

IRAQ



ECONOMIC MONITOR

Seizing the Opportunity for Reforms and Managing Volatility

Spring 2021



WORLD BANK GROUP
Middle East and North Africa Region

Iraq Economic Monitor

Seizing the Opportunity for Reforms
and Managing Volatility

With a Special Focus
Towards Increased Economic Opportunities for Women in Iraq

Spring 2021



Middle East and North Africa Region

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ACRONYMS

Bcf	Billion cubic feet	MENA	Middle East and North Africa
BOP	Balance of payments	MGF	Mashreq Gender Facility
CAB	Current account balance	MoF	Ministry of Finance (Iraq)
CBI	Central Bank of Iraq	MoO	Ministry of Oil (Iraq)
COSIT	Central Organization for Statistics and Information Technology	MW	Megawatt
COVID-19	Coronavirus Disease 2019	OPEC (+)	Organization of Petroleum Exporting Countries (plus other non-OPEC partner countries)
DRM	Domestic revenue mobilization	OXFAM	Oxford Committee for Famine Relief
EIA	US Energy Information Administration	PDS	Public Distribution System
ER	Exchange rate	pp	Percentage points
ESCWA	United Nations Economic and Social Commissions for Western Asia	q/q	Quarter-on-quarter (growth)
FDI	Foreign Direct Investment	RHS	Right hand side
GBV	Gender-Based Violence	SGBV	Sexual and Gender-Based Violence
GCC	Gulf Cooperation Council	SMEs	Small and Medium-Sized Enterprises
GDP	Gross Domestic Product	SOBs	State-owned banks
GoI	Government of Iraq	SWIFT	Rapid Welfare Monitoring Survey
IDP	Internally Displaced Persons	Tcf	Trillion cubic feet
IEM	Iraq Economic Monitor	UMIC	Upper middle-income countries
IHFPS	Iraq High Frequency Phone Survey	UNCTAD	United Nations Conference on Trade and Development
IHSES	Iraq Household Socio-Economic Survey	UNDP	United Nations Development Program
ILO	International Labor Organization	UNFPA	United Nations Population Fund
IMF	International Monetary Fund	UNICEF	United Nations Children's Fund
IOM	International Organization for Migration	US	United States
IQD	Iraqi Dinar	WB(G)	World Bank (Group)
ISIS	Islamic State	WDI	World Development Indicators
KRI	Kurdistan Region of Iraq	WEEAP	Women Economic Empowerment Action Plan
LFPR	Labor force participation rate	y/y	Year-on-year (growth)
LHS	Left hand side		
mbpd	Million barrel per day		
mbpm	Million barrels per month		

ACKNOWLEDGMENTS

The Iraq Economic Monitor provides an update on key economic developments and policies over the previous six months and presents findings from recent World Bank work on Iraq, placing them in a longer-term and global context and assessing the implications of these developments and other changes in policy regarding the outlook for Iraq. Its coverage ranges from the macro-economy to business environment and private sector development. It is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in Iraq.

The Iraq Economic Monitor is a product of the Middle East and North Africa (MENA) unit in the Macroeconomics, Trade & Investment (MTI) Global Practice in the World Bank Group. The report was written by Wael Mansour (Senior Economist, MTI), Majid Kazemi (Economist, MTI) and Ashwaq Maseeh (Economist, MTI).

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The data cut-off for this Iraq Economic Monitor is April 30, 2021.

EXECUTIVE SUMMARY

Recent Economic and Policy Developments

Oil price volatility and COVID-19 have amplified Iraq's economic woes, reversing two years of steady recovery. These twin shocks have deepened existing economic and social fragilities, adding further to public grievances that existed pre-COVID-19. The absence of fiscal space has limited the ability of the Government of Iraq (GoI) to provide a stimulus to an economy highly dependent on oil exports for growth and fiscal revenues. As a result, the country experienced the largest contraction of its economy since 2003. GDP contracted by 10.4 percent in 2020 on the back of the OPEC+ oil production cuts agreement as well as the negative impact of COVID-19 on non-oil sectors including a plunge in religious tourism services following border restrictions. As a result, GDP per capita, a proxy for individual welfare, is estimated to have contracted by 15 percent in 2020—a significantly larger contraction than regional and income peers.

The economic downturn also had an impact on the welfare of Iraqis especially among informal workers and those in self-employment. Unemployment remained more than 10 percentage points (pp) higher than the pre-pandemic level. Limited fiscal space has impacted transfers, including the universal Public Distribution System (PDS), where

the share of households receiving transfers dropped by more than 8 pp. The loss of household income and social assistance has increased vulnerability to food insecurity. COVID-19 has also severely limited child learning as evidenced by the small proportion of students engaged in learning activities during school closure. These impacts coupled with reduced access to market and healthcare services undermined human capital accumulation and economic mobility.

Iraq's fiscal balance suffered from the oil crisis forcing the government to cut discretionary spending and accruing arrears. Budgetary revenues in 2020 fell by over 9 pp to 32 percent of GDP as oil receipts severely contracted. To deal with the situation, the GoI cut discretionary spending including slashing public investments by 87 percent, deferred the regularization of new entrants and contractual workers to 2021 thus accruing wage arrears, and rescheduled part of the domestic debt. An emergency financing law ratified by the legislature late in 2020 was not enough to avoid delayed and non-payments to public sector workers and contractors. The authorities also opted for an 18.5 percent devaluation for the Iraqi Dinar against the US\$ in December 2020, which boosted oil receipts. Despite these measures, the fiscal balance still registered a 6.4 percent of GDP deficit. Financing was primarily secured through the central bank and state-owned banks increasing their exposure to the sovereign.

Recognizing the severity of the crisis, the Gol devised a national reform plan (the white paper) that sets out a bold blueprint of structural reforms to achieve sustainable medium-term growth through economic diversification and boosting private sector growth and private sector job creation. The Gol has also devised an implementation and governance framework for the white paper in which it proposed a detailed reform matrix and launched a High Reform Council headed by the Prime Minister to accompany the implementation. Actions have already been realized starting with the reforms adopted in the 2021 budget law and other areas including in the business environment and the financial sector. The ultimate success of the reforms though depends on the political will and public support to implement the proposed measures and lead the country out of a long-standing fragility trap.

Iraq's economic outlook hinges on global oil markets prospects, the implementation of the white paper reforms, and on the evolution of COVID-19. The economy is forecast to gradually recover on the back of rising oil prices and rising OPEC+ production quotas. GDP is projected to grow by 1.9 percent in 2021 and 6.3 percent on average over the subsequent two years (Table 1). Non-oil GDP is forecast to recover in 2021, growing by 5.5 percent before converging to historically low potential growth trend in 2022–23. The currency devaluation is estimated to push inflation to 8.5 percent in 2021 due to limited capacity for import substitution. This will present an additional pressure on Iraqi households' wellbeing.

The fiscal stance remains expansionary with only limited reform measures being included in the 2021 budget law after an extended deliberation in the Parliament. Higher oil revenues in tandem with the devaluation effect on those receipts are projected to narrow the fiscal deficit to 5.4 percent of GDP in 2021. Financing needs are forecast to remain elevated compared to pre-COVID-19 levels, averaging at US\$13.7 billion per year (7.5 percent of GDP) in the outlook period (2021–2023). The 2021 approved budget includes limited reforms such as new consumption taxes and better targeting of PDS transfers which are in line with the Gol white paper. If implemented they could help moderate the fiscal

deficit and exchange rate pressures. However, more structural issues such as public wages and pension rigidities remain unaddressed.

Sizeable downside risks cloud Iraq's fragile economic recovery prospects over the medium-term, but reform implementation could bring positive dividends. Oil price down cycles and failure to implement fiscal reforms in an election year threatens macroeconomic sustainability; delays in vaccine rollout could lead to additional lockdowns with negative knock on effects on services sectors' activities; continued underinvestment hampers pro-growth programs and service delivery; and deteriorating security conditions amidst high regional geopolitical tensions increases overall risks. Nevertheless, there is a markable dividend from implementing reforms and maintaining fiscal prudence. Pro-growth policies in non-oil sectors and tackling budget rigidities, as outlined in the Gol white paper, can improve the fiscal balance outlook by 5.5 pp annually (or annual fiscal gains of US\$11 billion). Moreover, accelerating the vaccination program could help speed up the recovery process and gradually reverse the surge in the national poverty rate that occurred during the summer of 2020. However, in the absence of sustained fiscal reforms, the budget deficit could be considerably worse and follow an unsustainable trajectory in the outlook period.

