Arrested Development: Conflict, Displacement, and Welfare in Iraq
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1. Introduction

Iraq’s recent history is pockmarked with episodes of violence and conflict. Since the early 1980s, the country has experienced multiple episodes of war, insurgency, terrorism, state-led repression, foreign occupation, spillovers from cross-border conflict, ethnic strife, sectarian conflict, and civil unrest. It was in active conflict with Iran from 1980 to 1988. It was followed by Iraq’s invasion of Kuwait in 1990 and an imposition of sanction by the international community. March 2003 marked another turn in the country’s trajectory when the United States and its allies invaded Iraq.

Iraq experienced two severe crises in 2014. Starting early 2014, Daesh militants began making inroads into major towns and cities in northwest Iraq. The fighting between the rebel group and the security forces near Fallujah and Ramadi in January and February sent nearly 480,000 people fleeing to safer areas of the Anbar governorate or to Baghdad, Salah al-din, and the Kurdistan region. Fallujah fell in the hands of the militants in January 2014. The fighting spread to Mosul in June and July of 2014, displacing more than a million individuals, with some of those originally displaced from Anbar suffering displacement for the second time. Daesh took control of Mosul and Tikrit in June. With about 740,000 individuals displaced, August marked the single worst month of displacement, triggered by the threat of violence in Sinjar. After a relative slowdown in the flow of displaced persons it spiked again after April 2015 as the battle for Ramadi intensified. The fall of Ramadi in May 2015 displaced many within the governorate while others fled to Baghdad. At its height in March 2016, 3.4 million persons were internally displaced (Figure 1a). With Daesh’s campaign of violence against civilians and counter operations by the military, civilian deaths rose again in 2012 after a relative lull from 2009 to 2012 (Figure 1b). The bulk of active hostilities ended with the ouster of Daesh from Mosul and the declaration of victory in December of 2017.

Figure 1: Scale of recent conflict and displacement

![Figure 1: Scale of recent conflict and displacement](http://iraqdtm.iom.int/IDPsML.aspx)

An economic crisis compounded the security crisis. The economic crisis was triggered by the plunge of the oil prices in the international market in 2014. From $115 a barrel in June 2014, it tumbled to $70 a barrel in December of the same year. The drop exposed the fault lines of the Iraqi economy. In a country where more than 90 percent of the total government revenue is derived from the sale of oil and oil
accounts for more than 95 percent of its exports, the fall in oil prices was catastrophic. The fiscal deficit reached 11 percent of GDP in 2015 and 13.4 percent in 2016.

The dual crises have been costly to Iraq. The economy is yet to recover from the crash of 2014; after contracting for three consecutive years – 2014 (-3.9 percent), 2015 (-9.6 percent), and 2016 (-8.1 percent) – the non-oil GDP showed modest growth in 2017 and 2018 (Figure 2). Had it continued to grow at the pre-conflict rate, non-oil GDP would have been far higher than where it is today (Figure 2). The oil prices remain below what is needed for Iraq to achieve fiscal balance and external account balance. Absent the emergence and the spread of the IS group, Iraq’s economy would have been a quarter larger in real terms in 2015 (Ianchovichina and Ivanic 2015). This contraction is a product of the direct effects stemming from the destruction of infrastructure, disruption to trade, refugee outflows, and loss in productivity, and the indirect effects of the opportunity cost of deeper trade integration with neighbors. By 2017, the loss had ballooned to an estimated 72 percent of the 2013 GDP (The World Bank 2018). The shocks have also erased five years’ worth of progress in poverty reduction because of an increase in unemployment and loss of income (Krishnan and Olivieri, Losing the Gains of the Past 2016).

The existing studies use the data collected before the crises and employ innovative simulation methodologies to estimate the impacts of the war. No new information capturing the welfare impacts of the crises were available, until now. Using the data from the rapid welfare monitoring survey conducted in 2017 and 2018, this note provides the first direct estimates of well-being in Iraq since the crises. Its objective is to take stock of monetary non-monetary living standards of Iraqis in the post-crises period. Moreover, using the data from surveys that predate the crisis – 2012 and 2014 – it evaluates how

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1 Source: (International Monetary Fund 2017).
2 Source: MENA Economic Outlook, Institute of International Finance.
well-being was evolving pre-crises and the turn it has taken after the dual shocks. More details on the data, and survey and sampling design are provided in the Appendix.

The rest of the note is structured as follows. Sections 2 and 3 provide an update on monetary poverty and non-income dimensions of wellbeing, showing the trend in the indicators since 2014. Section 4 disaggregates the trends by region and household displacement status, presenting evidence that the negative welfare incidence was felt disproportionately by conflict-affected regions and internally displaced persons. Section 5 examines the trends in labor market outcomes. Section 6 peers beyond the short-run trends and discusses deeper issues characteristic to Iraq, including low economic mobility and high inequality of opportunities. Section 7 concludes with some policy priorities.

2. Welfare has partially recovered in the ensuing years

Iraq is gradually emerging from the depths of the security and economic crises. The economy is estimated to grow modestly in 2018 (Figure 2a). While an unacceptable level of violence persists – death toll for this year alone has reached more than 3,000 – civilian deaths have ebbed since the peaks of 2014 (Figure 1b). Approximately 1.7 million persons are still displaced inside the country, but an estimated 4.1 million people have returned to their homes since mid-2017 when the security forces claimed back the occupied territory (Figure 1a). The group remains a threat in a large swath of the country, although they no longer hold any territory.

