FISCAL POLICY FOR SUSTAINABLE DEVELOPMENT: PUBLIC EXPENDITURE EFFICIENCY, DIGITAL GOVERNANCE, AND LESSONS LEARNED FROM RESOURCE-DEPENDENT ECONOMIES

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Abstract
Fiscal policy is still one of the main tools to promote economic development, reduce inequality, strengthen public institutions and keep macroeconomic stability. However, whether fiscal policy will be effective in promoting development or not is dependent on how much money the government spends and how that money is spent, what kind of services are provided using the money, how efficiently those services are delivered, how transparent the process of spending the money is, and how well the process of spending the money is implemented. These problems exist especially for countries that depend on natural resources because their revenue fluctuates as prices of natural resources change and their budgets can easily be affected by shocks from outside. This research looks at the connection between fiscal policy and sustainable development; specifically looking at the efficiency of public spending, using digital technology in government operations, having multiple sources of revenue, and being able to maintain a stable budget over time. We focus on Iraq. We use a descriptive/analytical method of studying the problem. We use secondary data and policy documents from the IMF, World Bank, OECD, and academic articles. We compare Iraq's recent fiscal performance with other examples of how governments spend their money and how efficient they are in doing so. According to the IMF, Iraq's fiscal balance decreased from -4.2 percent of GDP in 2024 to an expected -7.5 percent of GDP in 2025. Oil revenues continue to represent a large portion of Iraq's total revenue (IMF, 2025). The decrease in the fiscal balance shows how easily Iraq's spending plans can be affected by changes in oil prices. We argue that if we want to create a development-oriented fiscal framework then we need to focus on investing productively in public goods, building human capital, increasing non-oil revenue, creating digital systems to manage public finance, and creating long-term budgets that are transparent. We conclude that fiscal sustainability and economic development can work together if we allocate our resources efficiently and have credible institutions supporting us. Our results have implications for Iraq and other resource-dependent developing countries that would like to turn their public revenue into sustainable improvements in their people's lives.

1. Introduction

Fiscal policy is a primary mechanism for governments to affect economic performance, allocate resources, redistribute wealth, and create public services. By using taxes, expenditures, subsidies, and debt to control aggregate demand, governments can also shape the long-term productive capabilities of an economy. However, fiscal policy does not automatically result in development. Whether fiscal policy produces positive results depends upon the quality of the institutional framework, how effectively expenditures are managed, the design of the tax structure, and whether or not a government has the capacity to sustain its fiscal policies throughout a period.

Fiscal policy has traditionally focused on how government spending affects short-term economic growth. While that connection is still relevant today, there are now many other issues facing developing countries. For example, governments need to find ways to fund infrastructure projects; reduce high unemployment rates; address growing levels of income inequality; prepare

for the effects of climate change; support digital transformations; and increase access to quality education and healthcare services. Therefore, fiscal policy needs to develop new analytical tools to link daily budgetary decisions to long-range development goals.

The composition and efficiency of public expenditures, as opposed to simply expanding expenditures, has become an increasingly important topic in recent international policy debates. According to the International Monetary Fund's (IMF) Fiscal Monitor for October 2025, if governments re-allocate expenditure from current areas to those such as infrastructure, education, healthcare, and research and development, they will be able to enhance their long-term outputs with no additional total government spending (IMF, 2025). Therefore, it may be concluded that the effectiveness of fiscal policy in promoting development depends upon how effectively public funds are allocated to productive capacity-building and social welfare-enhancing programs.

Digital transformation has an additional critical component. Digital public financial management systems are able to enhance budget execution, tax administration, procurement transparency, as well as the amount of data available to policy makers. However, simply digitalizing does not necessarily result in improved governance. The success of digitalizing is dependent upon coordination within the government, the quality of data being used, security of the digital systems, the ability of the workforce to utilize the technology, and the public's confidence in the government (OECD, 2026).

Many of these issues apply directly to countries that depend on natural resources for their economic well-being. Countries whose primary source of income is derived from oil or other commodities will experience significant fluctuations in their public finance balance as a result of changes in global commodity prices. Fluctuations in public finance make planning for future spending difficult; they can lead to increased current spending during boom times, and reduced spending for capital investments during lean times. Therefore, to transform natural resource wealth into sustainable economic development, countries must establish public sector fiscal institutions that allow for the separation of long-term expenditure commitments from short-term changes in commodity prices.