Incorporating climate change policies at the heart of Iraq's development plan will also be essential for raising revenues, inducing growth and job creation in the medium term. Apart from the negative health and environment externalities, the lack of integration of climate related goals continues to present significant direct and indirect costs for the country. Despite joining multiple global emissions control initiatives, Iraq is the world's second largest gas flaring country and burns the equivalent of 320 thousand barrels of oil per day in associated gas (as a byproduct of oil production). This waste of resources alone is estimated to directly cost Iraq's economy by US\$2.5 billion annually. Thus, the case for greener investment and climate aware policies in Iraq is one of good economics and could be a crucial measure to improve government finances, reduce imports and bring gains of higher GDP growth and job creation.



The recent recovery in oil prices provides an opportunity to push ahead with reforms. The Iraq experience has repeatedly showed that oil prices and reform drives are inversely related. Successive governments launched reforms under the pressure of low oil prices and the need for fiscal consolidation. Amidst persistently high perception of corruption and weak public service delivery, this combination gave rise to social and political tensions that undermined the success of most reform initiatives. In the absence of fiscal rules, pro-cyclical and expansionary policies often followed as soon as oil prices rose with little impact on non-oil growth. However, this time is different for Iraq. The country stands at a crossroad as economic and fiscal rigidities have been accumulating and have reached a point where quick fixes are limited, and the economy is in need of a serious transformation if it is to create jobs and opportunities for its ever growing youth. As such, with oil prices trending above the US\$60/barrel, Iraq could engage actively on the white paper reforms and use those windfalls to soften the potential repercussion of those reforms.

Towards Increased Economic Opportunities for Women in Iraq

Beyond the intrinsic value of empowering women and girls, greater gender equality in the labor market is smart economics. Gender inequalities in the labor market are estimated to have cost the Middle East and North Africa region (MENA) up to 38 percent of its income. The situation is especially dire in Iraq, where poor labor market outcomes for women are exacerbated by years of armed conflicts and economic sanctions. Female labor force participation in Iraq is among the lowest in the world, and even when women do enter the labor force, they are three times as likely to be unemployed compared to men.

While not explicitly mentioned, increasing women's labor force participation is instrumental to achieving the economic transformation described in the Government of Iraq's white paper. Boosting the labor force participation of women to the average rate of its income group would increase GDP per capita by almost 31 percent. The

ongoing COVID-19 crisis heightens the urgency of mitigating labor market inequalities, as poor labor market outcomes are expected to have significantly deteriorated. This is especially true for women, who take on most of the burden of additional unpaid care and domestic work and are put at a disadvantage by a general societal attitude suggesting that the few available jobs during a crisis should go to men.

Weak labor demand, while affecting both women and men, disproportionately impacts women, as the few jobs that are created are in the oil-related, male-dominated industries. Iraq faces a significant employment challenge, as economic growth does not translate into sufficient job creation. Recent economic growth was driven mainly by growth in mining, a sector that merely employs 1 percent of the labor force, the weak link between employment and growth in Iraq is evident across most other economic sectors. The combined sectors of manufacturing and agriculture constitute less than 6 percent of GDP, constraining women's economic opportunities to the public sector, which, given the fiscal constraints of the country, is limited in size and growth potential.

Obstacles to entering and remaining in the labor market vary drastically for women from different socio-economic groups, and across critical turning points in women's lives. Women in urban areas who have higher education levels and higher reservation wages, tend to seek scarce public sector jobs, and are therefore more likely to be unemployed compared to their rural counterparts. Gender gaps in education are especially pronounced in rural areas. Women in rural areas are more likely to participate in the labor market, and accept low-paid private sector jobs, out of necessity and poverty, they also share a larger burden of unpaid work compared to their urban counterparts.

In addition to job creation, labor market interventions centered around different challenges faced by women in Iraq are needed to encourage women to actively participate in the economy and to ensure a better match of labor supply and demand. Such interventions include a focus on the existence and accessibility of demand-driven skills training programs to address gaps in knowledge and experience for Iraqi women searching

for work or seeking to grow in their employment, improving access to affordable and quality childcare, providing incentives to the private sector to invest in sectors that employ more women and providing culturally acceptable income-generation options for women, including via enabling wider assistance for home-based businesses to register and grow.

Labor market interventions are necessary but not sufficient for improving labor market outcomes of women in Iraq. Specific legislation and regulations contribute to limiting women’s access to employment opportunities including ambiguous child marriage legislation, as well as striking gender inequalities in property and inheritance rights compounded by traditional, patriarchal gender norms assigning men as protectors and providers, and women as care givers. Revisions to laws and

regulations are needed, and although addressing social norms can be challenging, some interventions aimed at correcting misperceptions can be effective in improving labor market participation of women in Iraq.

The table below spells-out a non-exhaustive set of recommendations to help the GoI reach its objective of increasing labor force participation rate by 5 pp in 2025. These recommendations, which build on a pool of analytical underpinnings conducted by the WB, call for a better match between labor supply and demand (e.g. via the development of credible matchmaking services), the establishment of gender-specific solutions in the workplace, and the creation of an inclusive legislative framework (e.g. via the elimination of occupational and sectoral restrictions).

ADDRESSING FEMALE LABOR FORCE PARTICIPATION CHALLENGES

Addressing challenges related to

	Demand for labor	Supply of labor	Legal and regulatory framework	Social norms
1. Getting ready	<ul style="list-style-type: none"> Enhance access to and retention of girls and women in education, including through ensuring safe and accessible transport for girls in rural areas; Encourage demand-driven upskilling and training of women. 	<ul style="list-style-type: none"> Implement policies that increase digital skills in young women who have left school and those still in it, including training programs for women. 	<ul style="list-style-type: none"> Enforce prohibition of child marriage. 	<ul style="list-style-type: none"> Work with men and boys on the promotion of alternative gender roles as positive role models.
2. Entering and remaining in the labor market	<ul style="list-style-type: none"> Encourage women’s collectives and collaborative work schemes, including women’s social enterprises; Devise employer-oriented incentives for hiring women in all sectors; Provide incentives to the private sector to invest in sectors that employ more women, e.g. care economy; 	<ul style="list-style-type: none"> Focus on the existence and accessibility of skills training programs to address gaps in knowledge and experience for Iraqi women searching for work or seeking to grow in their employment; Improve job matching for women by expanding access to formal and informal networks. 	<ul style="list-style-type: none"> Remove night hour restrictions imposed on women; Remove job and sector restrictions imposed on women; Prohibit discrimination in access to credit based on gender; Grant male and female children as well as female and male surviving spouses equal inheritance rights; 	<ul style="list-style-type: none"> Provide female job seekers with more information about jobs available in the private sector, including which parts of the private sector women are already working in, and highlighting jobs with greater skill requirements; Provide culturally acceptable income-generation options for women: e.g. avoiding mixing with unrelated men, providing options within the home or in an enclosed area nearby.

(continued on next page)

ADDRESSING FEMALE LABOR FORCE PARTICIPATION CHALLENGES *(continued)*

Addressing challenges related to

	Demand for labor	Supply of labor	Legal and regulatory framework	Social norms
	<ul style="list-style-type: none"> Promote entrepreneurship among women, enabling wider assistance for HBB's to register, create market linkages and integrate in value chains nationally, regionally and globally by easing export licensing and unifying formal registration. 		<ul style="list-style-type: none"> Expand and strengthen the labor inspection system and enforce appropriate penalties to ensure employer adherence with relevant international labor standards and local labor laws including contracts, pay equity and protection from sexual harassment. 	
3. Getting married and having a child		<ul style="list-style-type: none"> Expand access to affordable, quality childcare. 	<ul style="list-style-type: none"> Introduce legislation criminalizing domestic violence Amend legislation to shift responsibility for administering maternity leave benefits to the government; Introduce legislation or amendments providing for paid paternity and shared parental leave; Prohibit dismissal of pregnant workers; Consider mandating employer-supported childcare. 	<ul style="list-style-type: none"> Contribute to shifts in unpaid care work by reducing the stigmatization of men's household and care work.