The modest economic recovery and the improvement in the security situation are reflected in people’s lives as well. With the twin crises of 2014, the poverty rate reached 22.5 percent, almost completely eroding the gains made in the previous five years; the poverty rate had declined from 22.4 percent in 2007 to 18.9 percent in 2012. Data from the latest household survey (2017-18) suggest that three years after the onset of the conflict, the living standards have, at best, returned to the 2012 level. The 2012 and 2017-18 estimates are not strictly comparable because of the difference in the questionnaire, the timing of the survey, and the geographical coverage (see Box 1 for details on the differences between the two surveys and their implications for poverty comparison). Some uncertainty notwithstanding, the national poverty rate in 2017-18 is estimated at 19.2 percent (Figure 3). The figure is likely an underestimate because it assumes that the 14 districts that could not be surveyed in the latest round are relatively just as poor to the surveyed districts as they were in 2012. Under the more pessimistic scenario, which assumes that the poverty rate in the Daesh-occupied districts has increased faster than elsewhere, the 2017-18 poverty rate is estimated at 20.0 percent.

Figure 3 depicts the drag that instability has proved to be on Iraq’s development. The country made slow but steady progress after 2007 when the violence gradually declined from its peak of 2006. The downward trajectory would have likely continued had it not been interrupted by the dual crises. Instead, the poverty rate reached 22.5 percent in 2014, wiping out the gains made in the previous five years. Additional 2.8 million people were thrown into poverty, with poverty increasing the most in Kurdistan, three governorates in the North most affected by Daesh-related violence (Anbar, Nineveh, and Salah al-

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3 Source: (International Monetary Fund 2017).
4 The figure includes only those displaced since January 2014.
5 The 2014 estimate is based on a microsimulation exercise using macroeconomic indicators and the 2014 Continuous Household Survey. See (Krishnan and Olivieri 2016) for more details.
6 The poverty rate for urban/rural areas is not reported because the sample was not stratified by location of residence.
din), and among internally displaced persons. In the ensuing three years, living standards have at best inched back to where they were five years ago. However, as discussed subsequently, even this limited progress has been felt unequally; people and places directly affected by violence have borne the brunt of the conflict and are significantly worse off today than they were three or five years ago.

Figure 3: National poverty rate in Iraq

Note: The 2007 estimate is the direct estimate based on the first Integrated Household Socioeconomic Survey (IHSES) data (World Bank 2011). The 2012 estimate is the direct estimate based on the IHSES II data (World Bank 2014). The 2014 estimate is derived from a microsimulation exercise using the partial 2014 Continuous Household Survey data (Krishnan and Olivieri, Losing the Gains of the Past 2016). The 2017-18 estimate is calculated from the SWIFT survey. The 2014 and 2017-18 estimates are not strictly comparable to the 2007 and 2012 estimates.
Box 1: Comparability of the SWIFT 2017-18 survey with the previous surveys

A host of design choices and implementation issues sets the 2017-18 survey apart from the previous surveys. Although the security situation had improved since 2014, many parts of the country were still under ISIS control in 2017. Thus, nine out of ten districts in Nineveh governorate, the seat of Daesh-occupied Iraq, were intentionally excluded from the sampling frame. As the data collection proceeded, five additional districts – 3 in Anbar, 1 in Baghdad, and 1 in Salah al-din – were judged to be too insecure for fieldwork so the selected enumeration areas from these areas were replaced with other clusters from the same governorate. The final sample covers only 106 of 120 districts in the country, or 74 of 88 districts from the “lower 15” governorates.

Insecurity necessitated a change in data collection method for household food consumption as well. The usual 7-day diary method, which requires four visits in a week to the same household, was deemed infeasible due to insecurity. Hence, food expenditure was collected using the 7-day recall method. To limit the duration of the interview to 4 hours, the number of food items was consolidated from 281 items to 177 items by subsuming the items consumed by fewer than one percent of households in the “other” category.

Unlike the IHSES 2012 and CHS 2014 surveys, the rapid welfare monitoring survey of 2017 was not designed to be a year-round survey. In the non-Kurdistan region, the fieldwork commenced in the first week of October 2017 and the data collection was completed by first week of January 2018, although field validations continued until March. In Kurdistan, the survey was conducted in July and August of 2018.

Because of these differences, the 2017-18 consumption aggregate must be adjusted to make the poverty estimate comparable to the 2012 estimate. The adjustment requires making some assumptions that ultimately cannot be tested and verified. It is assumed that the relative poverty between districts that were and were not surveyed in the latest round is the same as it was in 2012. For example, if the unsampled districts were 10 percent poorer in 2012, we assume that they are 10 percent poorer in 2017-18 as well. This allows one to impute poverty in the missing districts by scaling the poverty rate in non-missing districts by the appropriate factor. However, it is likely that the unobserved districts are relatively poorer because they were occupied by the ISIS militants. Therefore, the poverty rate estimated assuming a constant ratio is plausibly an underestimate. To allow for this differential, we also make another assumption – that the poverty rate in the excluded districts have risen 30 percent faster than elsewhere.

The assumptions required to even out the difference due to the difference in recall modality, consolidation of food items, and seasonal variation are ad hoc as there is little consensus in the methodological literature on the magnitude, and even the direction, of the adjustments. Lacking sufficient theoretical and empirical guidance, in our current approach, we make no adjustment to the 2017-18 aggregate to balance for these differences. Therefore, these caveats apply to all the results and they must be interpreted with appropriate caution. Nevertheless, we find that the pattern of consumption, i.e. share of expenditure on food and non-food items is broadly similar between the two aggregates (Figure A.1).

The poverty line for 2017-18 is estimated by updating the 2012 poverty line with the increase in the cost of living. The national poverty line in 2012 was 105,000 Iraqi dinars (IQD) per person per month. The equivalent 2017 poverty line is 110,881 IQD per person per month.
3. And progress in the non-income dimensions has held up\(^7\)

Quality of life in several non-monetary dimensions has been maintained despite the security and fiscal challenges. For example, school enrollment continues to rise despite the challenging circumstances. The percent of out-of-school children of lower-secondary age fell to 8 percent in 2017-18. Although almost a third of secondary-age children are still out of school, that share has also dwindled steadily in recent years (Figure 4). The gender gap in schooling which begins to open at the secondary level has also closed in recent years (Figure A.2). However, it must be noted that these comparisons exclude the most insecure districts that were not be surveyed in 2017-18. The picture might look different when the districts are taken into consideration.