Iraq is a good example of how to address some of the issues that were raised. Oil income is the primary source of funding for the government, and the government has large spending obligations on salaries and pensions. After the fiscal expansion and the drop in oil prices, the IMF reported in their 2025 Article IV consultation report that the fiscal risks have increased. For 2024, the IMF projected a fiscal deficit of 4.2 percent of GDP; for 2025, they projected a deficit of 7.5 percent based on current policy settings (IMF, 2025). This shows the need to increase revenue from non-oil sources and improve the way funds are allocated.

While the above-mentioned areas of interest are extremely important, most of the time when people discuss fiscal policy, they look at public spending, digital governance, revenue diversification, and sustainability individually. However, there should be an integrated approach to analyzing the interaction between these various components and how they can work together to achieve better development results.

The purpose of this study is to investigate how fiscal policy relates to sustainable development. There are four areas where these two topics can interrelate. They include expenditure efficiency, revenue diversification, digital governance and fiscal sustainability. The contribution made by this study is a policy-focused synthesis. It connects current international evidence with Iraq's fiscal condition and identifies practical reform options for countries whose economy relies heavily on natural resources.

1.1. Research Problem

The primary focus of the study is on the disparity between the amount of public resources generated by governments and the results of development efforts made possible through those resources. This gap can become even wider for resource dependent countries due to fluctuating revenue streams, fixed recurring expenditures, limited non-oil taxes, and problems related to how budgets are executed and how accountability is maintained within the public sector.

Therefore, the main issue is not just if the government's spending will increase the economy's output, but if the fiscal institutions can use their resources effectively and transform these resources into long-lasting increases in productive capacity and the well-being of society.

1.2. Research Questions

The study addresses the following questions:

What is the relationship between the structure and efficiency of government spending and sustainable economic growth?

What is the impact of a state's reliance on revenue generated from natural resources on its ability to sustain a long-term budget, and how does this affect the country's long-term developmental strategy?

In what ways does digital government enhance fiscal accountability and public sector financial management?

What fiscal reform measures will be the most appropriate for Iraq and other resource-dependent economies?

1.3. Research Objectives

This study will analyze how fiscal policy relates to sustainable development, examine the impact of Iraq's recent fiscal indicators, evaluate the possible role that digital governance can have in increasing efficiency in public spending and provide recommendations on how to improve fiscal sustainability.

1.4. Research Hypotheses

The analysis is organized around three propositions:

H1: A larger proportion of government spending on productive investments and human capital will result in a more favorable long-term development outlook.

Increased reliance on unstable sources of revenue (i.e. volatile resource revenues) will result in greater fiscal instability, particularly if expenditure obligations are not flexible enough.

H3: When supported by appropriate institutions and accountability systems, digital public financial management will contribute to greater transparency regarding public finances, as well as increased efficiency in how these funds are spent.

These statements will provide a basis for both descriptive and analytic discussions. They are not intended to be tested statistically as causal hypotheses, since there is no estimation of an econometric model in this research.

1.5. Theoretical Framework and Literature Review

1.5.1. Fiscal Policy and Economic Development

Fiscal policies have an effect on development through their impacts on aggregate demand, capital formation, income distribution, and providing public goods. From the Keynesian perspective, changes in government spending and taxation will affect both output and employment, especially if there is low levels of private demand (Keynes, 1936). Public investments can provide support for private sector operations by enhancing the existing infrastructure, thereby lowering costs associated with producing goods.

Longer term, fiscal policies have an impact on accumulating both physical capital (i.e. infrastructure) and human capital (i.e. education/health). Investments in infrastructure provide better access to markets and connectivity, whereas investments in education and health help to improve labor productivity and individual capabilities. Barro (1990) provides a theoretical

demonstration of the ability of productive government expenditures to affect long-term growth; however, this effect depends on the method of financing the expenditures and the effects of those expenditures on private economic activity.

Fiscal expansion does not necessarily promote development in all cases. Inadequate project selection, poor procurement procedures, large recurring expenses, and unsustainable borrowing can limit the amount of money that may be used to finance investments. Therefore, the main policy issue is how to strike a balance between achieving economic stability and the quality of public spending.