المرصد الاقتصادي للعراق

التقاط الفرصة للإصلاح وإدارة التقلبات
مع فصل خاص حول زيادة الفرص الاقتصادية للمرأة في العراق

الملخص التنفيذي

التطورات الاقتصادية والسياسية الأخيرة

جاءت تقلبات أسعار النفط وجائحة كورونا لتضيف هموماً أخرى على كاهل الاقتصاد العراقي، ولتنقض إنجازات عامين من التعافي المطرد، كما عمّقت تلك الصدمة المزدوجة جوانب الهشاشة الاقتصادية والاجتماعية القائمة، وأضافت مبرراً جديداً لحالة السخط الشعبي التي سبقت جائحة كورونا. ويحدّ غياب الحيز المالي من قدرة حكومة العراق على تقديم محفزات للاقتصاد العراقي الذي يعتمد بشكل كبير على إيرادات النفط في تحقيق نموه وعائداته المالية. ونتيجة لذلك عانى البلد من أكبر حالة انكماش واجهها منذ عام 2003، إذ انكمش الناتج المحلي الإجمالي بنسبة 10.4 بالمائة عام 2020 على خلفية اتفاق تخفيض إنتاج النفط لمنظمة (أوبك +) والظلال القائمة التي ألقت بها جائحة كورونا على القطاعات غير النفطية بما في ذلك التراجع الكبير في خدمات السياحة الدينية في أعقاب القيود التي فرضت على الحدود. وكمحصلة لذلك، يقدر بأن حصة الفرد الواحد من الناتج المحلي الإجمالي، وهي مقياس للرفاه الفردي، انكمشت بنسبة 15 بالمائة في عام 2020 - وهذا أعلى بكثير مما هو عليه في بلدان المنطقة وتلك التي تماثل العراق في دخله.

كما كان للتراجع الاقتصادي أثره على رفاهية المواطن العراقي وبخاصة بين أوساط العمال في القطاع غير الرسمي وأولئك الذين يعملون في قطاع الأعمال الحرة. حيث استمر بلوغ نسبة البطالة أعلى من 10 نقاط مئوية عما كانت عليه قبل الجائحة. وأعاق الحيز المالي المحدود تدفق تحويلات الدعم المالي بما في ذلك نظام الحصة التموينية حيث انخفضت نسبة الأسر التي تتلقى هذا الدعم بأكثر من 8 نقاط مئوية. وأفضى فقدان الأسر لمدخلاتها وللدعم الاجتماعي الى زيادة احتمالات التعرض لانعدام الأمن الغذائي. فضلاً عن ذلك حدّت الجائحة بشكل كبير من تعليم الأطفال، وهذا ما برز واضحاً من خلال النسبة الصغيرة من الأطفال الذين وصلوا التعليم خلال فترات غلق المدارس. وهكذا فإن هذه التأثيرات التي صاحبها تقلص الوصول الى الأسواق وخدمات الرعاية الطبية قوّضت تراكم رأس المال والحراك الاقتصادي.

تأثر التوازن المالي في العراق بأزمة النفط أجبر الحكومة على تقليص النفقات غير الملزمة و مراكمة المتأخرات. لقد انخفضت إيرادات الموازنة في عام 2020 بأكثر من 9 نقاط مئوية الى 32% من الناتج المحلي الإجمالي مع تقلص إيرادات النفط الى حد كبير. وفي محاولة منها لمواجهة هذا الوضع، لجأت حكومة العراق الى تقليص النفقات غير الملزمة وأشتمل ذلك على خفض الاستثمارات العامة بنسبة 87 %، وتأجيل اقرار القوانين المتعلقة بالتعيينات الجديدة واصحاب العقود الى عام 2021 وبالتالي تحمل متأخرات الأجور المتراكمة وإعادة جدولة جزء من الدين المحلي. وعلى الرغم من مصادقة مجلس النواب على قانون للتمويل في حالات الطوارئ في أواخر عام 2020، فإن ذلك لم يكن كافياً لتجنب حالات التأخر في دفع أجور موظفي القطاع العام والعاملين بالعقود أو حتى عدم دفعها. كما سعت حكومة العراق في كانون الأول 2020 الى إجراء خفض قدره 18.5 % على قيمة الدينار العراقي مقابل الدولار الأمريكي مما أفضى الى تعزيز إيرادات النفط. وعلى الرغم من تلك الإجراءات، سجل التوازن المالي عجزاً بلغ 6.4 % من الناتج المحلي الإجمالي، وقد تم استحصال التمويل بشكل رئيسي من خلال البنك المركزي العراقي والمصارف المملوكة للدولة. إدراكاً منها لفداحة الأزمة، وضعت حكومة العراق خطة إصلاح وطنية سميت بالورقة البيضاء لتطرح من خلالها مخططاً جريماً لإصلاحات هيكلية سعياً الى بلوغ نمو مستدام متوسط الأمد من خلال التنوع الاقتصادي وتعزيز نمو القطاع الخاص وخلق فرص العمل فيه. والى جانب ذلك اهتمت حكومة العراق بصياغة إطار عمل لتنفيذ الورقة البيضاء وضبط حوكمتها، اقترحت من بموجبه مصفوفة إصلاح مفصل، بل وأنشأت مجلساً أعلى للإصلاح يترأسه رئيس الوزراء ليوكب مهام تنفيذ الإصلاح. وأتخذت بعض الإجراءات في هذا الصدد ابتداءً بالإصلاحات التي اعتمدها قانون موازنة عام 2021، والنطاقات الأخرى لبيئة الأعمال والقطاع المالي. ولكن يبقى النجاح النهائي للإصلاحات مرهوناً بالإرادة السياسية والدعم الشعبي لتنفيذ الإجراءات المقترحة وانتشار البلاد من واقع الهشاشة الذي دام طويلاً.

تعتمد الأفق الاقتصادية المستقبلية للعراق على توقعات أسواق النفط العالمية، وتنفيذ إصلاحات الورقة البيضاء وتطورات جائحة

كورونا. تشير التوقعات الى إن الاقتصاد سوف يستعيد عافيته بشكل تدريجي على خلفية ارتفاع أسعار النفط وزيادة حصة الإنتاج في منظمة (أوبك +). ومن المتوقع أن ينمو الناتج المحلي الإجمالي بنسبة 1.9 % خلال عام 2021، و6.3% خلال العامين اللذين يليان ذلك (الجدول 1). كما يتوقع أن يستعيد الناتج المحلي الإجمالي غير النفطي عافيته خلال عام 2021 لينمو بنسبة 5.5 % قبل أن ينكفئ نحو اتجاه النمو المنخفض المحتمل خلال العامين 2022 - 2023. ويقدر أن يسهم الخفض الحالي لقيمة الدينار العراقي في دفع التضخم الى نسبة 8.5% خلال عام 2021 جراء القدرة المحدودة على استبدال البضائع المستوردة. وسوف يشكل ذلك ضغطاً إضافياً على مستوى رفاهية الأسرة العراقية.

يواصل الوضع المالي إتساعه حيث لم يُدرج في قانون موازنة عام 2021 سوى عدد محدود من إجراءات الإصلاح بعد مناقشات مستفيضة في مجلس النواب. يتوقع أن تعمل إيرادات النفط العالية التي أعقبها تأثير خفض الدينار العراقي على تقليص العجز المالي بنسبة 5.4 في الناتج المحلي الإجمالي خلال عام 2021. ولكن يُتوقع أن تبقى الاحتياجات المالية عالية مقارنة مع مستويات ما قبل جائحة كورونا، حيث سيبلغ معدلها 13.7 مليار دولار (7.5 % من الناتج المحلي الإجمالي) خلال فترة التوقعات (2021 - 2023). واشتملت موازنة 2021 على إصلاحات محدودة مثل ضرائب الاستهلاك الجديدة والاستهداف الأفضل للحصة التموينية وهذا ما يتوافق مع أهداف الورقة البيضاء التي وضعتها الحكومة. وإذا ما وضعت هذه الإصلاحات حيز التنفيذ فسوف تسهم في التخفيف عن العجز المالي وضغوط سعر الصرف. وعلى أية حال، هنالك جوانب هيكلية أخرى لم تطلها الإصلاحات لحد الآن، منها الافتقار الى المرونة في سلم رواتب القطاع العام والرواتب التقاعدية.