Quality of housing and coverage of essential public services have improved. Overall, only a small share of Iraq’s population lives in sub-standard houses, a share that has fallen since 2012.\(^8\) A significant share of the population is connected to the public water distribution network, and this proportion has expanded over the past few years; the public network is the primary source of drinking water for more than nine in ten households. The population covered by public garbage disposal service is still low, but it is higher than just a few years ago. Approximately half of all individuals lived in a household where garbage was collected by the municipality (Figure 5). Being a resource-rich middle-income country, access to electricity in Iraq is

\(^7\) The analysis of non-monetary indicators restricts the 2012 and 2014 data to those districts that could be reached in the 2017-18 survey round. Furthermore, the 2014 data is limited to the first half of the year since the survey was disrupted due to Daesh-related violence after June 2014. The restriction establishes the benchmark for the pre-crises period without detracting from our primary purpose of monitoring the trend in well-being since the onset of the crisis.

\(^8\) Sub-standard houses comprise of mud or bamboo houses and temporary shelter (tent or caravan). The survey does not sample IDPs living in camps, which could affect the share of the population living in sub-standard dwelling. Toward the end of active conflict in December 2017, 24 percent of IDPs were living in camps (International Organization for Migration (IOM) 2018).
almost universal. A connection to the public network, however, does not guarantee a reliable supply of electricity. In 2012, households received about 11 hours of electricity per day (Figure 5).\(^9\) Significant progress has been made in recent years; power is now available for about 17 hours a day.\(^{10}\) Provision of services has generally improved in each region, with some exceptions (Figure A.3). Again, these comparisons are only for districts in the current sample. Access to public services has likely worsened in districts under Daesh influence that could not be visited.

The share of the population living in nonmonetary poverty has held steady since 2012 as well. Despite the fiscal crisis and conflict, the multidimensional poverty headcount ratio, which was on a slow decline between 2012 and before the security crisis in 2014, has dropped sharply since 2014. (Figure 6).\(^{11}\) Increase

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\(^9\) This is consistent with the 2011 Enterprise Survey data which shows approximately 77 percent of firms experiencing power outages in 2011 with 40 outages in a typical month (http://www.enterprisesurveys.org/data/exploreeconomies/2011/iraq#infrastructure).

\(^{10}\) Iraq’s total energy capacity increased from 56.2 TWh in 2012 to 79.7 TWh in 2014 and 99 TWh in 2017 (Ministry of Electricity, Iraq).

\(^{11}\) We largely follow the measure proposed in the Poverty and Shared Prosperity Report 2018 to construct multidimensional poverty measure (World Bank 2018). The definition of the indicators and the deprivation thresholds are as follows: Monetary poverty (weight = 1/3): a household is deprived if income or expenditure,
in school enrollment, expansion of drinking water provision and sewage disposal services have contributed to the fall in multidimensional poverty.\textsuperscript{12}

![Figure 6: Multidimensional poverty rate](source)

Although the South is still poorer than other regions in multidimensional poverty, it has made the most progress in the provision of services (Figure 7). Improvements in access to education, drinking water, and sewage disposal services have led the rapid decline in multidimensional poverty in the South. The slight increase in poverty in Kurdistan is due to the relatively higher poverty rate among IDPs, driven by an increase in out-of-school children. Note again that these figures are based only on the districts surveyed in 2017-18.

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\textsuperscript{12} Multidimensional poverty measures developed by the Oxford Poverty and Human Development Initiative (OPHI) (Oxford Poverty and Human Development Initiative 2018) and the League of Arab States and the United Nations Economic and Social Commission for Western Asia (ESCWA) (UN-ESCWA 2017) are other recent examples of multidimensional poverty indices for Iraq.
4. But the crises have left unequal imprints

The average welfare level masks significant heterogeneity across people and places. Places that were the locus of the conflict or people who bore its wrath have fared the worst (Figure 8). The welfare level in the North, the theater of the conflict, is yet to recover to its pre-crisis level. The North is also where the uncertainty of the poverty rate is the highest. Of the 14 districts that could not be reached in the latest survey, 13 are from the region and the excluded population constitutes 25 percent of the region’s total population. Under the pessimistic scenario, which assumes that poverty in the excluded districts rose 30 percent faster than elsewhere, the poverty rate in the North is estimated to be 30.2 percent, higher than what it was at the height of the crises in 2014. In Kurdistan, the poverty rate has fallen from 12.5 percent to 5.5 percent, but it is still above where it was in 2012.

The regions are defined as following: Kurdistan: Duhok, Erbil, Sulaimaniya; North: Nineveh, Kirkuk, Diyala, Anbar, Salah al-din; Center: Baghdad, Babylon, Kerbala, Najaf, Wasit; South: Qadisiya, Muthanna, Thi Qar, Missan, Basrah.
The shifting burden of poverty toward Kurdistan and the North is also apparent from the share of the poor hosted by the regions. The poverty estimates of 2012, 2014, and 2017-18 are not strictly comparable to each other because of the methodological differences outlined earlier. But worsening living standards in the Kurdistan region and the North is visible when considering the spatial distribution of the poor. In 2012, KRG and North comprised 35 percent of the total poor (Table 1). In 2017-18, that share is estimated to have increased to 44 percent under the pessimistic scenario as a product of an increase in population and the poverty rate in these areas.

<table>
<thead>
<tr>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>(% of the poor)</td>
</tr>
<tr>
<td>Kurdistan</td>
</tr>
<tr>
<td>North</td>
</tr>
<tr>
<td>Center</td>
</tr>
<tr>
<td>South</td>
</tr>
</tbody>
</table>

The crises have polarized the distribution of poverty in Iraq. The South has always been Iraq’s poorest region, but after the crises, the poverty rate of the North approximates that of the South (Figure 8). In contrast, the poverty rate in the Center and Kurdistan region is relatively low and falling. This development has divided Iraq into two poles, with the North and the South regions characterized by acute and chronic poverty, and relatively low levels of poverty in Kurdistan and the Center region.
Spatial inequality increases the risk of social instability. Spatial inequality arising out of comparative advantage and regional specialization is considered beneficial to the economy because it implies maximization of productivity. But if economic fortunes of different regions of a country diverge for other reasons, it may invite social instability (Kim 2008). In Iraq’s case, this divergence overlaps with existing fault lines running along ethnic and religious divisions, which makes the situation more precarious.