1.5.2. Public Expenditure Composition and Efficiency

Public spending is structured to provide an indication of how government resources are utilized to increase productive potential. Public spending on transportation systems, power generation facilities, clean drinking water systems, schools, medical care facilities, and scientific studies has the ability to produce long-term positive effects that extend beyond the initial budgetary period. Conversely, public spending that is non-productive (i.e. does not enhance public service provision) will likely result in minimal developmental benefits.

The International Monetary Fund (IMF) emphasized that the reallocation of funds from less important areas to those of greater importance and the enhancement of the effectiveness of the institutions can enhance production while keeping total expenditures at the same level (IMF, 2025). This technique has particular relevance for countries where fiscal space is limited.

The amount spent on public goods and services (or spending) does not necessarily indicate how efficiently those funds have been utilized. For example, a government can spend a significant percentage of its gross domestic product (GDP) on public goods and services and still experience poor results due to a lack of proper selection of projects, lack of transparency in the purchasing process, and/or delays in completing projects. On the other hand, through improving the selection of projects, increasing transparency in the purchasing process, and improving the timeliness of project completion, a government can obtain more value from the money it has already allocated.

Therefore, public investment management is a fundamental aspect of fiscal policy. Clear criteria for project selection, realistic cost estimates, transparent procurement processes and ex-post evaluations are necessary elements of this process. The use of these tools will help minimize the possibility that projects which are politically appealing replace those that offer greater social and economic benefits.

1.5.3. Fiscal Policy, Human Capital, and Inclusive Development

Human capital represents a key link between fiscal policies and long-term sustainability. Fiscal spending on education and health care can increase labor productivity, promote innovation, and provide more opportunities for marginalized groups. Additionally, fiscal expenditures have an impact on distribution of income due to the fact that the accessibility of high-quality public service affects how well households are able to contribute to the economy.

Musgrave (1959) identifies allocation, distribution and stabilization as key aspects of public finance. Allocation, distribution and stabilization are still related. For example, targeted social protection reduces poverty and helps support consumer spending in times of recession. Education spending that is designed properly, on the other hand, promotes both equity and long term productivity.

However, the assessment of social spending must focus on how much value it produces and not simply on the amount spent. Increasing the budget does not mean that there will be an increase in student achievement, better healthcare, or more job opportunities if services are provided in an inefficient manner. As such, the process of developing a fiscal plan must create a direct link between the resources used in the budget (inputs) and the measurable results produced by those resources (performance indicators).

1.5.4. Resource Dependence and Fiscal Sustainability

Resource-dependent economies have a unique set of fiscal challenges due to the volatility and potential exhaustion of commodity revenue. During periods of high commodity prices, there may be increased pressure to make long-term spending commitments, which will then become difficult to reduce once prices decline. This cycle can create greater instability within the economy, as well as diminish trust in the government's ability to manage its finances.

The literature about "resource curses" indicates that the presence of natural resources will not lead to widespread development. It is the institutional handling of those revenue streams that will determine what kind of economic results occur (Auty, 1993; van der Ploeg, 2011). In areas where fiscal institutions are weak, the revenue generated from resources can create opportunities for rent-seeking, make inefficient investments and increase the area's dependency on government expenditures.

Fiscal sustainability requires a government to evaluate what it currently owes and how much it will owe in the future. Medium-term fiscal frameworks, cautious estimates of revenue, contingency reserve funds, and open reporting of national debt help to protect a country from being negatively affected by changes in commodity prices.

For Iraq, there is a conflict between paying for public sector employees and pensioners versus capital investments and other critical services. Fiscal adjustments do not necessarily mean cutting all types of expenditures. Instead, fiscal adjustments are about protecting investments that have high returns on investment and social expenditures that provide critical support to the population, while eliminating or reducing those that are inefficient, and increasing the number of people who pay taxes.

1.5.5. Digital Governance and Public Financial Management

Digital Governance Is: The application of digital technology, data systems, and integrated administrative processes in the public sector. Fiscal Management Technology Supports: Electronic tax filing; integrated treasury systems; digital procurement; expenditure tracking; and public disclosure of budget information.

Digitalization is able to enhance the reliability and timeliness of fiscal reporting. With the use of integrated systems, it is possible for governments to more easily reconcile their financial commitments, payments, revenues, and arrears. In addition, digitalized tax administration provides an opportunity for governments to decrease compliance costs while providing tax authorities with the means to detect discrepancies among reported transactions.