مازالت هنالك مخاطر كبيرة تلقي بظلالها على آفاق التعافي الاقتصادي الهش للعراق على المدى المتوسط، إلا ان تنفيذ الإصلاحات يمكن أن يؤدي ثماراً طيبة. إن دوامة انخفاض أسعار النفط والإخفاق في تنفيذ الإصلاحات المالية في سنة ستجرى فيها الانتخابات البرلمانية سيؤثر سلباً على الاستفادة الاقتصادية الكلية. كما إن التأخر في توزيع اللقاحات ضد فايروس كورونا قد يؤدي الى فرض إغلاق جديدة ستكون لها تأثيرات سلبية حادة على أنشطة قطاعات الخدمات. وإلى جانب ذلك فإن تواصل ضعف الاستثمارات سيعيق تحقيق البرامج الداعمة للنمو وتقديم الخدمات. ولا شك في ان تدهور الوضع الأمني في خضم التوترات الجيوسياسية العالية سيزيد من المخاطر الكلية. ومع ذلك، هنالك عوائد ملحوظة يمكن أن يحققها تنفيذ الإصلاحات والحفاظ على الحكمة المالية. بل ويمكن لسياسات البرامج الداعمة للنمو في القطاعات غير النفطية ومعالجة جوانب الجمود في الموازنة، كما هو موضح في الورقة البيضاء للحكومة، أن تحقق تحسناً في الآفاق المستقبلية للتوازن المالي بمقدار 5.5 نقطة مئوية سنوياً (أو ما يعادل مكاسب مالية سنوية تصل الى 11 مليار دولار). وعلاوة على ذلك، يمكن لتسريع برنامج التلقيح ضد فايروس كورونا أن يسهم في تسريع عملية التعافي ويعكس بشكل تدريجي اتجاه مسار الارتفاع في معدل الفقر الوطني الذي ظهر خلال صيف 2020. وعلى أية حال، في ظل غياب الإصلاحات المستدامة من المرجح أن يبلغ عجز الموازنة مستوى أسوأ بكثير عما كان عليه، بل ويمكن أن يسلك مساراً غير مستدام خلال فترة التوقعات.

إدراج السياسات الخاصة بالتغير المناخي في الصميم من خطة التنمية في العراق سيكون عنصراً أساسياً يسهم في زيادة الإيرادات بما في

ذلك تحقيق النمو وخلق الوظائف على المدى المتوسط. الى جانب الآثار الصحية والبيئية الخارجية السلبية فإن الإخفاق في إدماج الأهداف البيئية ذات الصلة سيواصل فرض تكاليف كبيرة، مباشرة أو غير مباشرة، على البلد. وعلى الرغم من انضمام العراق الى العديد من المبادرات العالمية الخاصة بضبط الانبعاثات فانه مازال يحتل مرتبة ثاني أكبر بلد في إطلاق الغاز المحترق، وهو يحرق ما يعادل 320 ألف برميل من النفط يومياً من خلال الغاز المصاحب (كناج عرزي لإنتاج النفط). وتشير التقديرات الى إن إضاعة الموارد هذه تكلف اقتصاد البلد وبشكل مباشر 2.5 مليار دولار سنوياً. ولذلك فإن السعي نحو تبني استثمارات صديقة للبيئة وسياسات تتسم بالوعي المناخي يعد من سمات الاقتصادات الحسنة، بل ويمكن أن يكون إجراءً حاسماً في تحسين السياسة المالية العامة والتقليل من الاستيراد وتحقيق مكاسب أعلى في نمو الناتج المحلي الإجمالي وخلق الوظائف.

التعافي الأخير في أسعار النفط يوفر فرصة نحو المضي قدماً في طريق الإصلاحات. كانت التجربة العراقية قد أظهرت مرة بعد الأخرى وجود علاقة عكسية بين أسعار النفط وتوجهات الإصلاح. فالحكومات المتعاقبة كانت تشترع الإصلاحات تحت وطأة ضغوط انخفاض أسعار النفط والحاجة الى احتواء النفقات العامة. وأفضى الاقتران بين تواصل التصورات الشعبية حيال تفشي الفساد وسوء تقديم الخدمات العامة الى ظهور توترات اجتماعية وسياسية قوّضت نجاح العديد من معظم مبادرات الإصلاح. وفي ظل غياب القواعد الخاصة بالمالية الحكومية، كان غالباً ما يتم إتباع السياسات الداعمة للاتجاهات الدورية والتوسع في أعقاب ارتفاع أسعار النفط، وحيث لا يكون لذلك سوى أثر بسيط على النمو غير النفطي. ولكن تبدو الأمور مختلفة بالنسبة للعراق هذه المرة. فإلبلد يقف في مفترق طرق بعد تراكم الجمود الاقتصادي والمالي وبلوغه نقطة أصبحت فيها الحلول السريعة محدودة، وأضحى الاقتصاد بحاجة لتغيير حقيقي إذا كان يُراد له أن يكون قادراً على خلق الوظائف لأعداد الشباب المتزايدة من السكان. ولما كانت تلك هي الحالة، ومع وصول أسعار النفط الى مستوى يتجاوز 60 دولار للبرميل الواحد أصبح بوسع العراق الشروع بشكل فعال في تنفيذ إصلاحات الورقة البيضاء، وتوظيف هذه المكاسب غير المتوقعة في التخفيف من أثر التداعيات المحتملة لمثل هذه الإصلاحات.

نحو زيادة الفرص الاقتصادية للنساء في العراق

الى جانب القيمة المتأصلة لتمكين النساء والفتيات، تعد المساواة الأوسع بين الرجل والمرأة ضمن مزايا الاقتصادات الذكية. يُقدّر أن تكون حالات انعدام المساواة بين الرجل والمرأة في سوق العمل قد كلفت منطقة الشرق الأوسط وشمال أفريقيا ما يصل الى 38% من دخول بلدانها. وتفاقت هذه الحالة بشكل خاص في العراق حيث واصلت مستويات نتائج المشاركة الضعيفة للنساء في سوق العمل تراجعها جراء سنوات من النزاعات المسلحة والعقوبات الاقتصادية. وتقدر مشاركة الإناث في القوى العاملة في العراق من بين المراتب الأدنى في العالم، وحتى عندما تتمكن النساء من الالتحاق بصفوف الأيدي العاملة فإن احتمالية أن يواجهن البطالة تبلغ ثلاثة أضعاف ما هو عليه بالنسبة للذكور.

على الرغم من أن الورقة البيضاء لم تأت على ذكر ذلك على نحو صريح فإن زيادة مشاركة المرأة في القوى العاملة تعتبر شرطاً أساسياً

بالإضافة الى خلق الوظائف، هنالك حاجة الى تدخلات سوق العمل التي تتمحور حول التصدي للتحديات المختلفة التي تواجهها النساء في العراق من أجل تشجيعهن على المشاركة بشكل فعال في الاقتصاد وضمان تحقيق مواءمة أفضل بين العرض والطلب في سوق العمل. تشمل مثل هذه التدخلات على التركيز على توفير برامج تدريب المهارات المستندة الى سوق العمل وتسهيل الوصول إليها لسدّ الفجوات في المعرفة والخبرة لدى النساء العراقيات اللواتي يسعين إلى تطوير أنفسهن في عملهن. كما تتضمن هذه التدخلات تحسين الوصول الى رعاية أطفال ميسورة التكلفة وذات جودة، وتوفير الحوافز للقطاع الخاص للاستثمار في القطاعات التي توظف عدداً أكبر من النساء، وإتاحة خيارات مقبولة اجتماعياً لتوليد الدخل بالنسبة للنساء، بما في ذلك تقديم المساعدة الأوسع للأعمال التجارية المستندة الى المنزل لتمكينها من التسجيل في القطاع الرسمي والنمو.