The crises have taken an especially severe toll on the welfare of internally displaced persons (IDPs). The causal relationship between poverty and displacement could run in either direction; a poor household might be more likely to be displaced, or a household may fall into poverty because of displacement. Although this direction cannot be established from the data, as a description of their living conditions, IDPs are significantly poorer than their non-displaced peers (Table 2). In both KRG and the North where IDPs constitute a substantial share of the population, displaced households are more than two times as poor as non-displaced households in monetary as well and non-monetary poverty.

Table 2: Poverty rate by displacement status

<table>
<thead>
<tr>
<th></th>
<th>Monetary poverty rate* (%)</th>
<th>Multidimensional poverty rate* (%)</th>
<th>Share of IDPs in the population (%)</th>
<th>Distribution of IDPs 14 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IDPs Residents</td>
<td></td>
<td>IDPs Residents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kurdistan</td>
<td>11.1</td>
<td>6.6</td>
<td>14.4</td>
<td>32.6</td>
</tr>
<tr>
<td>North</td>
<td>53.6</td>
<td>8.1</td>
<td>14.2</td>
<td>53.5</td>
</tr>
<tr>
<td>Center</td>
<td>-</td>
<td>2.4</td>
<td>2.4</td>
<td>12.7</td>
</tr>
<tr>
<td>South</td>
<td>-</td>
<td>31.1</td>
<td>0.4</td>
<td>1.1</td>
</tr>
</tbody>
</table>

*Note: These are direct estimates from the SWIFT 2017-18 data without imputing for missing districts. Hence they are incomparable to those in figure 8. The poverty rate for IDPs in the Center and the South is not reported due to small sample size. Percentages may not sum to 100 due to rounding. Source: Authors’ calculations using SWIFT 2017-18 data.

The loss of welfare of IDPs is so severe that it drives the overall increase in poverty in Kurdistan and North. IDPs form approximately a seventh of the population in the North and Kurdistan respectively, while they account for almost a third the poor (using direct estimates only). The rise in poverty in the two regions owes in large part to the high level of poverty of displaced households.

The crises have also left IDPs and residents of conflict-affected governorates vulnerable to poverty. Unlike poverty, vulnerability is an ex-ante concept. It is a measure of exposure to poverty, and it is defined as the probability of falling in or remaining in poverty in the future (Chaudhuri, Jalan and Suryahadi 2002). IDPs are not only poorer than non-displaced households, but also more than twice as likely to becoming or staying poor in the next period (Table 3). The vulnerability is the highest in the South where chronic poverty is prevalent, but the conflict has rendered residents of the North almost as vulnerable to poverty as the chronic poor in the South.

14 This distribution of IDPs is similar to the latest known distribution from the IOM database (http://iraqdtm.iom.int/). According to the DTM 108 IDP Master List, the distribution of IDPs in January/February of 2019 was as following: Kurdistan – 39.9%; North – 51.1%; Center – 7.5%; and South – 1.4%.
### Table 3: Vulnerability to poverty

<table>
<thead>
<tr>
<th>Region</th>
<th>Average vulnerability (%)</th>
<th>High vulnerability (p &gt; 0.5) (%)</th>
<th>Moderate vulnerability (0.2 &lt; p &lt; 0.5) (%)</th>
<th>Low vulnerability (p &lt; 0.2) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kurdistan</td>
<td>6.5</td>
<td>1.1</td>
<td>6.6</td>
<td>92.4</td>
</tr>
<tr>
<td>North</td>
<td>22.6</td>
<td>19.3</td>
<td>16.2</td>
<td>64.5</td>
</tr>
<tr>
<td>Center</td>
<td>13.4</td>
<td>10.3</td>
<td>10.4</td>
<td>79.4</td>
</tr>
<tr>
<td>South</td>
<td>27.9</td>
<td>28.2</td>
<td>12.2</td>
<td>59.6</td>
</tr>
<tr>
<td>Non-IDPs</td>
<td>16.7</td>
<td>13.9</td>
<td>10.7</td>
<td>75.4</td>
</tr>
<tr>
<td>IDPs</td>
<td>33.6</td>
<td>29.5</td>
<td>26.2</td>
<td>44.3</td>
</tr>
</tbody>
</table>

Note: Vulnerability to poverty is estimated following the approach proposed in Chaudhuri et al. (2002).
Source: Authors’ calculations using SWIFT 2017-18 data.

**Differences in wealth corroborate the conflict-induced deterioration in welfare.**¹⁵ Household ownership of consumer durable goods is sometimes seen as an alternative measure of welfare because assets act both as a source of income and store of value. Loss of assets renders households vulnerable by reducing their income generating capacity and their ability to cope with adverse shocks. The conflict has wiped out the wealth of IDPs and residents of conflict-affected governorates (Figure 9). IDPs lag non-displaced households in the ownership of non-portable as well as portable assets like car, motorcycle, vacuum cleaner, television, personal computer, iPad/tablets, and mobile phone.

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¹⁵ The number of assets owned is used to construct a wealth index, a widely-used composite measure of households’ cumulative living standard. [https://dhsprogram.com/topics/wealth-index/Wealth-Index-Construction.cfm](https://dhsprogram.com/topics/wealth-index/Wealth-Index-Construction.cfm)
Notwithstanding the acute conflict-related welfare loss, progress has been too slow in the rest of the country and poverty remains endemic to the South. Much of the recent commentary on Iraq has focused on the acute crises precipitated by the fiscal crunch and the conflict. While it is important to mitigate welfare loss arising from these sources, policymakers should not lose sight that economic conditions have stagnated in general. Since 2007, the poverty rate has oscillated within a narrow range, in tandem with the economic and security conditions in the country. Despite many years of relative stability, entrenched poverty persists in the South.