However, as much as technology will enable governments to achieve more, it does not replace the need to implement reform at the institutional level. There are several reasons why digital technologies may not be effective. These include: • Weak cyber security • Inadequate employee training • Limited ability to interoperate • Fragmented databases The OECD's Digital Government Outlook 2026 emphasizes the need for strong governance structures to support the use of technology; effective data management; institutional capacity; and secure digital service delivery (OECD, 2026).

The relationship between the use of digital governance and how well a government performs financially will therefore depend upon whether there are clear, transparent processes, clearly defined roles and responsibilities, independent evaluation of the performance of the government, and accurate ways to assess the effectiveness of the government’s actions.

1.5.6. Synthesis of Previous Research

The literature offers many other views. Keynes (1936) states that fiscal policy influences aggregate demand, and Barro (1990) shows that the effect of productive public expenditures on long-term growth is significant. Musgrave (1959) places fiscal policy in a larger context of distribution, allocation and stabilization.

The literature on "resource curse" illustrates the negative impacts of being dependent upon revenue from natural resources as well as how critical it is for a country to have strong institutions (Auty, 1993; van der Ploeg, 2011). Research on public investments also shows that the impact of expenditures for infrastructure will depend greatly on institutional capacities and investment management (IMF, 2015).

The more recent publications from the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD), both published in 2025 and 2026 respectively, build on these arguments concerning expenditure efficiency and digital governance. While the IMF (2025) emphasizes improving expenditure allocation, the OECD (2026) explores the organizational and technical frameworks required to implement digital-government strategies for enhanced public-sector performance.

The final area of policy gaps being addressed by the research is the synthesis of both views into one analytical approach that considers a resource-dependent economy. The study views digital government as more than just a technological fix. It connects digital government to budget implementation, non-oil revenue generation, expenditure management, and long-term fiscal stability.

2. Method

2.1. Research Design

The study used a descriptive-analytical approach to research using both secondary data and document analyses. A descriptive-analytical approach is suitable when studying fiscal structures and identifying changes in major indicators; also, it provides a means to interpret the policy implications of these changes, but does not provide evidence of causal relationships that have been statistically analyzed.

The empirical analysis will focus on Iraq as an example of a country dependent upon oil income to illustrate how expenditure commitments, revenue fluctuations, and sustainability relate to one another.

2.2. Data Sources and Coverage

The main sources used in this study include the IMF Country Assessments and Fiscal Publications, the World Bank Development Indicators, the OECD Digital Government Publications, as well as existing academic literature. Iraq's fiscal data comes from the 2025 Article IV Consultation of the International Monetary Fund. In addition to using the IMF's Fiscal Monitor to understand the link between expenditure efficiency, debt pressure and public investment; the study relies on other IMF publications such as its Country Assessments and Fiscal Publications, World Bank Development Indicators, OECD Digital Government Publications, and academic literature.

The data shown on the main fiscal table is an estimate or projection from the IMF, not a new observation. This is important to understand because a projection can vary from what actually occurs and can differ from the data produced by other statistical organizations.

The study utilizes a subset of fiscal metrics (from 2024 through 2026) as provided by the IMF, focusing specifically on the results of the 2024 fiscal year and projections for 2025. Additionally, the analysis of digital governance and spending effectiveness draws upon existing literature regarding these issues, as opposed to developing a proprietary digital governance index.

2.3. Analytical Procedure

The study has four phases: First, it defines Iraq's fiscal environment by employing revenue, expenditure, fiscal-balance, and oil-dependency measures. Second, it explains how these measurements affect budget flexibility and financing of development. Third, it links its results to research about the effectiveness of public spending and digital governance from other countries. Fourth, it provides policy recommendations based on the fiscal limitations identified.

This study does not utilize regression analysis, a counterfactual design, or an estimated causal model. Therefore, all findings are to be viewed as both descriptive and policy-analytical conclusions.

2.4. Limitations

The use of secondary data (published) and lack of a standardized national dataset that links digital Public Financial Management (PFM) to development outcomes will limit this study. Projections regarding future revenue and spending are likely to change and comparative indicators across countries will vary in terms of how they define concepts, what is included in their measurements, and when the measurement took place. Consequently, these limitations make it impossible for this study to determine whether digitalization or spending composition has a statistically significant impact on economic growth.

Future studies may use a multi-country panel data set or a time-series model with consistent yearly measurements to expand upon the present study's findings, given there is sufficient data.

