manage the oil and natural gas resources. In most cases, these public companies share their work with specialized private companies to produce and export these natural resources. However, the

public companies completely manage the overall operation. Examples of this type of companies is Saudi Aramco. This company is a Saudi company that is working on distribution, marketing and shipping of oil, natural gas and petrochemicals.

Aramco was established in 1933, and its headquarters is located in the city of Dhahran, Saudi Arabia. Aramco is considered as the largest oil company in the world. Its revenues are estimated to be more than 465 billion dollars, while the market value of the company is 7 trillion dollars.

2.5 The Role of Private Sector in Economic Development

2.5.1 The concept of economic development

Many research have confirmed that the non-public sector has an vital role in developing any economic system. Understanding the role of private quarter in financial developing required first reviewing the standards of financial growing (Todaro & Smith 2020). The economic development is considered as one of the important goals or tools to achieve well-being in the society. Economic development can make great changes in any society by eliminating any obstacles facing the development process. Economic development is one of the economic measures that shows the progress of any economy. For example, improving an economy by moving from an agricultural economy to an industrial one. It can be also the transition from traditional economic activities to high technological activities.

Economic development is defined as the process that help increasing the growth of the economy of countries. Applying development plans can make countries more advanced and developed, which positively affects their societies. That can be done by implementing successful economic strategies. Economic development is also defined as the plan of societies to increase their economic capacity, and to take advantage of their available resources.

The concept of economic development started after the Second World War. After that war, many countries (developing countries) were suffering from a decline in the average standard of living, with poor communities. The study of economic development depends on a group of the criteria and indicators used to deal with countries. Therefore, many measurements of economic development were used to understanding the levels of economic development in these countries.

For example, the profits of people is used as one of the maximum critical monetary criteria of monetary improvement. The better the according to capita earnings, the higher the monetary development. In addition, the Gross National Product (GNP) is some other degree of monetary improvement. It represents the value of the output of nations. It refers to the price of services and goods produced relying on diverse monetary sports in a particular duration (Schumpeter & Backhaus 2003). Furthermore, the Gross Domestic Product (GDP) is also used as a measure for economic development. Its value is one of the common means that helps identifying the nature of the success of economic development in the country. It refers to the value of the goods and services produced and used in trading within the market.

2.5.2 The goals of economic development

In general, the economic development contributes to the growth of countries' economies. That can be done through achieving some important goals. The goals of economic development can be summarized as following (Assembly 2015):

1. Creating job opportunities

Economic development can increase the investments. That can create more new job opportunities.

2. Diversification the economy

Economic development can reduce the economies' dependency on one industry. It can create opportunities in different industries.

3. Business expansion

Economic development can lead to more expansion of businesses. That can help meet the needs of the markets.

4. Eliminate the economic risks

Economic development can protect the economy from the economic downturn. That can be done by attracting more capital to be invested.

5. Improving the life's quality

Economic development is good way to improve the standard of living.

6. Increase the national income of the country

Economic development can increase the national income of the country by changing the structure of that economy to be more productive.

7. Using the resources efficiently

One of the most important goals of economic development is using efficiently the countries' resources.

8. Increasing trades

Economic development can increase the trades of goods and services, which can positively affect the production and the outputs.

9. Reducing debts

Many studies showed that economic development has significant role in reducing debts.

2.5.3 The requirements of economic development

In general, two types of factors can determine the requirements of economic development. These types are the economic factors and non-economic factors. Each of these factors affects economic development in a different way. Therefore, it is important to discuss these factors since they explain the requirements of economic development. These factors are the following (Blakely & Leigh 2013):

- **Capital:** Capital plays an important role in improving the production level of the economy. The shortage in capital can negatively affect the economic development.
- **Natural resources:** Natural resources are very important factors or requirements for economic development. They are land, water resources, mineral and oil resources, and others. They contribute to the economic development since they represent the main inputs of any economic activities.
- **Foreign Trade:** Foreign trade has positive and significant contribution in economic development. It can improve the economy through enabling countries to establish and develop industries
- **Economic system:** It is an important requirement of economic development since it can help establishing an effective environment for economic

activities. For example, it can help supporting the producers, marketing, and others through economic plans and strategies.

- Human resources: Human resources can help increasing production, which will lead to achieve the economic development.
- Desire for development: when people want to develop their economy, they will contribute to achieving economic development.

Based on the above, the requirements of economic development contribute to create important social benefits, which is the main goal of economic development.

2.5.4 The strategies of economic development

There are many types of economic development strategies. It is well known that each country has specific economic characteristics. Therefore, each country adopt different strategies for its economic development. These strategies must be affordable and applicable. In other words, when countries adopt strategies, they should meet their development requirements and their available resources (MacNeill 1989).

The types of economic development strategies include monetary strategy, financial strategy, and business strategy. Countries uses various types of economic development strategies to change undesirable economic conditions or create new ones. The following are the most important types of economic development strategies (Fosler 1991):

1. The monetary strategy

The monetary strategy is used to control the flow of money, which can affect the economic activities. The monetary policy is an important example of monetary strategy in economic development. It can correct the functioning in the economic system and lead to economic stability. Monetary strategy uses different techniques such as the adjusting in interest rates, and currency exchange rates. In addition, the currency control is also used as one of for monetary strategy techniques. One example of monetary strategy techniques is changing the interest rates on loans to affect the rate of inflation.

2. The fiscal strategy

A fiscal economic development strategy depends on reallocation of government resources. It is used to make a positive impact on economic activities that lead to economic development. This type of strategies affect the levels of taxes that people and businesses pay.

It also affect the availability of financing introduced by government's programs. One example of this type of economic development strategy is reducing unnecessary government spending. Another example is adjusting taxes to narrow income disparities. These actions can help free up enough resources to improve, as example, funding for the education system

3. Trade Strategies

The trade development strategies is defined as the changes in the way that a country deals with other countries, primarily in a financial sense. This type of strategies can be in different forms. It can include increasing or decreasing aid to countries in need of economic assistance. It can be the changing in the policies, costs, and rules related to international trade.

The methods used in this type of strategies include reducing the imports. In addition, setting tariffs to increase the cost of importing specific products. It includes also applying subsidies to motivate the circulation of specific products. In some cases, countries use extreme trade strategy, which include an embargo. In other words, countries that use this policy cut off trade with a particular country or group of countries.

2.5.5 The indicators of economic development

As discussed before, economic development aims to improve the level of well-being of the economy. Economic development can provide a wide range of social services that increase the level of well-being of individuals. The important question here is (What are the economic development indicators?). The indicators of economic development are used to predict the state of the economy in a particular country. They also reflect the strength of the economy. They are used to the development of different economic sectors (Sharpe 1999).

The following are the most common indicators of economic development:

1. Increasing the GDP per capita

The increase in the share of individuals in the economy's GDP is one of the indicators of economic development. The higher this share, the higher the level of economic development.

2. The level of poverty

The level of poverty is an important indicator of economic development. That is because; reducing the poverty level is one of economic development main goals. A decrease in poverty level indicates a progress in economic development.

3. The level of malnutrition

Whenever malnutrition levels decrease, this is an indicator of better economic development.

4. Level of education

The average years of education is one of the economic development indicators. Longer period of education confirms the achievement of economic development.

5. Life expectancy

The increase in life expectancy is consider as one of the achievement of economic development.

6. International Trade

The countries with high level of economic development are usually have open economies to international trade. Therefore, the increase in the levels economic openness and direct investment are evidence of economic development.

7. The quality of infrastructure

The quantity and quality of roads, airports, railways, and others are important indicators of economic development.

In short, the economic development is a set of governments' plans, tools, strategies, and goals that help increasing the growth of the economy of countries. Economic development can make countries more advanced and developed, which positively affects their societies.

Therefore, any factors that positively affect economic development must be taken in account. Since the private sector can play significant role in economic development, it should be motivated and developed.

2.5.6 The function of private quarter in financial development

Many studies showed that the private sector plays a major role in the economic development process.

It can play that role through its contribution in different economic activities that increase the growth rates and reduce poverty. Therefore, it is important to develop the performance of the private sector using different economic policies (Snyman 2017).

In general, the roles of the private sector can be in different economic aspects. The following are the most important roles of private sector:

1. The role of private sector in economic growth

The role of the private sector in economic growth can be explained by looking at different aspects. First, the private sector is considered as the main source of real economic activities that depend on wealth production and job creation. Second, it is operating in a way that allows for the creation of dynamic economic growth and long-term development. Economists from different economic schools indicate that the private sector activities are the main driver of the process of economic growth. That is because it encourages the investments and capital accumulation (Khan & Reinhart 1990).

Third, the private sector has the ability to bear costs and compete in the market, which can lead to high efficiency in performance. Fourth, the private sector has tight organization of activity and work on innovation dynamically to achieve more profit. That will affect positively the process of economic growth.

Based on that, many nations started the process of privatizing their public institutions. In addition, they enlarge the contribution of the non-public quarter in the monetary activities. That have helped them reallocating their sources from the public sector to the private zone in a way that will increase its contribution inside the economy. These countries adopted strategic plans to take gain of the private sector.

More specifically, they motivate their private sector to make more profits and get better social benefits. They motivate their private sector to get high efficiency in managing resources.

They motivate it to provide incentives for the labor to ensure high productivity and better performance. They motivate it to manage the economic activity based on targeting the qualified human resources and dynamism creativity and innovation.

2. The role of private sector in poverty reduction

The poverty is one of the most important problems facing economic policy makers. That is because it effects negatively the society, which requires working on reducing its spread. The poverty reduction can be done mainly through providing job opportunities and increase incomes. The private sector in can plays a major role in providing job opportunities and increase incomes. The private institutions and companies are considered the main driver of job creation and increasing incomes. Therefore, they can significantly contribute in poverty reduction (Garforth et al. 2007).

The contribution of the private sector in achieving rapid economic growth can provide more tax revenues to the state treasury. These revenues allow the governments to provide the necessary funding for many poor people. Many poor people can benefit from health and education services, which ensure improvement in the standard of living.

The poverty reduction is demonstrated through two basic approaches. The first approach is the relative approach. This approach indicates that the reduction of poverty can be through the growth of poor people incomes at a rate greater than the average growth rate. In other words, the gap between the poor and the rich incomes is relatively reduced. The second approach is the absolute approach. This approach indicates that the reduction of poverty can be through reducing the number of people who are under the poverty line (Karnani 2017).

3. The role of private sector in investments

The private sector is considered the most important source of investments. The private investments can be in all areas of economic activities. They can be in educational sector with its academic educational institutions, university, middle and

primary schools. They can be in tourism sector from including hotels and all activities related to the tourism sector (Bayraktar 2003).