5. Labor market does not provide a pathway to prosperity

Growth in labor income is shown to be the most important factor contributing to poverty reduction in Iraq. Between 2007 and 2012, increase in labor income played the most prominent role in increasing per capita consumption and, consequently, decreasing the poverty rate (World Bank 2014). But Iraq’s labor market continues to be in poor health, with one of the lowest labor force participation rates in the world (Figure 10). The percentage of the workforce that is economically active has remained relatively constant over the previous five years (Table 4), but this masks heterogeneity by subgroups. Labor force participation rate is arguably a better measure of the health of the labor market in developing countries than unemployment rate because in absence of unemployment benefits, many individuals must resort to some economic activity, however unproductive it might be.
participation of females remains low, even by the standards of the region, with only about 1 in 9 women still economically active. The participation of the youth has also fallen slightly since the crises (Table 4).

Figure 10: Labor force participation rate (188 countries, 2017)

The effect of displacement on labor market participation is ambiguous. On the one hand, losing income and livelihood might compel people who would otherwise not have joined the workforce to work or look for work. On the other hand, eligibility for food aid or other social transfers, possible need to care for injured or disabled family members, poor prospects of finding a job in the new location, or memory of traumatic experiences might dissuade people from looking for a job. In Iraq, the latter cluster of forces seem to dominate; internally displaced persons are less economically active than non-displaced persons (Table 4).

Table 4: Labor force participation rate (% of working-age population)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Female</th>
<th>Male</th>
<th>Age 15 - 24</th>
<th>Age 25 - 49</th>
<th>Age 50 - 64</th>
<th>IDPs</th>
<th>Non-IDPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>42.9</td>
<td>12.6</td>
<td>74.4</td>
<td>29.6</td>
<td>53.5</td>
<td>38.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014 (pre-crisis)</td>
<td>44.2</td>
<td>13.2</td>
<td>74.9</td>
<td>29.5</td>
<td>55.7</td>
<td>38.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>43.0</td>
<td>11.5</td>
<td>74.2</td>
<td>26.1</td>
<td>54.2</td>
<td>41.6</td>
<td>38.7</td>
<td>43.3</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on IHSES 2012, CHS 2014, and SWIFT 2017-18

The effects of the crises are also visible in the underutilization of Iraq’s human resources. The direct way in which conflict affects the economy is through the destruction of physical capital and the impairment of

17 In 2013, the female labor force participation rate in the MENA region was 20.1 percent (Source: WDI; accessed May 4, 2018).
human capital. But some estimates suggest that economic losses due to economic disorganization are several times that of direct losses due to capital destruction. Economic disorganization entails idleness and low usage of productive factors because of disruptions in connectivity, reduced participation in economic activity due to insecurity, increase in transportation costs, rupturing of supply chains, and erosion of social networks and trust that underpin market transactions (World Bank 2017).

The unemployment rate, which was falling before the crisis, has increased back to the 2012 level (Table 5). The crises have more than eroded the gradual progress in the employment of females. For the sliver of the female population that participated in the labor market, unemployment was falling during the lull years of violence. The unemployment rate of women has grown since 2014, with the increase larger than that of men’s in both absolute and relative terms. The unemployment rate of the youth (ages 15 – 24) that was declining between 2012 and 2014 has surpassed its 2012 level; more than a fifth of the youth in the labor market do not have a job.

Displacement is costly on labor market outcomes as well. Studies have found that displaced persons are significantly more likely to be without work (Kondylis 2010), likely because of the rupturing of social networks. Such networks play an important role in matching job-seekers to employers in informal labor markets. Consistent with the evidence in the literature, the unemployment level of internally displaced persons is substantially higher than that of non-displaced persons (Table 5).

The labor market is even more fragile when looking at the underemployment rate. The unemployment rate is often supplemented by time-related underemployment rate to assess labor underutilization. Time-related underemployment is defined as the “underutilization of the productive capacity of the employed population” (ILO, 1999), and persons in time-related underemployment are those in the labor force who are willing to work additional hours, are available to do so, and had worked fewer than a certain number of hours in a reference period (35 hours) (Greenwood 1999). Underemployment is a richer measure of labor market performance than unemployment because it captures by how much people fall short of their productivity frontier.

Almost a sixth of the economically active population is underemployed. The rate of underemployment in 2012 was 16 percent, and it had dropped to 11 percent in 2014 before the crises. The share of underemployed workers has risen back to the 2012 level, erasing the improvements seen between 2012 and 2014. The gap in labor underutilization rate has also widened between males and females and younger and older workers. Underutilization is particularly severe among internally displaced persons compared to non-displaced workers (Table 5). Average hours of work per week also shows the extent of underutilization of the economically active population (Table A.1).

<table>
<thead>
<tr>
<th>Table 5: Unemployment and underemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment rate (% of economically active population)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2014 (pre-crisis)</td>
</tr>
<tr>
<td>2017</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Underemployment rate (% of the economically active population)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>
The youth fare particularly bad in the labor market. More than a third of the Iraqi youth is neither in employment nor in education or training, the so-called NEETs (Table 6). The NEET rate provides a measure of the “idle youth” as they are not acquiring human capital through work or schooling. Idleness is primary a feature of the IDP youth, with half neither working nor in school or training.

Table 6: Neither in employment, not in education or training (NEET) (% of youth aged 15 – 24)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Female</th>
<th>Male</th>
<th>IDP</th>
<th>Non-IDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>40.3</td>
<td>64.6</td>
<td>17.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014 (pre-crisis)</td>
<td>36.9</td>
<td>61.0</td>
<td>15.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>35.5</td>
<td>56.3</td>
<td>16.1</td>
<td>49.1</td>
<td>34.5</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations using IHSES 2012, CHS 2014, and SWIFT 2017-18

Youth idleness is associated with social instability (Walter 2004). Unemployed youth are thought to join rebel groups because, in the absence of economic prospects, their opportunity costs of violence are low. This logic follows Gary Becker’s formulation of criminals as rational agents who commit crime after weighing the costs and benefits of their action (Becker 1968). But this argument does not explain why most poor people do not rob, riot, or rebel, and many who join violent groups do not do so for material rewards (Blattman and Ralston 2015). An alternative theory is based on identity and grievances; people participate in violence to solidify social identity or redress grievances driven by a sense of unfairness or injustice.