تدخلات سوق العمل ضرورية ولكنها ليست كافية لتحسين محصلات سوق العمل للنساء في العراق. لا شك أن هنالك قوانين ولوائح تنظيمية معينة تسهم في الحد من وصول النساء الى فرص العمل بما في ذلك القانون المبهم لزواج القاصرات، والحالات الحادة لانعدام المساواة بين الذكور والإناث في حقوق الملكية والميراث وحيث يصاحب ذلك معايير تقليدية أبوية للنوع الاجتماعي تنظر الى الرجال على أنهم يوفرون الحماية والإعالة، والى دور النساء على انه يقتصر على تقديم الرعاية. هنالك حاجة لتعديل القوانين واللوائح التنظيمية، ولكن على الرغم من إن التصدي للمعايير الاجتماعية قد يكون صعباً فإن بعض التدخلات التي تهدف الى تصحيح المفاهيم الخاطئة يمكن أن تكون فعالة في تحسين مشاركة النساء في سوق العمل في العراق.

يورد الجدول أدناه قائمة غير شاملة للتوصيات التي يمكن أن تسهم في مساعدة حكومة العراق على بلوغ هدفها المتمثل في زيادة نسبة مشاركة النساء في سوق العمل بمقدار 5 نقاط مئوية في عام 2025. هذه التوصيات التي تستند الى عملية تحليلية أجراها البنك الدولي تهدف الى تحقيق مواءمة أفضل بين العرض والطلب في سوق العمل (على سبيل المثال، من خلال إنشاء خدمات موثوقة لتحقيق هذه المواءمة)، وصياغة حلول خاصة بالنوع الاجتماعي في بيئة العمل، وبناء إطار تشريعي شمولي (من خلال التخلص من القيود المهنية والقطاعية مثلاً).

لبلوغ التغيير الاقتصادي المنشود. أن تعزيز مشاركة المرأة في القوى العاملة - مثلاً لبلوغ مستوى متقارب من البلدان ذو الدخل المتوسط المرتفع الشبيهة للعراق- من شأنه أن يزيد من حصة الفرد الواحد من الناتج المحلي الإجمالي بحوالي 31%. وترفع أزمة جائحة كورونا المتواصلة من الضرورة العالية للتخفيف من حالات انعدام المساواة في سوق العمل، إذ يُتوقع أن تكون محصلات سوق العمل الضعيفة قد تراجعت بشكل كبير. ويصح ذلك بشكل خاص على النساء اللواتي يتحملن الشطر الأكبر من عبء الرعاية الإضافية والعمل المنزلي دوّماً أجر، بل ويوضعن في موضع الضعيف جراء الموقف الاجتماعي السائد الذي يذهب الى إن الوظائف الشحيحة المتاحة في أوقات الأزمات يجب أن يحظى بها الرجال.

ضعف الطلب على الأيدي العاملة إذ يؤثر على الرجال والنساء معاً فإنه يؤثر بشكل أكبر على النساء، وحيث تظهر الوظائف القليلة المتاحة في الصناعات المرتبطة بالنفط والتي عادة ما يسيطر عليها الذكور. يواجه العراق تحدياً كبيراً فيما يتعلق بحالة البطالة لأن النمو الاقتصادي لا يُترجم عادة الى خلق فرص عمل كافية. وكان النمو الاقتصادي الأحدث قد تحقق بشكل رئيسي في مجال القطاع النفطي الذي لا يستوعب سوى 1% من القوى العاملة. يبدو الارتباط الضعيف بين التوظيف والنمو في العراق جلياً في معظم القطاعات الاقتصادية. ولا يؤلف قطاعي التصنيع والزراعة مجتمعين إلا أقل من 6 بالمائة من الناتج المحلي الإجمالي، مما يحدّ من الفرص الاقتصادية التي يمكن من خلالها للمرأة الوصول الى القطاع العام الذي يتصف بكونه محدوداً في حجمه وإمكانات نموه، إذا ما أخذنا بنظر الاعتبار القيود المالية التي يعاني من البلد.

في الدخول الى سوق العمل والبقاء فيه تواجه النساء معوقات تختلف الى حد كبير، باختلاف مجموعاتهم الاجتماعية والاقتصادية، وخلال المنعطفات المهمة في حياتهن. فالنساء في المناطق الحضرية اللواتي يتمتعن بمستويات تعليم وأجور أعلى هن أكثر ميلاً نحو البحث عن الوظائف الشحيحة في القطاع الخاص، ولذلك يعانين من حالات بطالة أكبر بالمقارنة مع نظيراتهن في المناطق الريفية. وتبدو ثغرات الجندر أو النوع الاجتماعي أشد بروزاً في المناطق الريفية. فالنساء في تلك المناطق أكثر ميلاً نحو المشاركة في سوق العمل والقبول بوظائف قليلة الأجر في القطاع الخاص تحت وطأة الحاجة والفقير، ولكنهن يتحملن أيضاً جزءاً أكبر من عبء العمل غير مدفوع الأجر (الرعاية في المنزل) بالمقارنة مع نظيراتهن في المناطق الحضرية.

التصدي للتحديات المتعلقة بما يلي

المعايير الاجتماعية	الإطار القانوني والتنظيمي	عرض الأيدي العاملة	الطلب على الأيدي العاملة	
<ul style="list-style-type: none"> التعاون مع الرجال والفتيان للترويج لأدوار بديلة للنوع الاجتماعي (الجندر) بصفتها نماذج يحتذى بها 	<ul style="list-style-type: none"> تعزيز منع زواج القاصرات. 	<ul style="list-style-type: none"> تنفيذ السياسات التي ترفع من مستوى المهارات الرقمية لدى النساء الشابات اللواتي تركن الدراسة، وأولئك اللواتي ما زلن يواصلنها بما في ذلك برنامج التدريب الخاصة بالنساء 	<ul style="list-style-type: none"> تعزيز وصول الفتيات والنساء الى التعليم والاستمرار به بما في ذلك ضمان توفير خدمات نقل آمن ويسهل الوصول اليه بالنسبة للفتيات في المناطق الريفية تشجيع تدريب وتطوير مهارات النساء بالاستناد الى الطلب في سوق العمل 	1. الاستعداد
<ul style="list-style-type: none"> تزويد الإناث الباحثات عن عمل بمزيد من المعلومات حول الوظائف الشاغرة في القطاع الخاص بما في ذلك النطاقات التي تعمل فيها النساء أصلاً، وتبسيط الضوء على الوظائف التي تتطلب قدرأ أكبر من المهارات، وتوفير خيارات مقبولة اجتماعياً لتوليد الدخل للنساء، وعلى سبيل المثال تفادي الاختلاط الذي لا مبرر له مع الرجال، وإتاحة خيارات العمل في البيت أو في نطاقات مغلقة قريبة. 	<ul style="list-style-type: none"> رفع قيود العمل الليلي المفروضة على النساء رفع قيود الوظائف والقطاعات المفروضة على النساء، حظر التمييز المستند الى النوع الاجتماعي (الجندر) فيما يتصل بالوصول الى خدمات الائتمان، منح حقوق ميراث متساوية للذكور والإناث من الأطفال، وكذلك للأرامل من الذكور والإناث توسيع وتعزيز نظام تفتيش العمل وفرض العقوبات المناسبة لضمان التزام أصحاب العمل بمعايير العمل الوطنية والعالمية ذات الصلة بما في ذلك التعاقدات والمساواة في الأجور والحماية من التحرش الجنسي. 	<ul style="list-style-type: none"> التركيز على وجود وسهولة الوصول الى برامج تدريب المهارات لردم الهوة بين المعرفة والخبرة لدى النساء اللواتي يسعين الى تطوير أنفسهن في العمل تحسين مواءمة الوظائف بالنسبة للنساء من خلال توسيع الوصول الى الشبكات الرسمية وغير الرسمية. 	<ul style="list-style-type: none"> تشجيع خطط العمل الجماعية والتعاونية بما في ذلك مشاريع النساء الاجتماعية صياغة محفزات تتمحور حول أصحاب العمل لتوظيف النساء في جميع القطاعات توفير محفزات للقطاع الخاص للاستثمار في القطاعات التي توظف المزيد من النساء ، ومنها مثلاً دور الرعاية الترويج لريادة الأعمال بين النساء لتقديم مساعدة أكبر للمشاريع المنزلية بهدف تمكينها من التسجيل التجاري، وإنشاء روابط مع السوق والاندماج في سلسلة القيمة وطنياً وإقليمياً وعالمياً من خلال تسهيل إجازات الاستيراد وتوحيد التسجيل الرسمي 	2. الدخول الى سوق العمل والاستمرار فيه
<ul style="list-style-type: none"> المساهمة في شكل تناوب في أعمال الرعاية غير المدفوعة الأجر من خلال إزالة الوصم الذي ترتبط بعمل الرجال في البيت ورعاية الأطفال 	<ul style="list-style-type: none"> سن القوانين التي تجرم العنف المنزلي تعديل القوانين لنقل مسؤولية إدارة مزايإجازات الأمومة الى الحكومة، سن تشريعات أو تعديلات تمنح إجازات الأمومة المدفوعة الأجر أو الإجازات المشتركة لكلا الوالدين حظر طرد العاملات الحوامل النظر في جعل خدمة رعاية الطفل أمراً إجبارياً على أصحاب العمل 	<ul style="list-style-type: none"> توسيع الوصول الى رعاية أطفال ميسورة التكلفة وذات جودة 	<ul style="list-style-type: none"> تعزيز وصول الفتيات والنساء الى التعليم والاستمرار به بما في ذلك ضمان توفير خدمات نقل آمن ويسهل الوصول اليه بالنسبة للفتيات في المناطق الريفية تشجيع تدريب وتطوير مهارات النساء بالاستناد الى الطلب في سوق العمل 	3. الزواج وإنجاب الأطفال