3. Results and Discussion

3.1. Results

3.1.1. Empirical Analysis: Fiscal Conditions in Iraq

The Structure of Fiscal Vulnerability

The fiscal position of Iraq shows how difficult it is to manage spending in a country that relies on its resources. A large part of Iraq's budget comes from oil revenue, and many expenses are related to payroll, pension payments and other recurring costs. Because of this structure, Iraq cannot easily reduce spending if oil revenues fall.

The International Monetary Fund's 2025 Article IV consultation noted an increase in fiscal vulnerability due to both fiscal expansion and lower oil prices. The IMF's estimates suggest that there was a deterioration in the fiscal balance from 2024 to 2025 as the fiscal deficit became larger (IMF, 2025). The worsening of the fiscal deficit highlights the need for governments to match their spending plans to their long term revenue expectations rather than rely on short-term increases in commodity prices.

A large fiscal deficit may be acceptable in some situations. For example, borrowing can be justified if it pays for productive investments or supports the economy on a short-term basis through a downturn. The major issue occurs when ongoing expenditures increase more quickly than long-term revenues can sustain and borrowing does not lead to increases in productive capacity.

Selected Fiscal Indicators

The data provided in Table 1 represents some key indicators that were reported in the IMF's 2025 assessment. All values in Table 1 represent a portion of the country's GDP (Gross Domestic Product), except for the non-oil primary balance, which represents a portion of the country's non-oil GDP.

Table 1. Selected Fiscal Indicators for Iraq, 2024–2026

Indicator	2024	2025	2026
Revenues and grants (% of GDP)	39.3	36.9	34.6
Oil revenue (% of GDP)	36.0	33.3	31.0
Expenditure and net lending (% of GDP)	43.5	44.4	43.8
Wages and pensions (% of GDP)	22.0	24.0	24.5
Fiscal balance (% of GDP)	-4.2	-7.5	-9.2
Non-oil primary balance (% of non-oil GDP)	-59.3	-54.2	-51.8

Source: International Monetary Fund (IMF)

Article IV consultation with Iraq in 2025. The 2024 data provided in this report represents estimated results, whereas the data for 2025-2026 are projected figures based upon the referenced assessment rather than confirmed actual results after the fact.

The table displays that the total revenue and grants will fall from 39.3 percent of GDP in 2024, down to 34.6 percent of GDP by 2026. Oil revenues will fall from 36 percent of GDP in 2024 to 31 percent of GDP in 2026. However, wages and pensions are expected to increase from 22 percent of GDP in 2024 to 24.5 percent of GDP in 2026.

The combination of declining projected revenue ratio and growing wage and pension commitments create pressure on capital investment resources and other developmental priorities. The fiscal balance is projected to decrease from -4.2% of GDP in 2024 to -9.2% of GDP in 2026, according to the cited assessment. These projections represent potential risks based upon the assessed policies at the time; therefore, they should not be considered to be certainty regarding outcomes for 2025 or 2026.

Interpretation of the Revenue Structure

Oil revenue is a major part of Iraq's financial resources. For example, oil revenues represented 36 percent of GDP in 2024, whereas total revenues and grants accounted for 39.3 percent of GDP. This demonstrates how small non-oil revenue sources are in relation to the country's economy.

This arrangement exposes fiscal planning to fluctuations in international oil prices, production levels, and exports. If oil revenues decrease, government entities may be forced to obtain loans, incur arrears, postpone capital investments, or cut back on other spending. Such actions could affect budget stability and impede progress toward implementing development programs.

The vulnerability of non-oil revenues could be decreased by expanding those revenue sources. There are several ways to expand those revenue sources such as: improving tax administration, improving customs enforcement, decreasing unjustified exemptions from taxes, modernizing property and business taxation when necessary, and increasing tax compliance through electronic systems.

In addition to the need for a broader and fairer tax base, as well as one that is more efficient in administration, there are several other reasons why revenue diversification does not mean simply raising tax rates at random. Taxes that are badly designed can deter investment in the formal economy and can result in unfair distribution of costs to low-income families.

Recurrent Expenditure and Development Financing

The increased percentage of projected wage and pension spending (from 22.0 percent of GDP in 2024 to 24.5 percent in 2026) emphasizes the significance of rigidities associated with government spending. Wages and pensions help maintain household income and provide public services; however, as the commitment to pay these benefits grows rapidly, it limits the government's capacity to invest in new infrastructure and other capital investments.