Most investments inside the agricultural sector and the sectors that serve the agricultural quarter in phrases of tools and equipment. In addition, the investments in commercial sector including commercial companies and commercial agency. Most investments in many fields of private businesses such as individual or private companies. All of these investments can play an important role in economic developments.

2.6 Developing and Motivating the Private Sector

Developing the private sector depends on two main strategies. The first strategy is the direct intervention strategy, which is called (privatization). The second strategy is the indirect intervention strategy, which use specific economic tools and policies to develop the private sector (Schulpen & Gibbon 2002).

2.6.1 The direct intervention strategy (privatization)

Privatization is defined as the process through which the property are transferred from the public sector to the private sector. In other words, all assets that owned by the state are sold to private parties. In some cases, privatization is defined as the process cancellation all restrictions imposed on competition between public sector and private sector. This case has a clear effect on government revenues, and this effect may be positive or negative (Bos 1991).

There are many reasons that lead to privatization. One of these reasons is government plan to stop controlling or managing some activities. Privatization may occur when there is a tempting offer to buy the shares of the public institutions, or in cases of institutional merger.

The other important reason is that that the public sector produces goods and services that could be produced through the private sector. However, the results of this processed may not be economically satisfactory, even if they are satisfactory from a social aspect. Usually, the public sector produce goods and services with high costs. In addition, its products have low quality. This can lead to more losses or making limited profits.

The public businesses may try to reduce costs and raise revenues by raising prices. In addition, they may modify the work rules such as allowing for more independence. However, it is usually not succeed and cannot compete the private sector. Therefore, the governments use privatization as a solution to this problem.

2.6.1.1 Types of privatization

There are several types of privatization. For example, the full privatization, privatization of operations, and privatization through concessions. In addition, the open competition privatization, and the contracts privatization.

In some cases, there is privatization of public services provided by the governments. This type includes airport operation, vehicle maintenance, information and data processing, and water services (Vickers & Yarrow 1988).

2.6.1.2 The privatization goals

In general, the privatization can help achieving important economic and social goals. The most important goals of privatization can be summarized as following (Vickers & Yarrow 1988):

- Reducing the financial burdens of the governments by getting rid of the public companies that lack efficiency and profitability. That is because these companies receive financial support from the governments all the time to cover their losses and ensure their continuity.
- Improving the efficiency of privatized companies and increasing their profitability. That can be done by transferring their capital to local or international investors. Those investors can bring new technologies for the production processes and use modern methods of management. That can lead to Expand the competitiveness of those groups and their ability to get admission to new markets overseas.
- Expanding the size of the private zone and growing its contribution to the countrywide financial system and growing increase, in addition to to public finances thru taxes due on its activities.

- Developing the local financial markets by listing privatized companies in the local stock market. Increasing the number of listed companies and the number of tradable shares can attract local and international capital in the market.
- Expanding the ownership base inside the country by providing investment opportunities in privatized companies to the public. In addition, transferring part of the shares to employees in these companies.

2.6.1.3 The methods of privatization

The government can use different methods and mechanisms to privatize the public companies.

Choosing the method of privatization of each public company depends on some considerations (Graham 2003).

For example, the objectives behind the privatization process, the size of the company to be privatized, the company field of activity and its financial position. In addition, the size of the local financial markets and their ability to attract foreign capital. Furthermore, the availability of investors interested in the company and ready to contract with the state according to the specified conditions.

The following methods can be used to do the privatization process (Graham 2003):

1. Direct sale

This method is considered one of the most common methods that used in privatization processes. This method takes different forms such as direct selling to investors that are chosen by the government. The government chose investors based on specific criteria. The direct selling can take the form of to which investors are invited. In the auction, the investors offer their best bid (the highest price). This process allows for a great deal of transparency.

2. Selling shares in the financial markets

In this method, the government listing the public companies to be privatized in the local stock market, or sometimes foreign stock market. The government also offer the shares for sale to the public for a fixed price. This method is usually used to sell companies that are in good financial standing.

3. Selling for the company's employees and managers

The governments adopt this method to achieve a political consensus on the privatization of the companies. In addition, they use this method to secure the future of the workers in these companies.

2.6.2 The indirect intervention strategy

The type of strategies depends on indirect intervention in the process of developing the private sector. In other words, it uses different economic plans and policies to develop the private sector. These economic plans and policies are designed to positive effect the economic activity of the private sector. The main goal of this strategy is to remove or at least limit the obstacles that face the development of the private sector.

Therefore, the best way to understand this strategy is to review these obstacles (Oshikoya & Mlambo 2005).

2.6.2.1 The obstacles facing the development of the private sector

Some factors are considered as constraints that limit the development of the private sector. These factors are divided into two types, which are the financial constraints and non- financial constraints (McMillen 2016).

1. The financial constraints

They are the constraints that affect the process of financing private sector businesses.

The following are some examples of financial constraints:

- The cost of capital, which is the interest, paid by private sector businesses to obtain the capital that is necessary for their operation. It is considered as one of the most important elements that affect the financing process and thus its growth and development. Several factors can lead to the high cost of capital including high brokerage costs, price fluctuations, exchange rates and the high degree of risk.
- Lending policies that the banking sector use can significantly impact the ability of private sector businesses to obtain the necessary funding. Many private sector businesses that have investment projects wish to obtain long-term financing loans. However, with the conditions required and high costs of these loans, they find it difficult to get the loans they need. From the other

side, most banks prefer short-term financing loans. That is because their need for liquidity, and to avoid the risk of non-payment. That contributes to more financing restrictions on the private sector.

- The status of financial markets or the degree of development of financial markets can contribute in bringing and savings domestic or foreign financial resources. The developed financial markets can reduce the financing costs by offering shares or bonds. The lack of development in financial markets can lead to reduce the financing opportunities available to private sector businesses.

2. Non-financial Constraints

They are other restrictions that negatively affect the development of the private sector. The following are some examples of non-financial constraints:

- The business environment in any country has a great impact on the development of the private sector. The business environment refers to the set of governmental controls, procedures and legislation that guide the activity of the private sector. According to the World Bank, the state of the business environment is an indicator that determine performance of economic activities.
- The defensive laws and law have vital effect at the improvement of the private zone. The defensive legal guidelines and legislation are the laws that regulating the motion of capital and export and import legal guidelines. In addition, the policies of partnership between local and foreign capital, and others. Failure to observe the winning conditions can negatively affect the development of the personal area.
- The absence of competition is one of the important factor that negatively affect private sector. The development of the private sector are mainly related to the development of the competition system. That is because it is considered the main motive for businesses to develop through creativity and innovation processes.
- The government control is another factor that affect the development of private sector. Many studies indicate that the private sector should be

characterized by freedom in its economic activity. Private businesses that work under wide government control cannot operate efficiently.

Based on the above, the key point to develop the private sector in any economy is to remove all of these obstacles. The policy makers must design affordable and applicable plans and economic policies that can develop the private sectors.



3. MONETARY AND FISCAL POLICIES AND PRIVATE BUSINESSES

3.1 Background

The developments or changes that happened in most countries around the world had a significant impact on their economies. In other words, the changes that happened in the last half of the last century, especially these that are related to the financial crises, led to many problems. For example, they led to increase the volume of external indebtedness, public debt service, budget deficits and imbalances in the balance of payments (Harcourt 2008).

The terrible results that occurred in one-of-a-kind international locations played a prime function in changing the conventional function of financial coverage. This turned into the start of Keynesian idea, which depend upon government intervention using macroeconomic policies. Using Keynesian idea helped solving many monetary troubles including economic stagnation; reap stability, and financial increase. However, the economic coverage nevertheless taken into consideration as an critical coverage which could clear up economic trouble. Therefore, many changes have happened in economic and economic policy, which brought about the improvement of techniques, equipment, and objectives of each them. This played a prime role in changing the economists' view of financial and economic policy (Lee 1999).

This bankruptcy assessment and discusses financial and economic rules and their effect on private businesses. The financial and monetary coverage can have an effect on non-public groups through affecting unique monetary variables inside the financial system. For instance, when they're used to boom the call for for services and products, the personal groups will be motivated to cowl that call for. That can lead to establish new non-public corporations or to boom the production of the existed ones. In addition, they could without delay encourage the non-public corporations as a part of economic reform plan (Garrison & Chang 1979). The monetary and financial guidelines as monetary regulations can be described as a fixed of moves or decisions which can be taken with the aid of the central bank and

governments. Their foremost intention is to have an effect on the monetary sports to reap the desired reputation. They also defined as techniques that the crucial banks and authorities use to gain financial targets (Afonso et al. 2019).

In widespread, if the significant financial institution or government takes a choice, one or extra of financial variables can be affected. For instance, whilst the crucial financial institution lowering the interest prices, all other economic variables in that financial system can be affected.

The economic policy and financial coverage are taken into consideration the most critical polices that can clear up many financial troubles. However, there are many other varieties of financial guidelines. For example, the worldwide change coverage, and the investment coverage. In addition, there are stabilization coverage and structural correction policy. Some economists indicate that monetary policy can be used only in developed countries. They indicate that monetary policy cannot be active when applying it in developing countries. However, many studies and experiments proved that both monetary and fiscal policies could be relatively useful in both developed and developing countries (Frenkel & Mussa 1980).

These studies showed that in the long-run, the policies can lead to achieving economic development and growth. In addition, in the short-run, they can lead to economic stability.

In the long-run, these policies can affect the structure of the economy based on the changes. This can be done by direct intervention and forming market mechanisms, privatization, and imposing specific. In addition, by providing training, technological support, and research support can do it. All of these direct interventions can lead to achieving the growth rate, and reducing unemployment.

One of the important issue that should be notices is that the objectives of fiscal and monetary policies differ from country to other. More specifically, in the developed countries, these policies are used to achieve rapid growth, full employment, and economic stability. However, in developing countries they are used to achieve general economic development. For example, achieving good healthcare, good education, develop the agriculture, develop human resources, and others (Rahman 2005).

In short, the impact of fiscal and monetary policies on economic activities is one of the important topics in macroeconomic analysis, and this topic is still under debate.

The supporters of the monetary school believe that monetary policy is the most effective. However, the supporters of the Keynesian school stress the importance of fiscal policy in achieving economic growth. In fact, many studies showed that for the country to achieve economic goals, it must use the economic policy that is suitable for its economic structure and its degree of development. The detailed reviewing of these two policies can be the best way to understand them. It also can be the best way to understand how they can affect the economic variables, and which tools they use to do that.