RECENT ECONOMIC AND POLICY DEVELOPMENTS*

Introduction

Oil price volatility and the pandemic have amplified Iraq's economic woes, reversing two years of steady recovery. These twin shocks have deepened existing economic and social fragilities, which further added to public grievances that existed pre-COVID-19. The absence of fiscal space has limited the ability of the GoI to provide a stimulus to an economy highly dependent on oil exports for growth and fiscal revenues. As a result, the country experienced the largest contraction of its economy since 2003.

These crises have also impacted the economic welfare of Iraqi households, adding to unemployment pressures especially among informal workers and those in self-employment. Unemployment remained more than 10 percentage points (pp) higher than the pre-pandemic level. Limited fiscal space has impacted transfers, including the universal Public Distribution System (PDS), where the share of households receiving transfers dropped by more than 8 pp. The loss of household income and social assistance has increased vulnerability to food insecurity. COVID-19 has also severely

limited child learning as evidenced by the small proportion of students engaged in learning activities during school closure. These impacts coupled with reduced access to market and healthcare services undermine human capital accumulation and economic mobility.

Recognizing the severity of the crisis, the GoI devised a national reform plan (the white paper) that sets out a blueprint of reforms to achieve sustainable medium-term growth. The white paper is a bold and comprehensive plan of structural reforms that sets out a path towards a more sustainable growth through economic diversification and boosting private sector growth and private sector job creation. The GoI has also devised an implementation and governance framework for the white paper in which it proposed a detailed reform matrix and launched a High Reform Council headed by the Prime Minister to accompany the implementation. Actions are ongoing starting with the reforms adopted in the 2021 budget law and other areas including

* The data cut-off for this Iraq Economic Monitor is April 30, 2021. Any data published after that date will be reported in the next edition of the Monitor.

business environment¹ and the financial sector. The ultimate success of the reforms though depends on the political will and public support to implement the proposed measures and lead the country out of a long-standing fragility trap.

The recent recovery in oil prices provides an opportunity to push ahead with reforms. The Iraq experience has repeatedly showed that oil prices and reform drives are inversely related. Successive Iraqi governments launched reforms under the pressure of low oil prices and the need for fiscal consolidation. Amidst persistently high perception of corruption and weak public service delivery, this combination gave rise to social and political tensions that undermined the success of most reform initiatives. Pro-cyclical and expansionary policies often followed as soon as oil prices rose with little impact on non-oil growth. However, this time is different for Iraq. The country stands at a crossroad as economic and fiscal rigidities have been accumulating and have reached a point where quick fixes are limited, and the economy is in need of a serious transformation if it is to create jobs and opportunities for its ever growing youth. As such, with oil prices trending above the US\$60/barrel, Iraq could engage actively on the white paper reforms and use those windfalls to soften the potential repercussion of those reforms.

Output and Demand

Oil price volatility has resulted in a sharp contraction of the economy. Available data from Iraqi authorities for the first nine months of 2020 (9M-2020) indicates that overall GDP has posted a sharp contraction of 10.2 percent (y/y), its largest contraction since 2003. Growth was mainly weighed down by depressed global oil demand and adherence to OPEC+ production cuts agreement that led to 11 percent (y/y) contraction in oil GDP (Figure 1).² This accounted for almost three-quarter of the overall GDP contraction. The absence of fiscal space has limited the ability of GoI to provide a stimulus to an economy highly dependent on oil exports for growth and fiscal revenues. Such volatility resulted in a marked contraction in GDP per capita—a proxy for individual welfare—of almost 15 percent in 2020 (Figure 2).

COVID-19 has also taken a toll on the economy especially the non-oil sectors. Pandemic-related mitigation measures, border closures and travel restriction resulted in a 9 percent contraction of non-oil GDP in 9M-2020. The non-oil industry was the hardest hit, especially the construction sub-sector (Figure 3) which contracted by over 36 percent (y/y). The direct impact of the pandemic was most visible on the services sectors as travel restrictions and border closures limited the all-important religious tourism sector, which in turn weighed on retail, transport, and accommodation services. This caused over 12 percent contraction in the services sector, shrinking the overall growth by 3.7 pp (Figure 4). Agriculture remained a bright spot due to favorable climatic conditions and continuous government support through various subsidies and transfers programs. Wheat and barley yield, for example, increased by respectively 44 and 16 percent (y/y) in 2020³ while more Iraqi produce substituted imported food items. As a result, the sector grew for the third year in a row by a markable 34.3 percent (y/y).

Weaker aggregate demand manifested in lower domestic consumption and consumer confidence as the twin shocks (oil and COVID-19) materialized. The contraction in non-oil sectors caused disruptions to employment, increased job losses, and reduced household income. Low domestic consumption was most pronounced among informal workers⁴ and those in self-employment that have suffered the

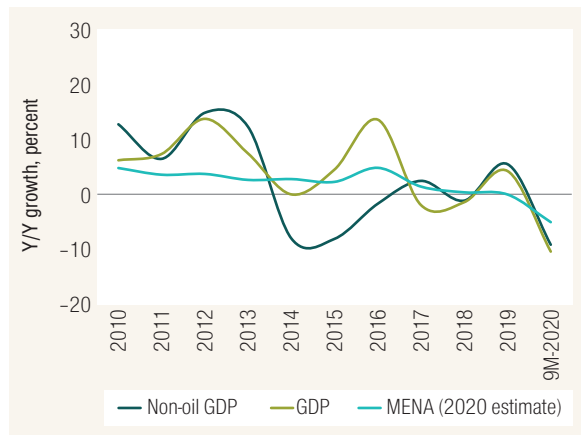
¹ On 4 March 2021, Iraqi parliament issued a long-awaited development, the “*Law on the Accession of the Republic of Iraq to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards*”. The convention is one of the most important initiatives in dispute resolution. This could help promote a more secure and transparent business environment thereby increasing the country’s attractiveness as a destination for FDI.

² Oil GDP growth is estimated to contract by 17 percent in 2020.

³ Iraq’s COSIT, 2020.