The jobs to absorb the large poor of economically inactive or underutilized labor and new entrants to the labor market must be created by the private sector. But historically, the private sector has not functioned as an engine of jobs creation. A long history of heavy state involvement in the economy has stunted the growth of the sector (World Bank 2017). As a result, the size of the public sector is relatively large, employing more than a third of all employed workers (Figure 11). By comparison, public sector employment accounts for 21.3 percent of total employment in OECD countries (OECD 2015). Poor business climate too hinders Iraq’s private sector development; Iraq ranks 171 out of 190 countries in the Ease of Doing Business Rank.18

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Growth and productivity of the private sector is also limited by a low stock of human capital. When average years of schooling is adjusted for learning, Iraq has the lowest human capital among the countries in the region (Figure 12). “Poorly educated workers” ranks among the top obstacles for businesses in Iraq. More businesses find unavailability of qualified workforce as a bigger obstacle than labor regulations and access to finance.19

People’s self-assessment of well-being captures the country’s grim mood. Nationally, dissatisfaction with the economic situation is widespread: only about 12 percent of the population thinks its current economic

situation is good or very good (Figure 13). Almost an equally small share of the population thinks things are better in 2017 compared to before the onset of the conflict. Tellingly, an equally small share thinks that their economic situation will improve anytime soon (Figure 13).

The low satisfaction level is consistent with recent events. The impact of the conflict has fallen disproportionately on a small segment of the society, polarizing the spatial concentration of poverty. Violence is in the country’s recent memory, and Iraqis distrust their institutions. An overwhelming majority – 88 percent – of the population thinks there is corruption within the state’s institutions and agencies, and a third thinks it is the most important challenge facing the country. For the past several years, Iraq has consistently ranked in the bottom in Transparency International’s Corruption Perception Index. The historically low turnout rate in May’s parliamentary elections evidences the apathy that Iraqis have toward their national institutions.

To summarize, the picture that emerges from the analysis is one of improvement in non-monetary conditions of life but a fragile labor market and stagnant income and monetary poverty. The data suggests that the provision of public services in most of the country have improved despite the crises. But few people believe that things are better than before or will be so anytime in near the future. It is possible that the survey does not capture the quality of public services so that looking only at access provides a distorted picture. It may also be that the negative perceptions arising from the lack of employment opportunities and corruption dominate people’s experiences. But it is evident that early-life opportunities

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20 The exact question was “How would you assess your households’ current economic situation?” with five possible responses: very good, good, regular, bad, very bad. Households with “very good” or “good” responses are deemed satisfied with their current situation.

21 The retrospective question was “What is the overall economic situation of your household now compared to before January 2014?” with five response options: much worse, slightly worse, same, slightly better, better.


23 The index measures the perceived level of public sector corruption according to country experts and businesspeople. In 2017, it was ranked 169 out of 180 countries.
for human capital development are distributed unequally, and the economy’s ability to absorb workers, especially the youth, is weak.

6. Other impediments

**Beyond these trends lie other major challenges.** Economic mobility in Iraq is low. For the cohort born in the 1980s, about 40 percent have higher educational attainment than that of their parents (Figure 14). While this share appears high, the rate is the lowest rate among other countries in the region. Intergenerational persistence of education is also among the highest in Iraq (Figure 14). High intergenerational persistence of education is a mark of low social mobility because it implies how educated the parents are is a strong determinant of how much education the children receive.

**Figure 14: Absolute and relatively mobility**

Problems in the labor market present additional barriers to translating educational mobility to income mobility. Heavy dependence on oil has severely affected the domestic labor market. While the oil sector accounts for more than half of the country’s GDP, it employs about one percent of its workforce, and the sector has limited linkages to the non-oil sectors. Public sector jobs have become the preferred vehicle to distribute oil wealth, making the public sector the largest formal sector employer. As a result, the private

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24 Intergenerational mobility in education is used as a gauge of economic mobility because: (i) educational mobility is important in its own right; (ii) the data is available for many more countries and time period than the data for income mobility; and (iii) education mobility is strongly correlated to income mobility (World Bank 2018).
sector remains stunted, with the legacy of conflict and weak government effectiveness providing further disincentives for investment. These distortions manifest in the labor market outcomes; despite a large increase in average years of schooling over the last 20 years, only a small share of Iraq’s working-age population has a job (Krishnan, Ibarra, et al. 2016).

**A society may tolerate some degree of inequality.** This idea was expressed most vividly by Albert Hirschman using the analogy of a traffic jam in a highway with two lanes (Hirschman 1973). If the incomes are rising in general in the society, it may signal impending increase in living standards, such that even people who have not directly benefitted from the growth may tolerate a widening income gap. They might prefer a dynamic economy that offers the possibility of higher incomes to the status quo where they are stagnant.

**But the tolerance rests on the expectation that opportunities for mobility are equally distributed.** The implicit social contract underpinning growing inequality, a feature of early-stage development, is that everyone has an equal chance of economic advancement. The appetite for inequality may evaporate if people come to believe that some segments of the society are systematically barred from climbing the economic ladder.

**The long-term outcomes are determined by the extent to which a society makes opportunities available to its children and the youth.** A conceptual distinction is made between the inequality of outcomes and inequality of opportunities. Some difference in outcomes can be attributed to innate ability or effort, while part of it can be ascribed to inequality of opportunities. Two persons with the same innate ability might end up with vastly different outcomes because of differences in early-life exposure to good education, health care, and access to basic services. Equality of opportunity levels the playing field so that circumstances outside one’s control like gender, race, the location of birth, or family background does not affect one’s chances in life. A society may tolerate inequality in outcomes arising out of personal choices and effort, while differences arising from differences in opportunities may be viewed as fundamentally unfair (Barros, et al. 2009).