The policy implications do not mean that wages or pensions are to be reduced arbitrarily. Rather, there needs to be an integration of workforce planning, payroll verification, pension system sustainability and recruitment controls into a medium-term fiscal framework. Savings made through improved administration may then be used to preserve critical services and high priority investments.

Public sector investment must include the careful choice of projects. The evaluation of projects should be based upon economic returns, job creation, maintenance costs, geographical distribution, and how they will provide for future long-term productivity. When you use public procurement with transparency and independent evaluation of projects, this can lessen the possibility of spending scarce resources on low return projects.

Fiscal Sustainability and Economic Diversification

The way in which a country produces goods and services has a direct impact on whether it can sustain its budget. Therefore, if there is very little production from non-oil sectors in the economy,

then the government will continue to rely heavily upon oil revenues to provide funding for public services and developmental projects. As long as this remains the case, the government will find itself in need of more than just fiscal reforms. Instead, the government must also implement policies which promote private investments, job creation and production diversity.

The public sector has a role in facilitating economic diversification through public investment in such areas as electricity supply, transportation systems, education, digital technology infrastructure, and business services. But what is critical for public sector investment is how well the money being spent actually addresses the real production constraints that businesses face, rather than how much money is allocated to the project. If a project does not effectively address the actual production constraint, then the potential benefit from that project will be minimal regardless of how large the budget was.

A sustainable fiscal plan would make connections between the decision making process for the budget and how the economy performs based upon those decisions. Possible indicators may include whether or not there has been a successful completion of the infrastructure projects as well as the usage of the completed projects. Non-oil revenue growth can also be an indicator along with the private-sector employment rate. Service-delivery performance as well as the proportion of investment spending that is being completed within the specified budget year can be another indicator.

International Evidence on Expenditure Efficiency

The IMF's October 2025 Fiscal Monitor shows how better allocation of public funds and more effective use of those funds will increase long-run economic growth while keeping overall government spending levels constant (IMF, 2025). This is particularly relevant to countries with limited fiscal flexibility.

The result for Iraq is that the emphasis of budget reform should be on what is spent and the outcome produced. If resources are directed towards infrastructure maintenance, improved quality of education, increased capacity of healthcare, and digital public service development, this could result in higher levels of development than if there was an overall increase in expenditure.

Reliable monitoring is also required to make efficiency improvements. Governments will be able to compare what was planned to what has been spent, look at how many projects were completed, evaluate the quality of services provided, and then publish these results in ways that can easily be accessed. Comparing what was planned to what has been spent can increase accountability and allow for a more robust data set upon which future budgets may be based.

3.2. Digital Governance as a Fiscal Reform Instrument

3.2.1. Digitalization of Revenue Administration

The use of digital revenue administration could help achieve long-term fiscal stability through lower compliance costs for taxpayers, increased accuracy of tax and customs declaration records, and improved detection of inconsistencies in tax and customs declaration data. In addition to these benefits, the implementation of electronic filing and payment systems can lead to decreased administrative delay and increased consistency in transaction record keeping.

These reforms are of special value to countries with economies dependent on natural resources; they may help increase non-oil revenue collection without being limited to increasing the legal tax rates. On the other hand, the benefits derived from these reforms depend upon the accuracy and completeness of database records maintained by government agencies, the level of integration among systems, and whether or not tax authorities are able to consistently apply compliance rules.

Digital technology is being introduced into public administration with the intention of improving services to citizens, reducing costs, and increasing efficiency. However, if there are no clear rules about how to protect taxpayers, who has access to the data collected by digital systems, how appeals can be made against decisions based upon the use of digital systems, and how the

quality of digital systems can be independently audited, then the introduction of digital systems could potentially create the same problems as the current non-digital systems but in a way that is much more difficult to fix because it involves technology.

3.2.2. Digital Budgeting and Expenditure Control

A complete public financial management system has the ability to connect the process of creating a budget, managing commitments, acquiring goods and services (procurement), managing cash/treasury functions, record keeping (accounting) and communicating results (reporting). This integration enables finance ministries to know what expenditures have been committed prior to making payments and to recognize when actual spending differs from planned allocation.

Real time reporting and/or frequent reporting will help you to manage your cash flow more effectively, which will lower your exposure to unrecorded obligations. Electronic procurement may increase competition among potential suppliers, as well as produce audit trails for all tender decision-making processes, contractual modifications made after the initial award, and payments to suppliers.