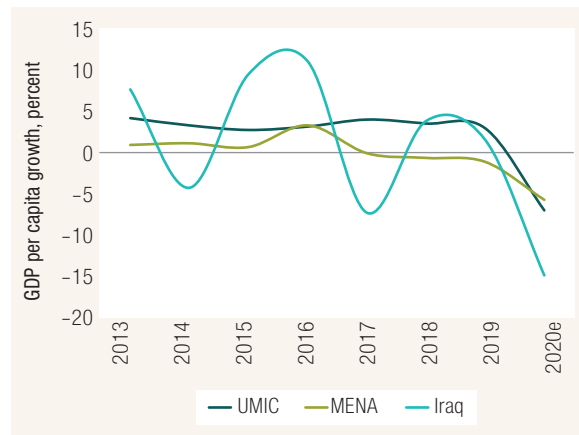
⁴ Almost 67% of workers in Iraq do not have access to social security benefits for various reasons, one of which is working across a range of informal sectors. See, Employment Profile and Challenges of the Private Sector in Iraq, ESCWA, November 2019.

FIGURE 1 • Overall GDP has Posted Sharp Contraction in the 9M-20, the Largest since 2003



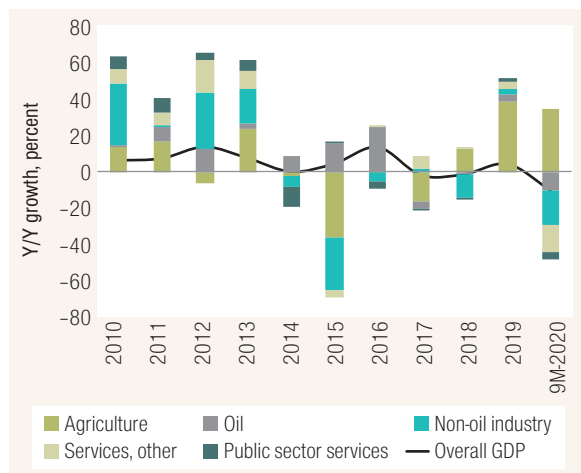
Source: COSIT and World Bank staff calculations.

FIGURE 2 • Iraq is also Falling behind the GDP Per Capita of its Regional Ad Income Peers



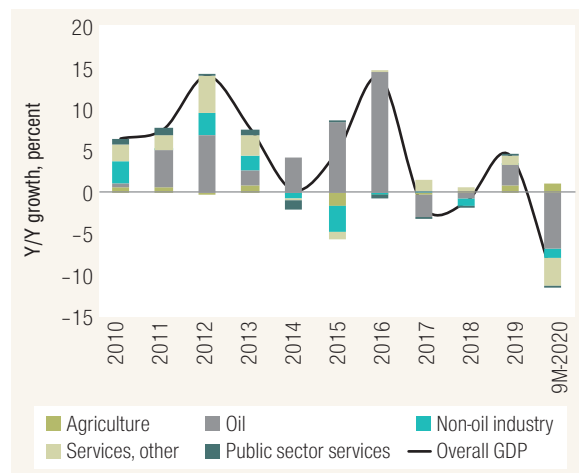
Source: COSIT, WDI and World Bank staff calculations.

FIGURE 3 • The Contraction was Extensive across Sectors, Except for Agriculture



Source: COSIT and World Bank staff calculations.

FIGURE 4 • With Large Negative Contribution from Oil and Services Sectors



Source: COSIT and World Bank staff calculations.

brunt of job losses⁵ (see Box 1). The sharp decline in oil revenues also placed immense pressures on the government's pro-growth and pro-poor spending. Tighter fiscal conditions impacted subsidies and transfers, including the universal PDS, where the share of households receiving transfers dropped by more than 8 pp. This lower disposable income and an increase in precautionary savings drove household consumption (39 percent of GDP in 2019) down by 9 percent in 2020 (Figure 5), pushing the economy into a further slowdown. The emergence of new strains of COVID-19 since

mid-February, which led to a new round of lockdown measures being imposed, put additional pressures on private consumption (see Box 2). As evident from Google mobility data, activities in retail and recreational places—grocery markets, and workplaces—continued to drop as the COVID-Stringency Index rose from less than 50 prior to the new strain to over 80⁶ (Figure 6).

⁵ Notably in sectors such as construction, wholesale and retail trade where informality is concentrated.

⁶ <https://www.google.com/covid19/mobility/>.

BOX 1.1 IRAQ - SOCIOECONOMIC IMPACT OF COVID-19

The negative socioeconomic effects of COVID-19 are disproportionately borne by those who, pre-pandemic, were already disadvantaged (Hill and Narayan 2020, Oxfam International 2021). The poor and vulnerable population face greater risk of exposure to the virus. Many live in cramped conditions with insufficient amenities, informality with no insurance and have fewer social protections.

The pathways through which COVID-19 increases inequality across the globe also holds for Iraq. Pre-pandemic, the recurrent episodes of violence, displacement and economic shock had left many already vulnerable. With 1.3 million internally displaced persons (IDP) and 4.7 million recent returnees (IOM 2020), the humanitarian conditions were already critical. While spatially the poverty distribution was polarized between the chronically poor South and the newly poor North on one hand, and lower level of poverty in the Center and Kurdistan on the other, prevalence of poverty among IDPs was more than two times greater than among non-IDPs. Furthermore, low labor force participation, especially among women (less than 12 percent), and unemployment and underemployment among youths (35.5 percent were neither in employment nor in education/training) and displaced population provided important group disparities (Sharma and Wai-Poi 2019).

The evidence from Iraq's high frequency phone survey suggests that the pandemic has affected the pre-pandemic vulnerable groups and poor disproportionately. The impact has been especially severe among workers in the Northern governorates with already high incidence of poverty and female workers. Following a surge during the initial lockdowns across the board, the unemployment rate decreased gradually among men but remained stable at 15 pp higher than the pre-pandemic level for both women and those in the North (Krah, Phadera and Wai-Poi Forthcoming). Workers in informal private sector are another group that are impacted the most during the pandemic. While majority of the wealthier Iraqis tend to be employed in public sector, the mostly informal private sector is dominated by the poorer segment of the workforce (Figure B1.1). Compared to 87 percent of the pre-pandemic public sector workers, only 66–67 percent of the pre-pandemic private sector workers were able to hold on to their jobs either working as usual or reduced hours in August 2020 (Figure B1.2). While 27 and 25 percent of the private sector workers and self-employed were out of work by August 2020, only 9 percent of the pre-pandemic public workers had lost their jobs permanently.

COVID-19 has also imposed difficulty in accessing basic services. More than 30 percent of Iraqis needing medical attention during Aug-Oct 2020 reported having difficulty accessing the services (Krah, Phadera and Wai-Poi Forthcoming). Although the overall access to market and grocery stores improved after August, more than 11 percent of the population continued to face challenges during the months of September and October. More importantly, only a small share of children, mostly attending private schools, received any catchup or learning activities during the school closures. Among households with children attending school prior to lockdown, less than 23 percent indicated that their children engaged in any catch-up or learning activities (about 19 percent among public schools and 48 percent among private schools). These short-term impacts on child learning and access to market and healthcare services can be persistent, ultimately undermining human capital accumulation and economic mobility.

The crisis will likely increase overall inequality in Iraq. With the opening of the economy, the immediate spike in poverty will recede somewhat but will remain significant. Compared to 2017, the national poverty rate was projected to increase by 7 to 14 pp in the short-term after the initial lockdowns in summer of 2020 (World Bank 2020) and is projected to recede slightly and remain 6.7 to 11.4 pp above the 2017 level.^a However, the induced inflation due to the devaluation of Iraqi Dinar is projected to increase poverty headcount by additional 2.9 pp. In terms of disparity, the Gini index is projected to increase by 1.5 from 29.6 in 2017 to 31.1 in 2020 (Figure B1.3). Both Theil index and 10:10 ratio (consumption ratio between the 90th percentile and 10th percentile) are also expected to increase. The projected growth incidence curve between 2017 and 2020 shows a similar pattern (Figure B1.4), with the impact significantly greater for the poorer deciles.

The rising inequality has consequences for planning the post-COVID period in Iraq. The diverging trends between groups and regions that overlaps with existing ethnic and religious divisions makes the situation more precarious and increases the risk of social instability. Post-COVID recovery, thus, needs to be inclusive with special attention to the poor and the more vulnerable population.