3.2 The Monetary Policy

3.2.1 The definition of monetary policy

Monetary policy can be defined as the set means that central banks employ to affect the economic activity. In other words, it is the set of means that central bank uses to manipulate the supply of money and credit. It was believed by most experts that monetary policy has little impact on the economic activities. However, the inflationary trends after the World War II caused most governments to adopt measures that reduced inflation. More specifically, they restricted the growth in the money supply (Friedman 1995).

For example, the Federal Reserve Bank in the United States, and the Bank of England use three main tools to control the money supply. These tools are namely, open market operations, discount rate and reserve requirements. Using these tools, the central banks control (increase or decrease) the commercial banks' lending capacity. The monetary policy is defined also as the actions taken by the central banks to affect the entire economy. The central bank changes the money supply, interest rate and exchange rate to achieve specific economic goals.

The main monetary policy measure that used in most countries is the changes in the interest rate. The increase in interest rates can lead to contractionary monetary policy. It can negatively affect the aggregate demand by reducing consumption and investment. In addition, individuals will spend less because there is less income, and more incentives to save (Bernanke & Mihov 1998).

The contractionary monetary policy can affect the businesses' investment. That is because less consumption is more likely.

In addition, the alternative investment cost will be high, and borrowing will be costly. The exports can be also reduced by increasing the interest rate, which may also lower aggregate demand (Nelson et al. 2018).

The mechanism of the contractionary monetary policy can be shown in figure (3.1). Figure (3.1) shows that when the central bank adopt contractionary monetary policy, the aggregate demand reduces from AD1 to AD2. As a result, the prices will reduce from P1 level to P2 level. In addition, the real output will reduce from Y1 to Y2.

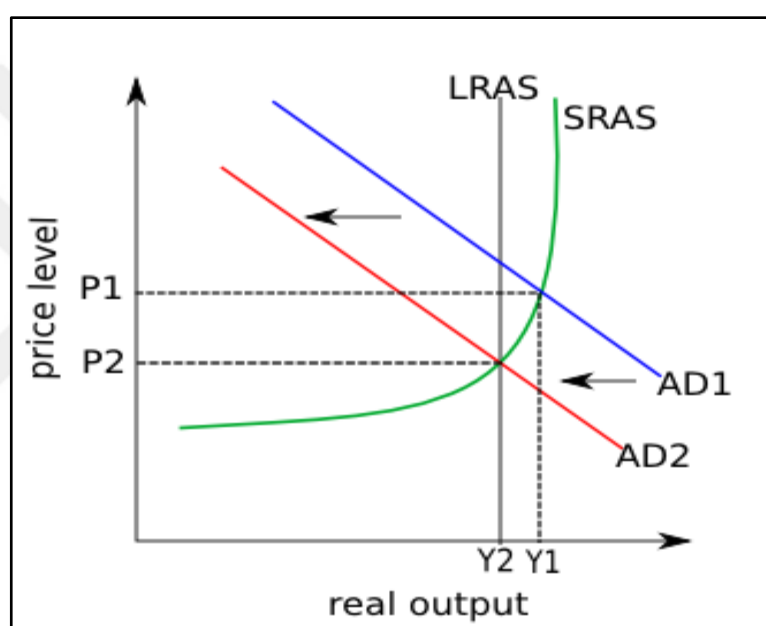


Figure 3.1: The contractionary monetary policy

Source: <https://lynnsong.wordpress.com>

The expansionary economic coverage is described as increasing the cash deliver. The increase in money deliver, via modifications in hobby rates, is implemented by means of primary banks to increase the aggregate demand. If the money supply increases, the central bank add more money to the economy. In addition, it buys government's bonds or motives commercial banks to lend more. That can increase the aggregate demand (EngELhardt 2012).

Figure (3.2) shows the effect of expansionary and on the aggregate demand. Figure (2.3) shows that when the central bank adopt expansionary monetary policy, the aggregate demand increase from AD1 to AD2. As a result, the prices will increase from P1 level to P2 level. In addition, the real output will increase from Y1 to Y2.

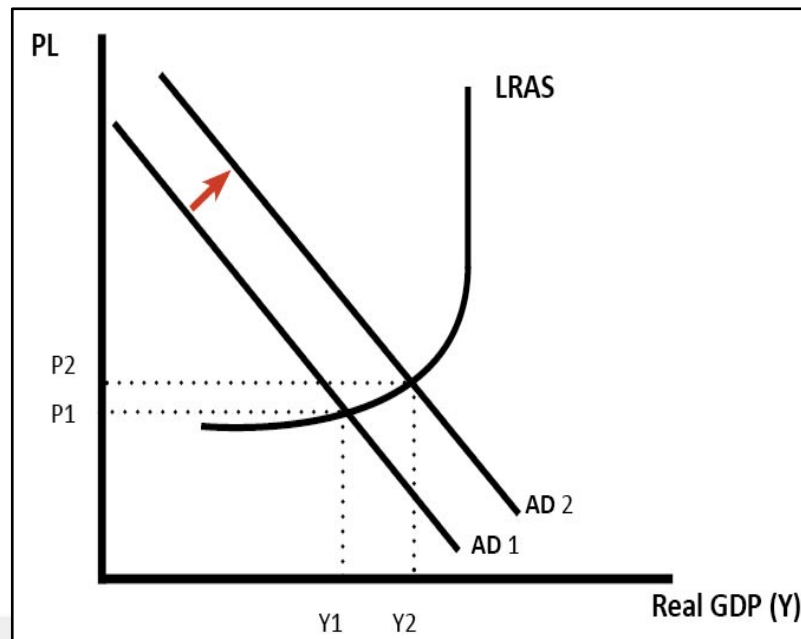


Figure 3.2: The expansionary monetary policies

Sources: <https://www.economicshelp.org>

The financial policy in maximum international locations reflects the ability of the important banks to govern the money deliver. More in particular, it shows how vital banks manage the liquidity available of money within the financial system. The central banks use specific instruments that affect the interest rates. The power of central banks is coming from their ability to control the interest rates, legal reserves, and the open market operations (Obeid & Awad 2017).

3.2.2 The monetary policy instruments

The most common monetary policy instruments are the following (Obeid & Awad 2017):

a- Interest rate

The interest rate is the amount of money that the commercial banks receive when they provide loans and credit. The individuals get can also get interest rate from the commercial banks as return for their savings.

Therefore, it can affect the individual's decisions to put deposited at the banks. In addition, banks' decisions to provide loans and credited to individuals or businesses can also be affected by the interest rate.

In general, the interest rate controls the relationship between the commercial bank and the individual. The central banks are the only party in the country that has the

right to change the interest rates. All commercial banks must follow interest rates that are set by the central bank. The interest rates are considered the most effective instrument of the monetary police.

b- Open market operations

One of the main actions of the central banks (monetary policy) is the open market operations. The central banks do this operation by buying or selling the government bonds in an open market. The central banks do this operation to directly affect the cash reserves of the commercial banks within an economy.

Selling the government bonds can lead to reduce the cash reserves. Doing that will reduce their ability to lend. As a result, the money supply in the economy will reduce too (contractionary monetary policy).

If the central banks buy the government bonds that commercial banks have, the reserves will increase. This can increase the banks' ability to lend. As a result, the money supply will increase in the economy (expansionary monetary policy).

c- Reserve ratio

The reserve ratio is defined as the percentage that the commercial bank must keep from each cash deposit. The central bank takes this percentage of cash from the commercial banks and keep them as reserves. This ratio represents the minimum reserve that the commercial bank keep at the central bank. There is no interest rate taken from the commercial banks for these reserves. The central banks use this ratio to control the commercial banks' ability to lend, and to provide liquidity.

d. Discount rate

The discount rate is one of the monetary instrument that represent the relationship between the central bank and commercial banks. It is only used in the deals that set between banks. There are no individuals and businesses involved in the process of discount rate.

The discount rate is used for short-run money market instruments such the treasury bills. The process of discount rate can be explained as a motivation method that affect the commercial banks behavior. When the discount rates and interest rates are equal, the commercial banks will not make profits. However, if the discount rates were slightly less than the interest rate, the commercial banks can make profits.

3.3 The Fiscal Policy

3.3.1 The concept of fiscal policy

The fiscal policy have many different definitions, but they are all have same concept. For example, some specialists have defined the fiscal policy as the set of policies that the governments use to manage their financing aspects. Other specialists define it as the set of rules, methods, means, procedures and measures taken by the governments to manage the financial activity. In addition, to achieve a set of economic, social and political goals during a period (Kopits & Symansky 1998).

Another definition to the monetary coverage is that it's miles the usage of authorities spending and taxes to pursue many economic desires and packages. The monetary coverage can be described because the managed changes in government spending and taxes. The governments usually spend the money on a variety of items including benefits the unemployed, and the disabled. In addition, it can be for developing education, health care, and others (Easterly & Rebelo 1993).

In general, the concept of fiscal policy can be explained as the all government efforts to achieve economic and social goals. Most developed and developing countries spend only their available financial resources. These resources are coming mainly from the government revenues that are collected from taxes and capital receipts. The government design a yearly plan to specify how much it will spend for one year, and raises it from its revenues. This process is called the government public budget statement (Alesina & Perotti 2008).

Figure (3.3) shows the structure of the government budget. The figure shows that the public expenditures are not always planned. In other words, the governments may spend money for unexpected events.

For example, in the case of war or emergencies, the government spend huge amount of money to cover these urgent needs. That can create financial problems, but the government has no other solutions.

As shown in figure (3.3), even taxes are the main source of government revenues; there are many other sources of non-tax revenues. These sources can also be used as tools of fiscal policy to achieve specific economic goals. Figure (3.3) shows that the

main Government sales is the taxes. The taxes may be direct and indirect. The direct taxes are the taxes on profits, wealth, and organizations.

The indirect taxes are the taxes on sales, services, and value added. The non-taxes revenues are the interests' receipts, the profits and dividend, fees and fines, and grants. In addition, government may receive financial resources from the recovery of loans, borrowings, and others.