However, the implementation of systems must occur in phases. Governments need to have standard classifications, accurate and reliable master data, well-trained employees, secure IT infrastructures and clear institutional responsibilities. When governments purchase technology prior to making organizational reforms, they often end up with expensive systems that their agencies can't use effectively.

3.2.3. Transparency, Accountability, and Public Trust

By making their budget and spending information publicly available online, governments are providing access to their fiscal decisions for all types of people, including citizens, researchers, journalists, and civil-society groups. Additionally, open data can be used to determine differences between regions and assess if the public investments being made align with stated developmental goals.

Transparency, as stated previously, is not just about making available a lot of information. Transparency also means that information provided must be made public in a timely manner. Where appropriate, the information should be in machine-readable format. Transparency must be consistent throughout all agencies. And finally, when possible, transparency must include an explanation of the various classifications used within budgets and the performance indicators used to measure success.

The OECD's 2026 report on digital-government performance indicates that digital government performance depends upon institutional coordination, data governance, workforce capacity, and public confidence in government rather than just adoption of technology (OECD, 2026). In regard to Iraq, the above suggests that digital fiscal reform must include both accountability in terms of how resources are used and a clear structure for protecting data.

3.2.4. Risks and Implementation Conditions

The use of digital governance provides some risk. The ability to provide public services may be interrupted, or the protection of private data compromised by cyber attacks, unpermitted entry into systems, alteration of data, or system failure. Additionally, individuals and organizations that have limited access to technology or lack the necessary skills to utilize technology, may not have equal access to the benefits of digital services.

Therefore, governments should integrate digital technology with cybersecurity standards, backup systems, employee training, alternate means of access, and independent audits of their systems. When making procurement decisions, governments must give priority to interoperability and long term upkeep of the equipment purchased, not just the initial cost of purchasing it.

The primary lesson learned was that the use of technology to support digital governance will be effective at improving fiscal performance only if it is integrated into a larger program of institutional reform.

3.3. Discussion

The results indicate an integrated approach to understanding fiscal policy and sustainable development. Iraq's fiscal indicators demonstrate how its reliance on oil revenue and increasing recurrent obligations can limit the amount of funds it has available for development projects. Evidence from around the world suggests that improvements in both the composition of expenditures and the effectiveness of institutions can reduce the impact of these constraints, and do so without having to solely rely upon expanding expenditures.

The need to diversify revenue sources is required to minimize exposure to price fluctuations of commodities. A stronger non-oil revenue source will help with budget predictability and provide the government with the financial resources needed to maintain basic service delivery when there is less oil revenue available. To achieve this objective, there must be improved administration, improved compliance, and an expansion of the formal economic base.

Second, spending reforms need to be based upon the expected development return (ROI) from spending, as opposed to making sweeping cuts across-the-board. For example, education, healthcare, infrastructure repair/maintenance, and other types of investments that reduce barriers to private-sector growth should be protected using objective selection criteria. Recurrent spending needs to be evaluated for its efficiency and whether it is financially sustainable over time.

In addition, digital governance provides a viable way to enhance the information used by fiscal authorities. Financial systems that integrate with each other provide greater visibility into how budgets are executed, help to manage commitments, and support the administration of revenues. However, it is difficult to determine the extent of these benefits based upon the descriptive evidence provided. The success of realizing them will depend heavily on the quality of implementation and the credibility of the institutions involved.

In addition to being seen as complementary goals, fiscal sustainability and sustainable development can also be viewed as having a reciprocal relationship. While high levels of public sector borrowing can erode the ability of government to fund public services over time, large-scale reductions in public sector spending can negatively affect long-term development. Therefore, a sound medium-term fiscal plan needs to clearly separate low-priority expenditures from investment and social services that will help increase productivity in the long run.

Finally, the Iraqi case demonstrates the necessity of linking fiscal reform with economic diversification. Although improved budgetary management will help to maximize the returns on public spending, long-term development is dependent upon having a more robust private sector, dependable infrastructure, trained labor force, and institutional structures that encourage investment.

3.3.1. Policy Recommendations

Adopt a Credible Medium-Term Fiscal Framework

The government needs to develop a continuous medium term fiscal plan (or "framework") with conservative estimates of oil prices and clearly defined projections of revenues. This plan should define limits to expenditures, potential threats to national debt, backup plans in case of emergency and what is most important to protect when it comes to vital public services and investments that produce goods and services.