**Opportunities in Iraq are distributed unequally.** School attendance, clean drinking water, and adequate sanitation are critical components of human capital investments and constitute the fundamental blocks of life opportunities. Iraq is one of the worst performers in the region in equalizing opportunities to children along these components. In 2012, only 22 percent of children aged 6 – 11 had access to the composite bundle of all three elements (Krishnan, Ibarra, et al. 2016). Iraq also scores the lowest in the Human Opportunity Index (HOI), the index that penalizes coverage for unequal distribution of opportunities. Access to opportunities in Iraq is determined strongly by the location of residence; children in rural areas and those living in less developed regions are much less likely to have access to all three components than their peers from urban areas or more developed regions (Krishnan, Ibarra, et al. 2016).

**Low economic mobility, high inequality of opportunity, and conflict and institutional fragility may reinforce each other.** Historically, average mobility in fragile and conflict-affected countries has been lower than that in developing countries (World Bank 2018). Persistently low economic mobility may fuel grievances, leading to the formation of violent groups that seek to redress the grievances through violence. The resulting conflict may further weaken the ability of the state to expand economic opportunities and institute policies to enhance mobility.
7. Policy directions

**Jobs creation is a clear priority for Iraq.** The large pool of inactive and underutilized labor represents a colossal loss of human resources. Historically, the labor market experience of the youth and women has been with lower participation and higher unemployment rates. Under normal circumstances, a vibrant private sector acts as the engine of job creation. In Iraq, the private sector is not well-positioned to do so because its growth is limited by a multitude of factors. In addition to insecurity, heavy reliance on the capital-intensive extractive industry for public finances, poor access to credit, large footprint of state-owned enterprises (SOEs) that crowd out private enterprises, unreliable public infrastructure services, and byzantine regulations that make it difficult to start a business discourage private investment (Bandiera, et al. 2018). Diversification of the economy away from the oil sector and regulatory reforms to promote ease of doing business are highly overdue to foster private sector activity.

**It is vital to protect the most vulnerable segments of the population during times of crisis.** Internally displaced persons are poorer and more likely to fall in poverty, which is likely associated with the loss of jobs and livelihoods through displacement. Rapid deployment of the planned public works program can provide short-term employment and provide much-needed income to the displaced and other poor families. Rehabilitation and restoration of public infrastructure through public works program will also encourage displaced persons to return home. Destruction of dwelling, lack of income-generating opportunities, and lack of basic services in the place of origin are among the most commonly cited reasons preventing IDP return (IOM 2018). But non-economic reasons compel the displaced to remain in their current location as well, including difficulty in restituting property, fear of retaliation, perceived insecurity, and trauma (IOM 2018). Necessary conditions for safe and dignified return of displaced persons must be created to enable voluntary return.

**In the medium term, it is important to enact policies to enhance economic mobility and reduce inequality of opportunities.** The cycle of low mobility and high inequality of opportunities can be broken by expanding access to public services and improving the quality of service delivery for the least advantaged groups. They may include interventions in maternal health, early childhood development, and reducing gaps in access to quality education. Poverty-targeted transfer programs can help relieve credit constraints on human capital investments, and transfers with conditionalities can boost human capital accumulation. Due to the distortions in the labor market, education mobility may not always translate into income mobility, which reinforces the need for reforms to allow the private sector to flourish.
References


International Monetary Fund. 2017. "Staff Report for the 2017 Article IV Consultation." Washington DC.


Appendix

Data, survey design, and sampling strategy

Access to updated information on poverty and welfare is critical for monitoring the ongoing situation and inform the design of policies. Iraq successfully conducted two rounds of nationally representative multi-topic household budget surveys in 2007 and 2012. The 2007 Iraq Household Socio Economic Survey (IHSES) was the first comprehensive socio-economic survey in Iraq after a gap of twenty years. The 2012 IHSES allowed for the analysis and estimation of poverty trends and a range of socio-economic indicators covering a period of relative peace and stability. To provide more frequent poverty estimates for the country, the government implemented a Continuous Household Survey (CHS) in 2014 on a sub-sample of IHSES clusters. However, the fieldwork was disrupted in the summer of 2014 in some parts of the country due to the deterioration in the security situation. The third round of IHSES, planned for 2017, could not take place on time as well. At the same time, the ongoing security and budget crises made it more important than ever to monitor key socio-economic indicators. The 2017 rapid welfare monitoring survey was developed with the express purpose of track the well-being of the population at a time when a full-scale scale household surveys was not feasible to implement.

The objective of the 2017 welfare monitoring survey was to provide interim estimates of welfare and well-being until another survey comparable in scope and coverage to Integrated Household and Socioeconomic Survey (IHSES) could be fielded. Many questions in the 2017 questionnaire were culled from the previous surveys so they can be compared directly with the previous data, and some questions were adapted to fit better with the new context. 25 A few new indicators were added to the 2017 survey to understand how the crises might have left the population more vulnerable, the mechanisms through which people coped with shocks, and how they assess their situation. Table A.1 indicates the modules included in each survey round.