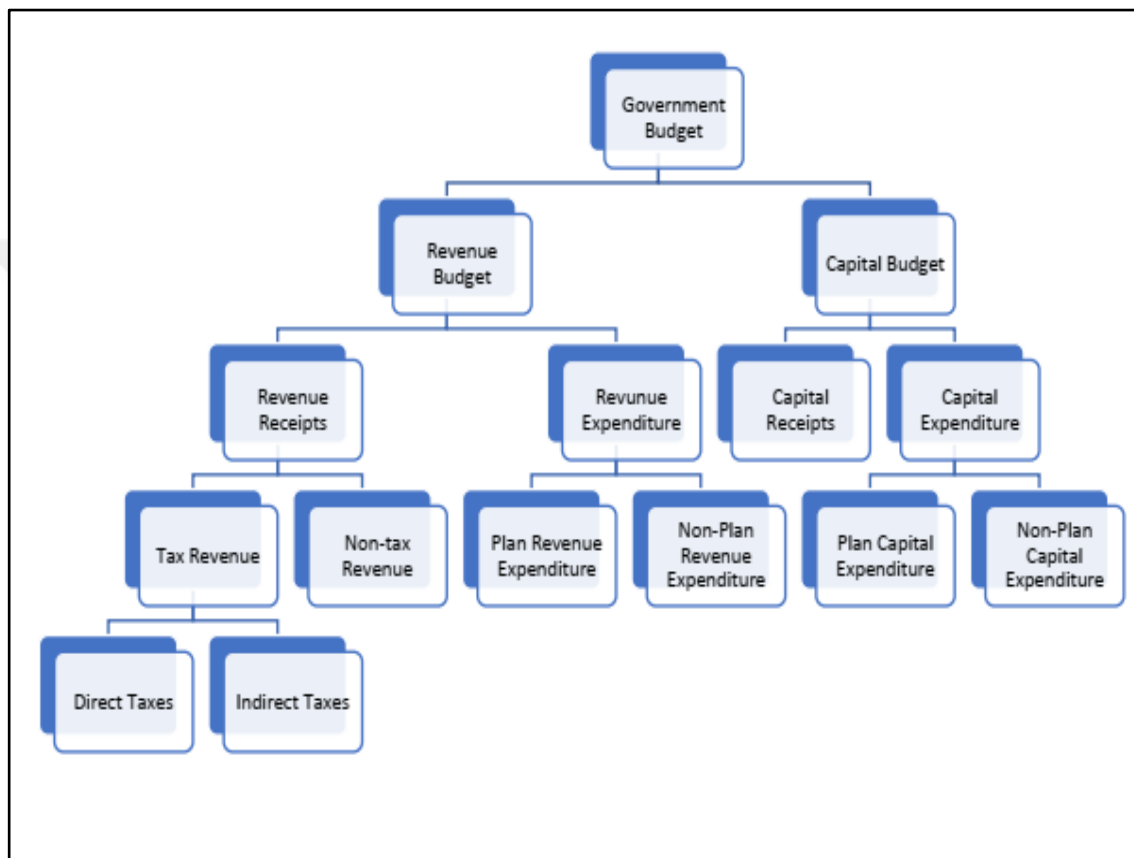


Figure 3.3: The structure of government budget.

Source: <https://www.objectiveias.in/government-budget-and-economy>

There are two types of government budget as shown in figure (3.4). The first type is the balanced budget.

A balanced budget occurs when government expenditures equal its revenues. The second type is the unbalanced budget. The unbalanced budget can be deficit budget if the government's expenditures exceed its revenues. In this case, the government borrow money to cover that deficit. However, if the government revenues exceed its expenditure, that is called surplus budget (Alesina & Perotti 2008).

The fiscal policy can be expansionary or contractionary, and each one has specific economic goals. In the expansionary fiscal policy, the government increases the Economic system combination call for by means of growing costs and/or lowering taxes. The goal of that is to boom monetary boom and reduce unemployment (Ahtiala & Kanto 2002).

Reducing taxes can be done by lowering tax rates, and reducing taxes on items. This increases the income of individuals, which enable them spending more money. As a result, higher demand will be happened, and more investment will be started.

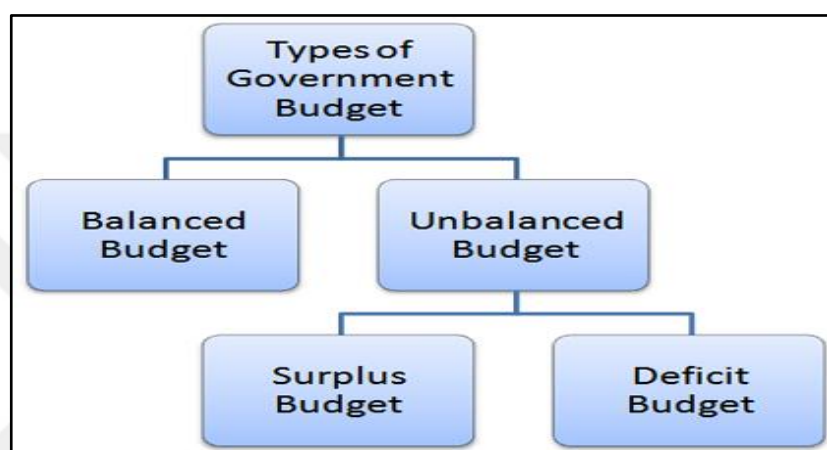


Figure 3.4: The types of government budget.

Source: <https://kalyan-city.blogspot.com/2011/02/types-of-government-budget>

Figure (3.5) shows the expansionary fiscal policy. The figure shows that when the government applied expansionary fiscal policy, the aggregate demand increases from AD1 to AD2. In addition, the price level will also increase.

The government implements contractionary fiscal policy to reduce inflationary pressures. In this case, the government reduces public spending and increases taxes. That may lead to reduce the aggregate demand and the price level (Ahtiala & Kanto 2002).

Figure (3.6) shows the contractionary fiscal policy. The figure shows that when the government applied contractionary fiscal policy, the aggregate demand decreases from AD1 to AD2. In addition, the price level will also decrease.

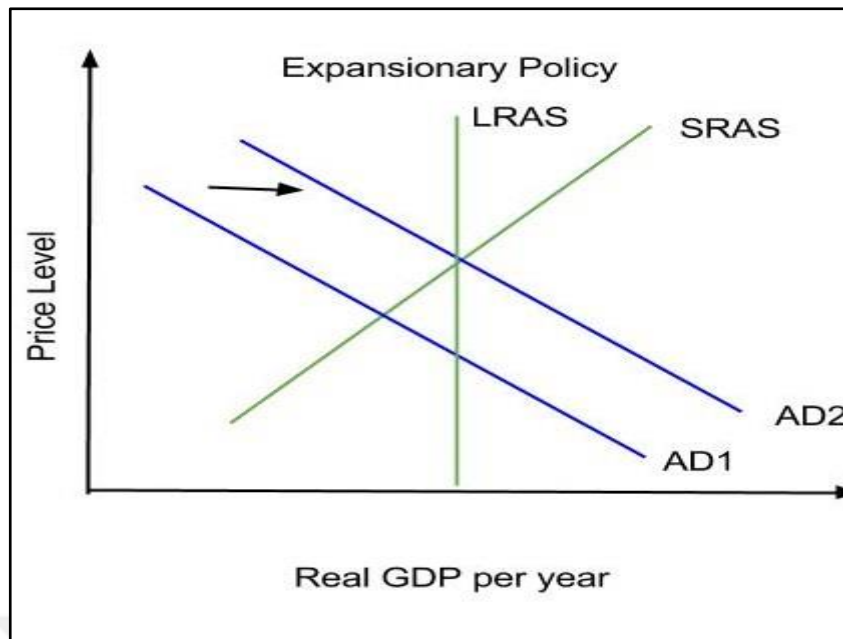


Figure 3.5: The expansionary fiscal policy

Source: <https://thefinanalyst.com/what-is-expansionary-fiscal-policy/>

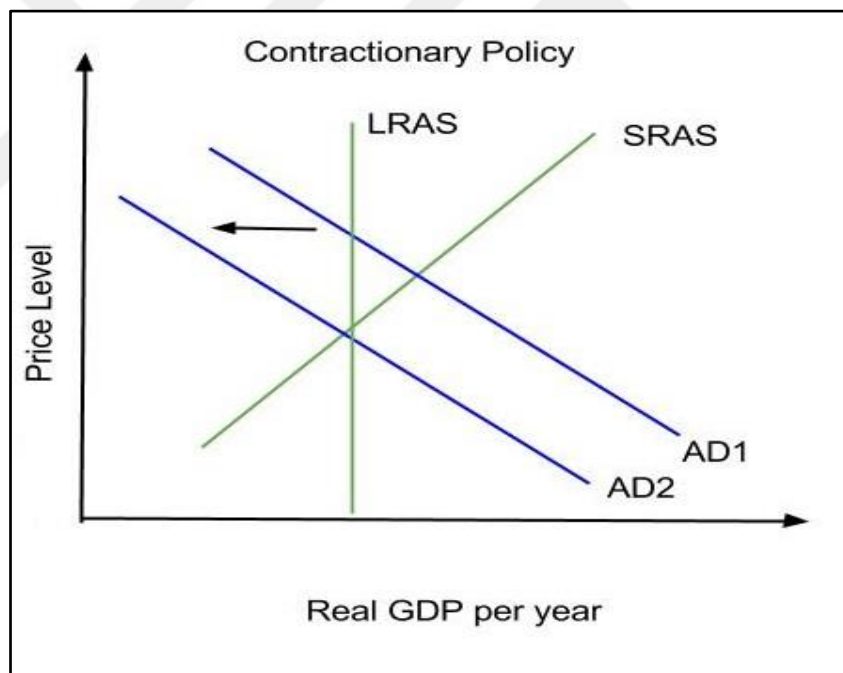


Figure 3.6: The contractionary fiscal policy.

Source: <https://thefinanalyst.com/what-is-expansionary-fiscal-policy/>

In short, the government usually adopts fiscal policy that can affect different economic activities to achieve specific goals. The government use two main tools to apply fiscal policy. These tools are the public spending and different types of taxes. The results of any fiscal policy can be measured by the change in aggregate demand within an economy. In addition, it also can be measured by the change in price level.

3.3.2 The fiscal policy instruments

There are five main tools of fiscal policy, which are the government budget, taxes, public expenditures, public works and public debt. This section discusses each of these tools.

3.3.2.1 The government budget

The government budget is a useful tool for assessing economic fluctuations. Economists have formulated three different types of budgets, which are the annual budget, the budget, and the compensation budget (Fischer & Easterly 1990).

1. The annual budget

The classical economists supported the once a year finances until the financial disaster of the Thirties. Then, economists got here back to just accept the annual budget once more for numerous motives. The first cause is the need for a stability between authorities revenues and expenditures. The second cause is that they felt that the automatic device become able to correct the problems. Another cause is that economists trust that the balanced finances will now not result in monetary melancholy or prosperity.

Some economist indicated that this type is politically perfect, because it investigates the government's wasteful spending. In addition, this type of budget ensures the overall employment with out inflation. Furthermore, this kind is relies upon on the idea that the government should enhance taxes to get extra money, and decrease costs to stability the budget.