Strengthen Non-Oil Revenue Mobilization

Revenue reform needs to be based upon the development of improved tax and customs administration; reduced number of unjustifiable exemptions; simplification of the compliance processes; and a gradual increase in the number of people who are paying taxes. The use of electronic filing systems, inter-operable data systems, and risk-based audit procedures will allow us to achieve greater compliance levels without placing undue administrative burden on the taxpayer.

Improve the Quality of Public Investment

Public investment projects need to be appraised in an open manner prior to getting money. Selection criteria will include how much it is anticipated that there will be a return on the investment both economically and socially, can the project be implemented successfully, what does it take to maintain the project, and does it align with the country's overall development strategy. The results of the project should be made public, and those results should be evaluated by someone other than the project team.

Control the Growth of Recurrent Commitments

The payroll system, the recruitment decision making process, and the liability of the pension fund need to be evaluated over a mid-term period. In addition to administrative enhancements that are meant to minimize redundancy, better allocate workers, and help to ensure that the organization can continue to provide quality public services in the long run.

Develop Integrated Digital Public Financial Management

Digital reform must be linked to budgeting, treasury management, procurement, accounting, tax administration and reporting via interoperable systems. The implementation of digital reform must occur in stages and be supported by the training of employees, the protection of cybersecurity, clearly defined roles and responsibilities and the use of independent evaluations.

Link Budget Allocations to Measurable Outcomes

Performance indicators should be integrated into specific budget programs. Indicators may include completion of projects, execution of expenditures, quality of services provided, collection of non-oil revenues, and utilization of infrastructure. These indicators will assist in distinguishing between increased spending and actual progress in development results.

Protect Social and Productive Priorities

The fiscal adjustment must not be indiscriminately cutting into education, healthcare, essential infrastructure, and targeted social protection programs. The government needs to assess all subsidies and transfers on both the basis of how effectively they distribute resources to those who need them most (distributional impact) and how effectively they contribute to economic development (developmental effectiveness); however, it is equally important that vulnerable households are protected throughout the reform process.

Strengthen Fiscal Transparency and Independent Oversight

Timely access to the publication of budget documents, execution reports, procurement information, and audit findings will help build a strong sense of accountability. Additionally, independent auditing and accessible public reporting should be used to support digital reforms while helping to develop and maintain public confidence in fiscal institutions.

4. Conclusion

This study explores how fiscal policy may enhance sustainable development via effective use of expenditures; diversity of revenue streams; use of technology in governance (i.e., digital governance); and fiscal stability. Results indicate that fiscal policy's potential for contributing to sustainable development is contingent upon the amount of government spending, the type of spending being undertaken, the reliability of government revenue sources, and the ability of institutions to successfully execute government programs. Iraq’s budget indicators show the dangers of being too dependent on income from oil, along with the increasing amount of money required to fund recurring costs. The IMF’s 2025 report indicated that if the same policies were continued, there would be an even greater deficit in the budget and decreasing revenue as a percentage of GDP. While this information cannot be considered a guarantee of what will happen in the future, it does illustrate how vulnerable a country’s budget can be to changes in oil prices and the requirement to meet fixed spending obligations. The study has identified three complementary priorities. First, non-oil revenue generation is a priority as it will enhance fiscal resilience. Second, improving the allocation of expenditures and improving efficiency in expenditure can maintain development investment during a time of limited fiscal space. Third, when supported by strong institutions and effective accountability, digital public financial management can help to increase transparency, improve revenue administration, and improve expenditure controls. The main focus

of this study was developing a comprehensive policy framework that links long-term fiscal stability with the effectiveness of public spending and the organizational structures that support digital government. This research used a descriptive approach, which does not allow for testing causal relationships or conducting statistical tests of the suggested connections. Researchers in the future could utilize consistent yearly data to assess the performance of resource dependent nations, and empirically investigate if increased levels of fiscal transparency, increased levels of digital government capability, and increased efficiency of public expenditures relate positively to development indicators. To summarize: Sustainable development requires governments to use public revenue to create capital goods (productive assets), develop strong institutions, and improve societal well-being. The key problem with Iraq and similar economies is not that they are either spending too much or too little; rather, it is how well they spend what they have, whether they can generate income from other sources, and if present fiscal actions will lead to greater prosperity for the next generation.

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