<table>
<thead>
<tr>
<th>Table A.1: Survey design</th>
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</thead>
<tbody>
<tr>
<td>2012</td>
</tr>
<tr>
<td>Household roster</td>
</tr>
<tr>
<td>Migration</td>
</tr>
<tr>
<td>Housing</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>Health</td>
</tr>
<tr>
<td>Anthropometrics</td>
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<tr>
<td>Labor market</td>
</tr>
<tr>
<td>Expenditure</td>
</tr>
<tr>
<td>Income</td>
</tr>
<tr>
<td>Assets</td>
</tr>
<tr>
<td>Loans, credit, and assistance</td>
</tr>
<tr>
<td>Shocks and coping strategies</td>
</tr>
<tr>
<td>Time use</td>
</tr>
</tbody>
</table>

25 For example, the reference period for shocks was changed from “the last 12 months” to “since January 2014” to capture the incidence of shocks during the crisis period.
Although the security situation had improved since 2014, many parts of the country were still insecure in 2017. Thus, nine out of ten districts in Nineveh governorate, the seat of Daesh-occupied Iraq, were intentionally excluded from the sampling frame. As the data collection proceeded, five additional districts – 3 in Anbar, 1 in Baghdad, and 1 in Salah al-din – were judged to be too insecure for fieldwork so the selected enumeration areas from these areas were replaced with other clusters from the same governorate. Thus, the final sample covers only 106 of 120 districts in the country, or 74 of 88 districts from the “lower 15” governorates.

The sampling strategy for 2017 survey proceeded in conventional in two stages of cluster sampling. Within each governorate, the out-of-camp sample was selected in two stages as following. First, using the exhaustive list of census enumeration areas (EAs) as primary sampling units (PSUs), between 60 to 150 EAs in each governorate was selected using probability proportional to size (PPS) criteria, with the number of households in each area as the measure of size. A total of 1,440 enumeration areas were selected in the first stage using probability proportional to size (PPS) method. Listing exercise was conducted in the selected areas to update the list of households. In the second stage, using households as secondary sampling units (SSUs), six households were selected in each cluster with equal probability from the post-listing sampling frame. In selecting six households from a cluster, three each of IDP and non-IDP households were selected in the non-Kurdistan region. In the Kurdistan region, two each of IDP, non-IDP, and refugee households were selected. In clusters where there were not enough IDP and/or refugee households, the shortfall was filled by resident households.

While the short form sample was representative at each governorate, the long form sample was representative at the level of four broad regions: Kurdistan, North, Center, and South. All households in the sample responded to the short questionnaire that collected information on core non-monetary indicators of well-being. A random subset of the sampled households also responded to the complete list of questions on household expenditure.

In addition to the recent rapid welfare monitoring survey data, we use the data from two previous household surveys to portray how the economic conditions and household well-being has changed in the 2012 – 2017 period. The first survey, from 2012, is the second Integrated Household Socioeconomic Survey (IHSES II). IHSES is a multitopic household survey covering sociodemographic characteristics of the population like the household composition, literacy and schooling, health outcomes, and dwelling conditions. Detailed questions on the type of work, sector of employment, and income and wages captured household’s income level from multiple sources. Monthly, quarterly, and annual expenditures on several nonfood items, including spending on education and housing, were collected based on the recall method. A diary was left with households to record daily expenditures over 7 days on food and other frequently purchased goods and services and food received from the Public Distribution System.
(PDS) was recorded separately. The reported expenditures were aggregated to calculate per capita expenditure, the preferred measure of household welfare, and estimate the poverty rate.

The IHSES II sample was selected in two stages. In the first stage, 2,828 primary sampling units (PSUs) were selected from the list of all PSUs with the probability of selection proportional to size. A listing exercise was carried out in the selected clusters to update the population count. In the second stage, 9 households were randomly selected from each cluster. Thus, the total sample size for IHSES II was 25,452 of which 24,944 households completed the interviews.

The Continuous Household Survey (CHS) 2014 is the second survey predating the crises. The objective of the CHS was to monitor poverty and welfare level more frequently. The CHS surveyed households in a sub-sample of the IHSES II clusters. The CHS questionnaire included all the expenditure modules from IHSES II and a subset of other modules, notably education, health, housing, employment, and income.

The fieldwork for the CHS commenced in November 2013, and the survey was slated to run for the whole of 2014. Starting in June 2014, however, the fieldwork was disrupted in many parts of the country because of the growing influence of the Daesh militant group. Consequently, for the rest of the year, the survey could not proceed as planned in five governorates. In this analysis, we compare the progress in non-monetary dimensions using the data collected until May 2014 to sidestep the bias introduced by nonrandom attrition of sample. The restriction does not detract from our primary purpose: to monitor the trend in well-being since the onset of the crisis. When limited in this way, the 2014 data establishes the benchmark for the pre-crises period.
Figure A.1: Distribution of expenditure by sub-aggregates (2012 and 2017-18)

Note: The mean and the shares for 2012 are calculated using data from the districts common to both surveys.
Figure A.2: Out-of-school children (by gender)

Source: Authors’ calculations using IHSES 2012, CHS 2014, and SWIFT 2017-18 data.
Quality of life and provision of services has generally improved everywhere in the country, with some notable exceptions. Coverage of municipal garbage collection has retreated in the North and to some extent in Kurdistan. Supply of electricity supply has declined significantly in the North and Kurdistan, possibly because of damage to the infrastructure. Power shortage in Kurdistan could also be related to the region’s budget dispute with Baghdad; non-receipt of the allocated budget from Baghdad might have hampered the region’s ability to source natural gas to generate electricity.

Source: Authors’ calculations using IHSES 2012, CHS 2014, and SWIFT 2017-18 data.
Table A.1: Hours of work per week (economically active population)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Female</th>
<th>Male</th>
<th>Age 15 - 24</th>
<th>Age 25 - 49</th>
<th>Age 50 - 64</th>
<th>IDPs</th>
<th>Non-IDPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>37.8</td>
<td>22.7</td>
<td>40.4</td>
<td>34.7</td>
<td>39.2</td>
<td>36.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014 (pre-crisis)</td>
<td>40.8</td>
<td>25.5</td>
<td>43.5</td>
<td>38.2</td>
<td>42.2</td>
<td>38.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>37.1</td>
<td>25.1</td>
<td>39.0</td>
<td>32.0</td>
<td>38.6</td>
<td>37.6</td>
<td>33.8</td>
<td>37.4</td>
</tr>
</tbody>
</table>

Source: Authors’ calculations based on IHSES 2012, CHS 2014, and SWIFT 2017-18