Evan with those advantages, this type has a few difficulty or defects. For example, the vintage annual balanced finances isn't always nicely based, and may be expansive in practice. In addition, the assumptions of full employment and automated adjustment are weak within the modern-day financial system. Finally, some economists claim that this price range has a decrease tax burden.

2. Periodic budget

This type of government' budget depends on the idea of using the surplus budget revenues during a public debt boom. During the recession, the budget is prepared in a way that the budget surplus during the period of inflation is balanced with the deficit.

In this case, public expenditures in excess of revenue are financed through public loans.

This budget can lead to the stability of business activity. For example, during the periods of inflation, excessive spending activities are reduced with the availability of budget surpluses. In addition, the budget deficits are reduced by increasing purchasing power.

There are some important reasons for choosing this budget. The first reason is that the government can adjust its financial resources according to its needs. Second, this budget works smoothly during all periods such as recession, boom, stagnation and inflation. Finally, it guarantees stability, but it does not provide guarantees about the stability of the system at the level of full employment.

3. Compensation budget

This budget means that the government adjusts taxes, expenditures, revenues, and public loans to provide full employment without inflation. It plays a role in maintaining full employment and price level stability. That can lead to avoid the growth of public debt and interest payments.

This type of budgets faces some criticisms. For example, it is not believed that the government can provide comprehensive guarantees against unemployment. Some specialists indicated that it is not applicable. Some others believe that it leads to political conflicts, because it delays the implementation of appropriate financial needs. In addition, the economy will have more debts in the long-run. Finally, its effects are slow, which has a disruptive effect on the economy.

3.3.2.2 The taxes

Taxes are considered as a powerful fiscal policy tool in the hands of public authorities. Taxes have a significant impact on income, consumption and investment.

The anti-depression tax policy increases per capita disposable income, the consumption, and investment. The lower the taxes, the more money can be spent on consumption, and the more investment. This will lead to an increase in spending activities, an increase in demand and a reduction in the deflationary gap (Davulis et al. 2013).

Sometimes the fiscal policy reduces the commodity taxes such as sales tax to encourage consumption. Economists have pointed out the need to reduce income tax and corporate taxes to increase private investment and overcome deflationary trends in the economy.

Some economists indicate that the tax cuts can stimulate consumption and investment, but they have limited effect on reducing unemployment. It is important to indicate that the repeated tax cut policy can cause consumers and investors to delay their spending decisions (Alesina & Ardagna 2010).

Taxes are the sums of money that are paid to authorities companies. The amounts of taxes are calculated based totally on income, and the economic value of offerings and goods. Taxes also are described as charges returns imposed on groups and people. They are submitted to government corporations both neighborhood, regional or country wide. They make contributions to the financing the authorities activities. Some experts outline taxes as the economic contribution to assist governments, and they're required of persons or agencies in the scope of government paintings (Randau & Medinskaya 2015). There are different types of taxes that the fiscal policy can affect, which are as following (Randau & Medinskaya 2015):

a. The single tax

This type of taxes are imposed on the entire income of individuals. This income is considered multiple sources income, but it is associated with a single tax. All types of income are subject to the single tax only. The government imposes a single tax to achieve the tax objectives.

b. Multiple taxes

The authorities use this kind of taxes to gain its tax sales by using counting on multiple supply of profits. That is, the people who pay taxes are concern to one-of-a-kind kinds of taxes.

c. Proportional taxes

These taxes are the taxes that have a fixed value despite of the change in the product or service to which it is subject. In other words, these taxes are fixed percentages of the taxes base, regardless of the financial value of this base.

d. Progressive tax

This tax is the tax that its real value increases with the boom in the taxable services or products. That is, the price of this tax modifications with the trade inside the value of the tax base. Therefore, the price of the tax will increase whilst the fee of the service or product situation to them will increase.

The modern tax is divided into most important kinds. The first type is the entire increment, which is likewise referred to as the escalation with the aid of layers. One tax fee is implemented on this kind to every layer, and the tax quotes are exceptional for the opposite layers. The second type is the upward push by using segments, which is also called segmentation escalation. The tax rate in this kind is carried out to the extra part of profits, but not to the whole fee of the income.

e. Direct taxes

The directs tax is defined because the direct deduction of monetary value from people or assets. It is collected based totally on nominal lists. It is transferred immediately from the man or woman who charged with the tax to the public treasury with the switch of its burden absolutely. The character who charged with it's miles the one who bears it.

The direct taxes are categorised into the following types:

- **Income tax:** It is the tax this is imposed on diverse resources of earnings, which include capital, non-public paintings, commercial and business paintings. Each supply that results in obtaining earnings is known as secondary or qualitative profits. The overall price of earnings earned through people from various sources is known as total income.
- **Capital tax:** The tax imposed at the capital that constitutes the movable, ethical, actual estate, and material price range owned through an character at any time. This tax imposed on the capital whether it turned into saved as income or cash.

f. Indirect taxes

The indirect taxes are the monetary values that are paid through people briefly. The tax burden in this case may be transferred to every other person. This tax is on occasion imposed on offerings or consumer objects.

The individual who wants to eat something, or use offerings can pay it indirectly.

The indirect taxes are classified into the following types:

- Consumption tax: It is an alternative to income as a tax base, and it is also called current expenditures. This type of tax is imposed on individuals when spending or consuming, and the consumption tax is divided into two types.

The first type is the special tax, which imposed on consumption of a range of services and goods. For example, the taxes on telephone communications, the internet, oil derivatives, transportation wages, and others.

The second type is the sales tax, which is the tax imposed on all products in the event that they are traded. In addition, and it is a cumulative tax to be imposed on each stage of the circulation of products. For example, it is imposed when selling a commodity from producers to wholesalers. Then it is imposed again when selling the commodity from wholesalers to retailers. Then, it is imposed when a commodity is sold from retailers to final consumers.

- Taxes on trading: These taxes are imposed when property and wealth are transferred from one person to another. For example, the registration tax, which is the tax that imposed when the ownership of something is transferred from one person to another.

In general, taxes are characterized by a set of characteristics, which are as following (Spitzer 2002):

1. The tax is a financial imposition: Tax is the amount of money that individuals pay to the government.
2. Tax is mandatory: It is an imposition and a mandatory element on people, so imposing taxes is a sovereign act of government. Each government is unique in formulating its own tax law.
3. Tax is a means of solidarity: It is the money paid by the individual as a member of the community. That is, individuals are bearing part of the burdens incurred by the government. This tax is not a consideration for a service or a special benefit.
4. Taxes imposed only by governments: The tax is a feature associated with the government work.

The government imposes the tax and uses it as a financial means. The government includes all public institutions that have independent and legal personalities.

In addition, they are distinguished by their administrative and financial independence in relation to public taxes. Municipalities and local administrative units represent municipal and regional taxes.

1. Taxes are finally collected: This means that the value of the tax collected is out of the ownership of individuals.

In addition, the government permanently owns it, and the government is not obligated to return the value of the taxes they imposed on individuals.

3.4 The Comparison between Fiscal and Monetary Policies

The monetary policy has some advantages and disadvantages. For example, the monetary policy is characterized by the clarity of its tools and the speed of their identification when putting them in practice. In addition, the speed of economic response to the monetary policy is usually faster than the response to other policies. In other words, after identifying the problem and choosing the appropriate procedure, the monetary policy will not be more complex like using the fiscal policy (Otsubo 2018).

Even monetary policy has these advantages; the impact and effectiveness of monetary policy are not as expected in many developing countries. That is because they have some problems in banking system, and because of the weak financial markets. Therefore, these countries depend more on fiscal policy than monetary policy. In addition, the importance of fiscal policy increases in these countries because of its effectiveness and ability to influence the economic activities.

The fiscal policy usually restricted by many legislations and laws that require more procedures and are difficult to implement. In addition, the impact of fiscal policy takes long time because it depends on taxes and the public spending. In addition, the fiscal policy is part of an economic plan, while the monetary policy is not linked to a plan. Furthermore, the monetary policy can be modified and taken at any time, and it may be the means of a quick solution to the economic problems.

The role and the effectiveness of fiscal policy varies depending on the economic system in any country.

It additionally relies upon at the relative role of the general public zone in specific monetary activities inside a country. Its significance also depends at the quantity of the improvement of the banking gadget. The monetary policy is also facing difficulties in developed countries. For example, sometimes when applying an expansionary monetary policy at the time of recession, that will cause capital migration. In other words, when reducing the interest rate, this will lead to the outflow of capital. This will cause a deficit in the balance payments, which is not good. Therefore, adopting an economic policy may cause problems that prevent achieving its goals.

3.5 The Investment Motivation

Beside the fiscal and monetary policy, which are considered as the main economic policies that affect the private sector, there are also some other economic policies. This section reviews on of the important policies that have used to motivate the private sector businesses. These policies are the investment motivation policies (Achinivu 1990).

Before discussing these policies, it is important to understand the concept of investment. In addition, it is important to understand the relationship between the investment and the private sector. That can better help understanding the goals and the mechanism of these policies

3.5.1 The concept of investment

There are many various definitions of investment based on different viewpoint. Some specialists define the investment as sacrificing a current benefit to obtain a future benefit. In other words, the achieved satisfaction of a current consumption can be obtained from a greater future consumption (Duan 2000).

The investment is also defined as giving up the use of current funds to obtain more cash flows in the future. The future cash flow is the compensation for the current value of the invested money. In addition, it is the compensation for the expected

decrease in the purchasing power of the invested money due to inflation. Furthermore, it is the compensation for taking the risk factor.

It is important to indicate that the investment is different from saving. If investment means sacrificing a present benefit, then saving means, stopping part of the current consumption to obtain more consumption in the future. The saved money does not have to be converted into investment for the same period. This is considered the basis in economic crises, as it is possible for the money to remain accumulated in banks without finding its way to lending and then to be invested.

The investment process means sacrificing the satisfaction of a current consumer desire, in the hope of obtaining more satisfaction in the future. That sacrifice must be matched by bearing a certain level of risk, and certain level of return. However, saving means just postponing the current consumer desire, and that delay is not matched by any degree of risk. On the other hand, the availability of funds for individuals and governments is not enough to carry out the investment process. Therefore, the appropriate environment and encouraging factors must be available for that.

3.5.2 The importance of investment

The investment is one of many economic topics that received great attention by many economists, and politicians. That is because of its effective role in increasing national income and in achieving the economic and social development. The increase in investment can lead to a multiplier increase in income, output and employment. That can be done through the investment multiplier and accelerator, which can transfer the economy to a better situation (Wiersema & Zhang 2011).

The interest of developed countries in the investment can be shown in their laws and legislation that encouraging investment. This is not only at the level these countries, but also extended to include all other countries. For example, these countries facilitating all the necessary procedures for the transfer of capital to other countries. This trend is clear in the activity of multinational corporations.

It is also noted that the interest of the developed countries in the investment and related issues was not limited to quantitative aspects. They extended it to include qualitative aspects such as increasing and improving capital productivity and

working on improving it constantly. In addition, they interest in achieving the optimal use and distribution of capital available among investment opportunities.

That can be done by doing economic feasibility studies and evaluation of investment projects. This mainly aims to reach good investment decisions based on scientific foundations.

The developing countries are also consider the investment as an effective and necessary tool to achieve their economic and social development. In addition, it can reduce the capital scarcity that these countries face. However, most developing countries misuse the available financial resources (Blejer & Khan 1984).

3.5.3 The objectives of investment

The investment objectives differ according to the entity that undertakes the investment process. The goal of the investment process may be to achieve the public benefit, as is the case for public projects undertaken by the government. For example, establishment of a hospital, a government university, a highway, and others (Kunzel et al. 2011).

The objectives of the investment process may be to achieve a return or profit, as is the case for projects undertaken by the private business sector. In general, most of the studies that deal with the subject focus on investments in the private business sector. In other words, they deal with the investment that aims to achieve a return or profit and that is accompanied by a certain level of risk.

The most important objectives of the investment process can be summarized as follows (Powell & Premachandra 1998):

1. Achieving an appropriate return: as the goal of any investor is to obtain an appropriate return, which helps the project to continue.
2. Preserving the value of real assets: preserving the value of the original capital invested in the project. To do that, it is necessary to resort to the method of comparison and selection, which are included in the economic feasibility studies. This can help choosing the appropriate investment opportunity. The investors can also achieve this through diversifying the uses of capital. They can use what they have of money in several areas and not limiting them to one field or activity.

3. Continuity of obtaining income and working to increase it: this means that the investors always seek to obtain a continuous return and to increase and develop it constantly.

4. Ensuring the necessary liquidity: another objective of the investors is to provide an appropriate level of liquidity to cover the requirements of the work.

In addition, to provide the requirements of the production process to cover emergencies and uncalculated situations.

Based on these investment objectives, the government or policy makers should design motivation policies that can affect these objectives. In other words, the investment motivation policies should always provide more benefits and less investment risks. The positive impact of investment motivation policies is expected to increase private sector businesses and then lead to economic and social development.

3.5.4 The investment motivation policies

Attracting and maintaining investments, especially forging investment, is very important for any economy in a growth stage. The investments can create jobs, bring in capital and technology, and transfer knowledge. In addition, they can help local companies integrate with global value-added chains, and generally drive economic growth. However, these potential benefits are not self-fulfilling, and they are not guaranteed (Bump 2013).

Many factors have effects on investment strategies and policies. To understand the effect of these factors, it is not necessary to identify the types of investments. That is because different types of investments have different effects. Identify the types of investments needs to answer several questions. For example, will the investment depend on the extraction and manufacture of natural resources? Will investment make the search for a certain products and services to replace imports? Will the investment focus on increasing production efficiency and increasing the volume of exports?

The policy makers must review these questions and ensure that the investment helps their countries' progress and benefits their people. They need a logical way to link the investment objectives to the bottom line of those investments. This is why the

World Bank Group has developed the Investment Reform Map, which presents three basic concepts. These concepts can help governments clarify the position of their countries in the global economy. In addition, they help setting priorities, and implement the country's long-term vision (Enuenwosu & Nemedi 1980).

These three concepts are as follows:

- The objective of the investment policy is not to choose between domestic and foreign investment. However, it is to link them through the value-added chain at the local, regional and global levels.

This means that the focus of regulatory reform should not be limited to domestic laws. It should also seek to link these laws with the international investment agreements that increasingly govern production at both the domestic and international levels.

- Investment is not a transaction, but it is a relationship. It is essential that an investment policy go beyond attracting initial investments. The real benefits to the country come at a later stage in the relationship.
- In other words, they come when the country succeeds in retaining investment and building strong relationships with local business activities.
- Not all investment types are equal. Different types of investment have different impacts on economic development and thus need different policies.
- The countries that can apply this framework to their investment policies and vision will have a rationale investment strategy that will produce significant results.

4. PRIVATE SECTOR IN IRAQ AND STIMULATING POLICIES

4.1 Private Sector in Iraq

Reviewing and know-how the non-public quarter companies in Iraq calls for appropriate know-how approximately the operation of Iraqi financial system. That is due to the fact the personal businesses strongly stricken by the economic and political elements (Alnasrawi 1994). Therefore, it's miles crucial to speak about the shape of the Iraqi personal zone and the demanding situations it faces. In addition, it's miles essential to discuss the economic rules that Iraqi government have followed to motivate the non-public corporations.

4.1.1 An overview

Before 2003, Iraq adopted central planning system since the fifties of the last century. The government was drawing plans for all economic activities. The government was the party that implemented almost the entirety of these plans. Under that system, the Iraqi private sector had only a minor role that appeared in the times of crisis to compensate for the failure of the government's economic roles (Dawisha 2005).

The Iraqi government was exercising the role of supervision and carrying out some major projects. In 1950, the Iraqi government established an agency called (the Council of Reconstruction). This agency was doing the task of supervising government spending and preparing the economic and financial plans. The goal of these tasks was to develop the Iraqi resources and improve the standard of living. The private sector had some degree of independence at that time. That is because the agency was focusing on major projects in Iraq.

After the July 14 revolution in 1958, the Iraqi government began to play a major role in the economy, which significantly reduced the role of the private sector.

The Iraqi government stopped work of the Council for Reconstruction agency. In addition, it started the formation of central institutions that manage the economy planning and implementation.

The big oil wealth that Iraq has was another factor that increased the governments' intervention in the economy and encouraged it to form central institutions. The oil wealth provided huge financial resources to the government, which reduced the need to the private investments. The political philosophy at that time was directed to social benefits more than economic benefits. In addition, most of governments leaders had a believe that the private sector system is cruel and unfair (Jabur 1986).

The government established many central institutions. For example, the Economic Planning Council, and the Ministry of Planning, which were responsible for preparing the economic plans. These plans were sent to the Planning Council for the purpose of approval and follow-up implementation. For the implementation process, it became one of the tasks of the relevant ministries. Despite the different names and tasks of these ministries and institutions, their main task remains managing the economy on behalf of the government.

After 2003, Iraq started a new economic orientation that is completely differ from the previous trend. This change was had a legal form when it was codified in the Iraqi constitution of 2005. The article 25, which states that the government must guarantee the reform of Iraqi economy based on the modern economic foundations. In addition, the reform must guarantee the full investment of resources, diversification of its sources, and encouragement the private sector (Dodge 2013).

The article 23 of Iraqi constitution indicated that the private property is inviolable, and the owner has the right to benefit from, exploit and dispose of it, within the limits of the law. In addition, the article 24 stated that the governments must guarantee the freedom of movement of Iraqi labor, goods and capital between regions. These constitutional articles clarify the features of the new trend towards the free market economy.

Based on that new reform, the Iraqi government is now responsible for providing good business environment. That business environment should help overcome the obstacles that stand in the way of the private sector. In addition, it should make the private sector as the main axis in the Iraqi economy.

4.1.2 The structure of the private sector in Iraq

The private sector in Iraq is working in three main economic field. In other words, it can be divided to three main sectors, which are the manufacturing, agriculture, and

trade private sectors. In addition, there are also some miner fields such as construction and transportation. This section discusses each one in more details and statistics (Awwad & Karem 2014).

4.1.2.1 The private manufacturing sector

The businesses in this sector began to grow and develop since 1960. The contribution of this sector in the total industrial output in Iraqi was 84% in 1960. This sector was developing and growing from until 1964, when the Iraqi government made a decision, to nationalize the forging companies. This decision led to decline and decline in the contribution of that sector to be 56% of the total industrial output in 1970. Then it became 30% in 1990 (Mahmud 2020).

The industries of this sector include several types. For example, the textile industries, which including different fabrics, yarns, Knitting, embroidery, socks, underwear, curtains, carpets and other products. The food industries, which including mill products, carbonated water, food preparation. In addition, cereals, mineral water, ice, sweets, tobacco and cigarettes, and dairy industry.

The chemical industries, which has the pharmaceutical industry, plastics, and detergents. In addition, it produced disinfectants, dyes, oxygen and acetylene, and adhesives. The metal and wood industries, which manufacturing steel structures, and some tools of production. In addition, it produced doors and windows, aluminum profiles, spare parts, and furniture industry.

The construction industries, which produced bricks, blocks, plaster, and cement. The electrical industries, which include the manufacture of cables, wires, and lamps. In addition, the lighting poles, electric motors, refrigerators, freezers and other products.

Table (4.1) shows the changes in the number of large private manufacturing businesses over time. The table shows that the number of these businesses in the year of 2000 was 483. However, the number increased to 504 businesses in 2001.

That was because the government started providing some economic incentives to these businesses. For example, subsidize for raw materials, and loans with low interest rates.

These motivating actions had led some businesses to open their doors and start the production process.

Table 4.1: Number of large manufacturing businesses by years

Year	Number of big manufacturing businesses
2000	483
2001	504
2002	345
2003	375
2005	403
2005	370
2019	208

Source: Iraqi Ministry of Planning in Iraq

The number of these businesses began to decline again until it reached 375 in 2003. That is because the government stopped the motivation actions due to lack in financial resources. The number of these businesses continues to decline to reach 208 in 2019. The table indicates that the Iraqi government need to adopt new motivation actions to help most of these businesses working again.

4.1.2.2 The non-public agricultural sector

The private agriculture sector plays a vital and important role in the Iraqi economy. That is because of its large contribution to the GDP, which approaches 36% in 2002. In addition, because of its ability to absorb more than 10% of the total number of workers in Iraq in the same year. This sector also provides raw materials for the industrial sector, and represents a wide market for goods and services that produced in other sectors. It is also a major source of the national food basket (Ahmad & Hmzah 2017).

The agricultural sector in Iraq is divided into two main parts. The first part is the agricultural production, which is responsible for the production of various types of grains, fruits, and strategic seasonal crops. The second part is the livestock production.

This part prepares the community with different products. For example, it provides white and red meat, eggs and foddors, and dairy industries of all kinds.

The contribution of the rural zone in Iraq to the GDP is ready 6.Eight%. This percentage become calculated other than the contribution of oil to the GDP. About 60% of the overall population in Iraq lives in villages and rural areas . The ratio of

the number of workers in the agricultural, forestry and fishing sectors to the total working population was 15% in 2004.

The percentage of arable land in Iraq is 27% of the total area of the country. This is equivalent to 48 million donums, but the exploitation does not actually exceed 16 million donums, which is equivalent to 28% of the arable lands.

The yield of the main grains from private agriculture businesses for selected years was as shown in the table (4.2). The table shows the productivity of the cultivated land does not have significant changes over time. That indicates the lack in developing this sector especially in using new technologies.

Table 4.2: The productivity of the cultivated land

Year	Productivity (kg/donum)
1986	267
1974	218
1983	165
1990	240
2006	231

Source: Ministry of Planning in Iraq

All the above indicators show that the private agricultural sector in Iraq is not developed. In addition, it does not meet the needs of people.

4.1.2.3 The private commercial sector

The private commercial sector is an important part of the Iraqi economy. It includes buying and selling (wholesale and retail trade) goods. It also includes the import and export and everything related to the delivery of these goods to the consumer and the beneficiary.

The delivery can be at home or abroad, the ultimate goal is to satisfy people's needs and fill any shortage of traded goods (Ssali et al. 2010).

The goods that are traded within this sector are food, machines, equipment, means of transportation, and medicines and medical supplies. In addition, they can be construction materials, chemicals, and every commodity that is not produced inside Iraq, or produce but do not meet the need.

Until 1958, the private commercial sector was controlling the import and export. Iraqis and foreign traders were the main part of the private commercial sector in Iraq. Some Iraqi and foreign private companies were dominating the export. The exported goods were consisted mainly of agricultural products (plant and animal), and some primary raw materials.

After 1958, the Iraqi government started the intervention in commercial activity. It began forming the public commercial sector in Iraq. The government explained this action as a way to control the rapid increase in prices and consumer protection, but not for profits. The public commercial sector had the main role in Iraqi trade with very Restrained role to the personal sector.

After 2003, the personal commercial area became speculated to be the primary controller at the Iraqi trade activities. However, it was unable to do that because of the lack of planning and experiences. This situation allowed to import and entry of shoddy goods without going through the oversight, standardization and quality control bodies. In addition, the emergence of the administrative corruption is become greatly complicated, which negatively affect the commercial sector (White 2012).

4.1.2.4 Other private sectors

With the three main private sector in Iraq, there are some other important private sectors, which are as following (White 2012):

- Construction sector
- Transportation sector
- Electricity sector
- Services sectors
- Tourism sector
- Education sector

4.2 The Problems Facing the Private Sector in Iraq

The non-public area in Iraq have dealing with many problems in terms of setting up and running. Even the Iraqi government suggests that the personal area is vital and have to be supported, it still going through many troubles . These problems can negatively affect the performance of private businesses, especially the big firms.

Identifying these problems can help policy maker adopting effective stimulation policies (Naji et al 2019).

The private sector facing the following problems:

a. The strong association with the public sector

In Iraq, the employees in the public companies and government agencies are the main customers of the private sector. In addition, they are the first buyer of goods and services because they have regular monthly payments. In other words, the private sector depends mostly on them. Therefore, any fluctuation in the public sector will directly and negatively affect the private sector and its employees (Zimmermann & Aljuboori 2013).

For example, when the collapse of oil prices happened, it extremely affect the public sector's employees. That negative impact transferred directly to the private sector businesses, which stopped working or reduced their production so much. Therefore, the Iraqi private sector working under unstable situation, and this problem should be solved.

b. The way of providing goods and services

Most big private sector companies in Iraq provide their goods and services by participating in many tenders. These projects tenders are announced by public companies and government agencies throughout the year. The first problem is the time to finish the processes of choosing the company that will do the project. This sometimes extends to months and years.

When the contract is approved for one of the competing companies, the prices have increased or the model has changed. This delay in time can be associated with many risks to which the supplier or contractor is exposed.

The other problem is the corruption that is related to this process. In most cases, the public employees, who are deciding which private company will do the project, receive illegal money to choose a company.

They may select a company without any experiences because they got more money.

In general, the government sector has corruption, lack of professionalism, bureaucracy, and routine. That makes bad relationships with private sector companies.

c. Funding and financial resources

Private sector companies all over the world depend on various banks for financing and providing funds to implementing the contracts they hold. However, the local and foreign banks operating in Iraq do not do that task as required. They do not cooperate with the private sector, and do not provide good banking services at acceptable costs. Therefore, that can negatively influence the performance of the private businesses because of the lack in funding (Naji et al. 2019).

d. Unfair taxes

Taxes on private sector companies in Iraq fall into the field of randomness and selectivity. They are not on fixed bases as is the case in other countries. They have corruption among a number of employees who work for their pockets more than their interest in collecting taxes for the government. In addition, taxes on private sector companies are increasing annually. That impose more costs and reduce their movement in the market and their ability to pay such taxes with the big lack of financial resources (Zimmermann & Aljuboori 2013).

e. Lack of legislation and corruption

Several reasons have led to the decline in the private sector businesses in Iraq. The Institute of International Finance stated that the spread of corruption in Iraq, administrative bureaucracy and the poor investment environment led to the prevented private sector growth.

Iraq has also political instability and weak efficiency and capacity of its government institutions. Although there are many legislations that contribute to the protection of the private sector, they are still not implemented. Fore example, some Iraqi economists indicated that the customs on all imported goods, which is only 5%, contributed mainly and effectively to the deterioration of the Iraqi industry.

In addition, it contributed to the deterioration of the private sector in Iraq, and the spread of unemployment. Although Iraq had enacted the laws of customs tariff in 2010, consumer protection, competitiveness and the prevention of commodity dumping, they are still not activate.

4.3 The Stimulating Policies

4.3.1 The direction of the stimulating the private sector

Stimulating the private sector in Iraq after 2003 depends on the idea of mixing both the public and the private sectors. Despite the importance of the private sector in the development, this does not mean stopping the role of the public sector. The current economic and social reality in Iraq requires giving the private sector a greater Opportunity to improve the improvement and production procedure of the united states. However, that may be done thru the partnership among the public and private sectors (Mahdi 2007).

In trendy, the authorities plan to achieve this form of blend is based totally on the following principles:-

1. Establishing an independent authority linked with the government to coordinate with the private sector. In addition, to ensure the establishment and success of partnership with the public sector.
2. Adopting new commercial policy to control the import process, stop the dumping policy, and allow for entering required foreign products.
3. Building a suitable, encouraging and attractive investment environment for capital. That can be done by reformulating the legal, legislative and financing aspects.
4. Developing the banking system and creating a financial environment that facilitates the process of funding, lending, and other banking services.
5. Adopting programs to attract the highly skilled Iraqis who are immigrant. In addition, attract the immigrant capitals, and support their participation in development.
6. Preventing the financial and administrative corruption in all government's agencies.
7. Facilitating the work of private sector businesses by issuing new laws, and removing routine complications. In addition, improving the private sector's opportunities to obtain financing and support from the government.
8. Promoting the significance of the private zone and its position in the improvement procedure. That may be finished via schools, institutes and schools that show the

importance of personal paintings and its competition for the government job in building a destiny for younger human beings.

4.3.2 Economic policies to stimulate the private sector in Iraq

After 2003, Iraq has adopted different economic policies and legislation systems as part of the new economic reform. The main goal of these policies is to rebuild the structure of the economy. More specifically, they focus more on motivating the private sector to be the leader of most economic activities. This section discusses the most important policies and legislations that stimulate the private sector in Iraq (Mohammed 2020).

4.3.2.1 The monetary policy in Iraq

The shifting towards the free market economy have led the monetary authority in Iraq to make many changes in its monetary policy. Their goal is activating both the supply and demand sides with acceptable level of price. These new monetary policies are mostly designed to stimulate the individual initiatives and private businesses. In addition, to reduce the role of the government in the economic activities (Olweny & Chiluwe 2012).

The Iraqi Central Bank, through its monetary tools, has contributed to this transformation. It activates the mechanisms of the market economy through a set of monetary instruments. The monetary authority in Iraq has faced great challenges in the process of achieving economic and financial stability under unstable security situation. The monetary authority succeeded in using of direct and new (indirect) monetary tools. The following are the monetary policies that adopted by the Central Bank of Iraq:

1 - The interest rate

The interest rates are the main instrument of the monetary policy in Iraq after the economic reform. Since 2004, the interest rates on all local deposits, loans and securities are set in a way that helps borrowers to effectively manage their own decisions. That has helped stimulate private businesses and projects to raise their productivity and increase their profitability. In addition, the competition for the available funding become more active.

2- Credit limits

The Central Bank adopted the various credit plans and credit limits, which depend on the economic situation in the country. These plans provided more funding for different private businesses, especially small businesses.

3- Free external transfer

The Central Bank remove the past restrictions on the foreign currency flow. This action allows the movement of currency to and from Iraq, which provides more financial resources. In addition, it will put pressure on the exchange rate and make it more balanced and closer to the market rate

4. Other policies

Some other monetary policies were adopted to achieve the development goals. For example, the unification of the legal reserve requirements. In addition, the open market operations, and the lending and depositing facilities.

4.3.2.2 The fiscal policy in Iraq

It is well known that the fiscal policy uses the available financial resources to solve many economic problems. One of the important goal of fiscal policy is to stimulate private businesses. That is, the government uses its public budget and the tax system to achieve its economic goals. The Iraqi government announced many times and over many years that it adopts fiscal policies to stimulate the private sector. However, the fiscal policy in Iraq is still not good. The financial resources are distributed based on items, but not on development plans or to economic and social indicators (Al-Jebory 2016).

The main financial sources available to the Iraqi government are from oil exports, which represent about 96% of the total revenues. The rest of revenues are from taxes, fees, public sector profits and the sale of government's property. The revenues from oil exports increased from about 8 million dollars in 2003 to more than 94 billion dollars in 2012. The general budget figures reached a high peak, reaching 80.5 billion dollars in 2011. It reached to 100 billion dollars in 2012 and more than 118 billion dollars in 2013.

In general, the total revenues from oil exports, fees, taxes, loans and grants reached more than 600 billion dollars from 2003 to 2013. However, Iraq still suffers from many economic and social problems.

That is a result of mismanagement of these financial resources and the absence of strategic plans. For example, there are significant 1.5-3% decrease in the share of productive economic activities such as industry and agriculture in the GDP.

The unemployment is still high, as the number of the unemployed is estimated at 4.5 million. The poverty still constitutes a high percentage of the population. Iraq still suffers from major problems in services and infrastructure, electricity, potable water, sanitation, housing, illiteracy, and others.

The tax policy in Iraq has also suffered from confusion, and taxes have not been able to achieve any of their objectives. Taxes have not been based on any of their rules in practice. The tax system in Iraq suffers from the imbalance of standards for tax submission with multiple methods. In addition, it suffers from many exemptions, allowances, deductions, and reliance on indirect taxes. decrease in the proceeds of tax revenues, and a weakness in the response of the Iraqi tax system to the economic and social changes in the country, with the backwardness and inefficiency of the tax administration (Taleb 2011).

All of these issues confirm the mismanagement of Iraq's financial resources, and financial instruments. That indicates the failure of fiscal policy to achieve the desired economic and societal goals. However, there is no evidences that show the impact of fiscal policy on private sector. Therefore, this study tests the impact of fiscal policy in Iraq on private sector.

4.3.2.3 The trade policy in Iraq

The trade policy in Iraqi was relied on oil as a basic commodity for export. That accompanying great danger as a result of the instability of oil prices. In addition, there is clear shortage in the non-oil exports, which created many obstacles to economic development (Jakob 2016).

After 2003, Iraq become more open towards the entire world, and that leads to adopt free trade policy. The importance of this new trade policy is to stimulating non-oil exports, which provided by the private sector. It also can help the private businesses

to enter into global markets, which can help them get new technologies. Based on that, it is expected that trade policy in Iraq has an impact on private sector.

4.3.2.4 The investment policy in Iraq

The Investment law of 2006 mainly represented the investment policy in Iraq after 2003. This law was designed to focus on private sector and to achieve the following goals (Shubber 2009):

- Encouraging private investments to bring the modern technologies to the process of developing Iraqi economy.
- Encouraging the Iraqi and foreign private businesses to invest in Iraq by providing the necessary facilities to establish new projects. In addition, by increasing the competitiveness of projects covered by this law in the local and foreign markets.
- Developing human resources according to market requirements and providing job opportunities for Iraqis.
- Protecting the rights and property of investors.
- Expanding exports and strengthening Iraq's balance of payments and trade balance

This policy (law) depends on the principles of ensuring the necessary privileges and guarantees for the continuity and development of the investments. In addition, provide the investors with the investment's license with additional facilities and exemptions from taxes and fees.

The implementation of this policy include the following steps:

1. Enhancing the investment environment, identifying investment opportunities, and stimulating investment and promoting them.
2. Simplifying the registration and licensing procedures for investment projects, and following up on existing projects. In addition, giving them priority in completion with the official authorities, and completing the procedures for answering investors' requests. Furthermore, obtaining the necessary approvals for the investor and the project.

3. Creating a single window that includes authorized representatives from the relevant government agencies.
4. Providing advice, information, and data to investors.
5. Develop and implement investment promotion programs in the various regions of Iraq to attract investors.
6. Facilitating the acquisition of real estate necessary for the establishment of projects.
7. Establishing major investment zones.
8. Providing loans and financial facilities.

4.4 The study Analysis

The study analysis includes the methodology, the data, the model and variables, and the results. This section tests the study hypotheses. It test the impact of fiscal and monetary policies on stimulating the private businesses in Iraq.

4.4.1 The study methodology

The study uses the linear regression model (LRM) as a statistical estimation tool to do the estimation. The study uses R programming as a software to run the regression model. The LRM is used because easier to fit than non-linearly models. In addition, it can help easily determine the statistical properties of the resulting estimators. The goal of using LRM is for prediction, forecasting, and error reduction (Groß 2012).

4.4.2 The study variables

The model used in this study is the linear regression model (LRM). The model represent the relationship between variables. These variables are the dependent variable and the independent variables. The model parameters are estimated from the data. [103]. The model used in this study is shown in equation (4.1).

$$Y = \beta + \alpha_1 FP + \alpha_2 MP + \alpha_3 TP + \alpha_4 TP + \epsilon \quad (4.1)$$

The variable (Y) in equation (1) is represents the dependent variable. The number of private businesses, which registered at the registration offices, measures the variable

(Y). The variables (FP, MP, TP, and IP) represent the independent variables. The variable (FP) in this case is fiscal policy. It is measured by the tax rates.

The variable (MP) is monetary policy variable. It is measured by interest rates. Finally, the variable (TP) is the trade policy, which is measured by the size of imports.

The size of imports reflects the contribution of the private sector in providing the customer needs. The less imports, the more contribution of the private sector.

The investment policy (IP) is measured by the time of getting the investment's licenses. The time of getting the investment's licenses reflects the performance and efficiency of the investment policy. The less time means positive impact on private businesses. The model parameters (β , α_1 , α_2 , α_3 , and α_4) will be estimated when running the regression. The (ϵ) represents the error.

4.4.3 The data of the study

This information used on this have a look at is month-to-month time series statistics for from the 12 months of 2003-2020 The information of this observe had been taken from the important bank of Iraq, the workplace of agencies registration, and the ministry of planning. There are 204 overall commentary inside the sample. The appendix A shows an example of the dataset. Using R programing codes, the data was imported and used in the regression analysis. The R programing codes are shown in the appendix B.

The descriptive statistics of the data are shown in Table (4.3) shows. The table shows the variables description, the maximum and minimum values of each variable. In addition, it shows the mean values and the number of observations for each variable.

Table 4.3: The descriptive statistics of the data

Variable description	Monthly number of registered private businesses (x 10)	Monthly average tax exemptions on private businesses (% of total taxes)	Monthly average interest rates (%)	Monthly average amount of imports (Million USD)	Monthly average time of getting license (days)
Variable symbol	Y	FP	MP	TP	IP
Max value	120	100	8	100	60
Min value	10	3	4	10	7
Mean	65	50	6	54	34
Total Observations	204	204	204	204	204

4.3.4 The study results

After running the linear regression model, the results of this study are shown in table (4.4).

The results in table (4.4) showed that the monetary policy has positive and significant impact on private sector. More specifically, the changes in interest rates increase the number of private businesses by 3.4.

Based on that, the first hypothesis of this study is confirmed. That is, the monetary policy in Iraq has positive and significant impact on private sector.

Table 4.4: The results of regression model

Variable	Estimated parameter	P- value
Intercept	49.64***	0.0001
Fiscal policy	-0.06	0.4269
Monetary policy	3.40*	0.0301
Trade policy	-0.10	0.2571
Investment policy	-0.10	0.4380

Significant code: 1% ***, 5% **, 10% *

The results show that the fiscal policy in Iraq has negative and insignificant impact on the private sector. This result indicates that the even the impact of fiscal policy is not significant; its direction is not as required. In other words, the taxes imposed on private businesses is still high and do not stimulate them. Based on that, the second hypothesis of this study is not confirmed. That is, the fiscal policy in Iraq does not have positive and significant impact on private sector.

The results indicate that trade policy in Iraq has negative impact on the private sector. That is expected because of the rapid increase in the size of imports. However, the impact is not significant. Finally, the results indicate that investment policy in Iraq has negative impact on the private sector, which is not expected. That is because the investment policy the time of getting license still long. However, the impact is not significant.

In short, the Iraqi policy makers should adopt better economic policies or improve the existence ones. That can positively and significantly stimulate the private sector. In addition, it can help the private sector to have great contribution in the in the Iraqi economy.

5. CONCLUSION

Most economic system within the international has two major styles of establishments together with the general public sector and the non-public quarter. The public quarter is owned and managed by means of governments. However, the personal region is owned and managed with the aid of independent people.

Many research suggest that the personal zone performs substantial roles in monetary improvement. Therefore, enhancing the non-public sector should lessen unemployment, improve capabilities and result in greater economic development.

Iraq is one of the developing countries that started out new monetary reform after 2003. The crucial part of this reform turned into changing the financial machine from socialist monetary system to the capitalist monetary machine. The most important intention of that reform become stimulating the non-public organisations in Iraq. This study tries to evaluate the consequences of precise economic reform policies at the personal sector. This observe attempts to evaluate the outcomes of especially, the financial and economic rules on the personal region in Iraq.

The purpose of this have a look at is to apply statistical equipment to assessments how can fiscal and financial rules impact non-public organizations in Iraq. The importance of the have a look at is to research whether or not economic and economic rules that designed to stimulate the private zone can acquire their dreams. The study contribution is to help coverage makers in Iraq evaluate the effectiveness of their monetary policies in the direction of the private region.

The first speculation of this observe is that the monetary coverage in Iraq has nice and sizable impact at the private zone. The 2d hypothesis is that the monetary coverage in Iraq has high-quality and tremendous effect on the personal region.

The outcomes of this observe show that the financial coverage has fine and large effect on private zone. Therefore, the primary hypothesis of this study is showed. The consequences show that the financial policy in Iraq has poor and insignificant effect on the private zone. Even the impact of fiscal policy isn't big; its course isn't

always as required. Therefore, the second hypothesis of this study isn't always showed.

That is, the fiscal coverage in Iraq does not have nice and substantial effect on private region. The results indicate that trade policy in Iraq has negative impact on the private sector. However, the impact is not significant. In addition, the investment policy in Iraq has negative impact on the private sector, but the impact is not significant.

Based on these results, the Iraqi government should adopt better economic policies or improve the existence ones. That can help stimulating private businesses to have great contribution in the in the Iraqi economy.



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APPENDICES

Appendix A: R Programing Code for Linear Regression Model

Table A.1: R Programing code for linear regression model

The R Code	The Action
> data <- read.delim ("C:/Users/ /Desktop/Rabab/Data/data.txt")	Reading the data file
> View(data)	Checking the data
> attach (data)	Preparing the data for use
> regression <- lm (q ~ p+r)	Running Linear Regression Model q is the dependent variable p and r are the independent variables
> summary (regression)	View the results of the regression

Appendix B: Example of Data Set

Table B.1: Example of data set

Y	FP	MP	TP	IP
8	7	6	33	7
19	17	6	39	20
17	13	8	79	11
18	9	4	39	14
15	3	7	69	10
9	8	7	53	20
18	18	5	72	30
10	7	7	86	22
17	19	5	39	7
14	4	4	22	20
10	15	5	52	7
15	6	7	24	12
15	11	5	13	25
14	14	8	92	10
9	15	5	44	17
13	8	6	98	18
18	20	4	49	17
17	6	5	48	10
19	16	7	45	13
20	4	4	26	26
9	4	4	93	8
13	8	7	47	19
16	5	8	76	19
16	8	4	83	9
15	6	7	59	17
11	12	8	79	28
17	17	7	95	11
14	15	8	50	29
12	8	7	53	24

RESUME

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- Teaching in private schools.
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