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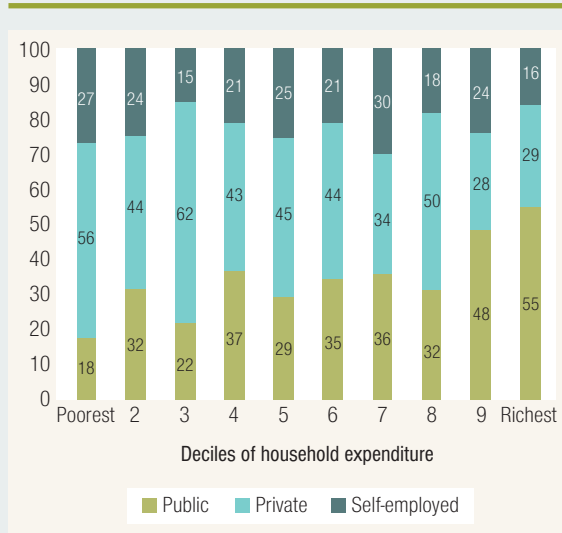
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^a These are estimates from a Macro-Micro simulation. The original model is updated with the recent Macro projections and information from the high frequency phone survey (IHFPS) to project poverty till end of 2020 and beginning of 2021.

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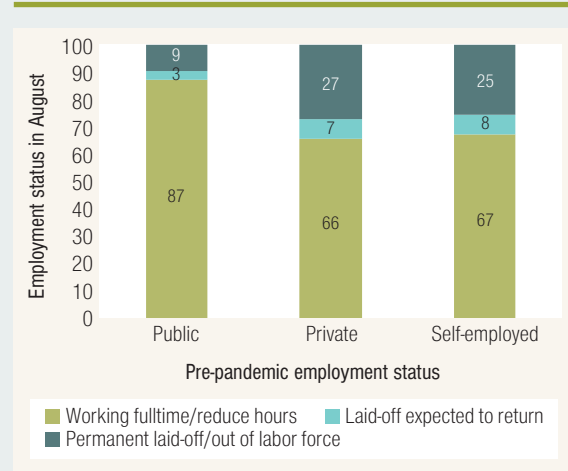
BOX 1.1 IRAQ - SOCIOECONOMIC IMPACT OF COVID-19 (continued)

FIGURE B1.1 • Poorer Iraqis Dominate the Mostly Informal Private Sector



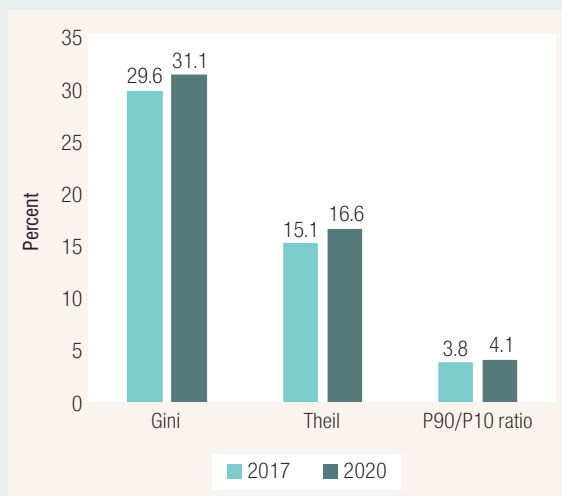
Source: Rapid Welfare Monitoring Survey (SWIFT) 2017/18 (B1.1,B1.3, B1.4); High Frequency Phone Survey 2020 (B1.2).
 Note: 2017 estimates are from the SWIFT survey and the 2020 are projections from a Macro-Micro simulation.

FIGURE B1.2 • Only Two-Thirds of pre-Pandemic Private Sector Workers were able to Hold on to their Jobs in August 2020



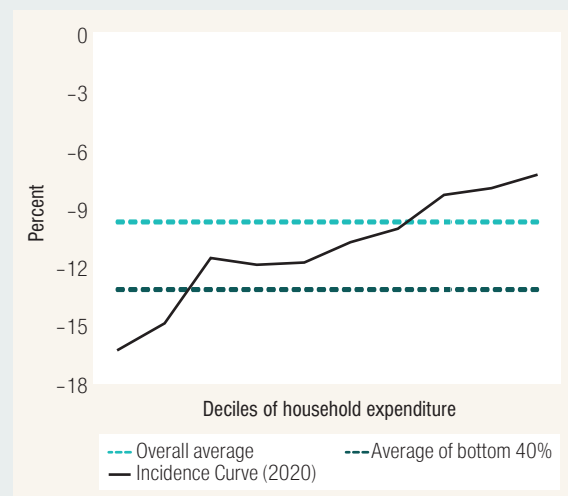
Source: Rapid Welfare Monitoring Survey (SWIFT) 2017/18 (B1.1,B1.3, B1.4); High Frequency Phone Survey 2020 (B1.2).
 Note: 2017 estimates are from the SWIFT survey and the 2020 are projections from a Macro-Micro simulation.

FIGURE B1.3 • The Crisis is Expected to Raise Inequality



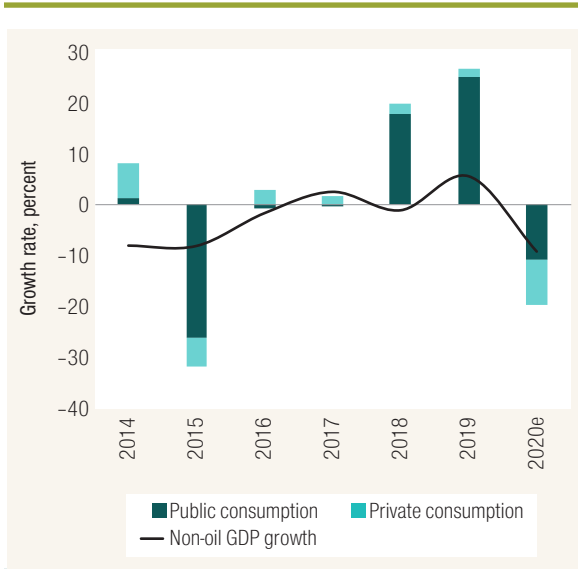
Source: Rapid Welfare Monitoring Survey (SWIFT) 2017/18 (B1.1,B1.3, B1.4); High Frequency Phone Survey 2020 (B1.2).
 Note: 2017 estimates are from the SWIFT survey and the 2020 are projections from a Macro-Micro simulation.

FIGURE B1.4 • With Poorer Deciles Handling the Brunt of the Impact



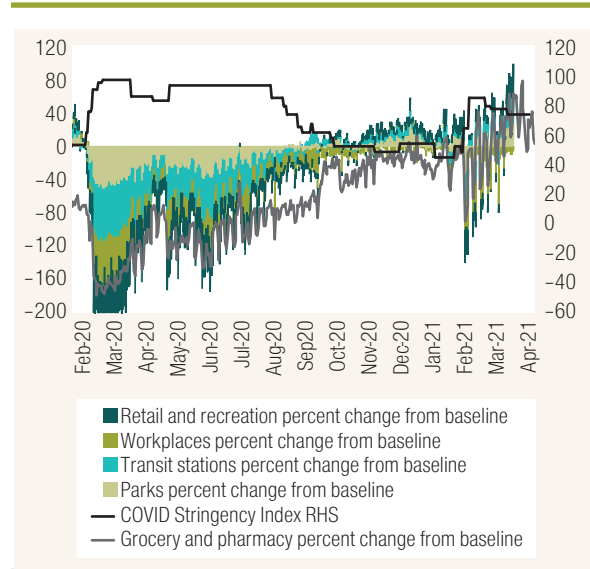
Source: Rapid Welfare Monitoring Survey (SWIFT) 2017/18 (B1.1,B1.3, B1.4); High Frequency Phone Survey 2020 (B1.2).
 Note: 2017 estimates are from the SWIFT survey and the 2020 are projections from a Macro-Micro simulation.

FIGURE 5 • COVID-19 Sharply Impacted Private Consumption



Source: COSIT and World Bank staff calculations.

FIGURE 6 • A New Strain of COVID-19 Led to Renew the Lockdown since Mid-February

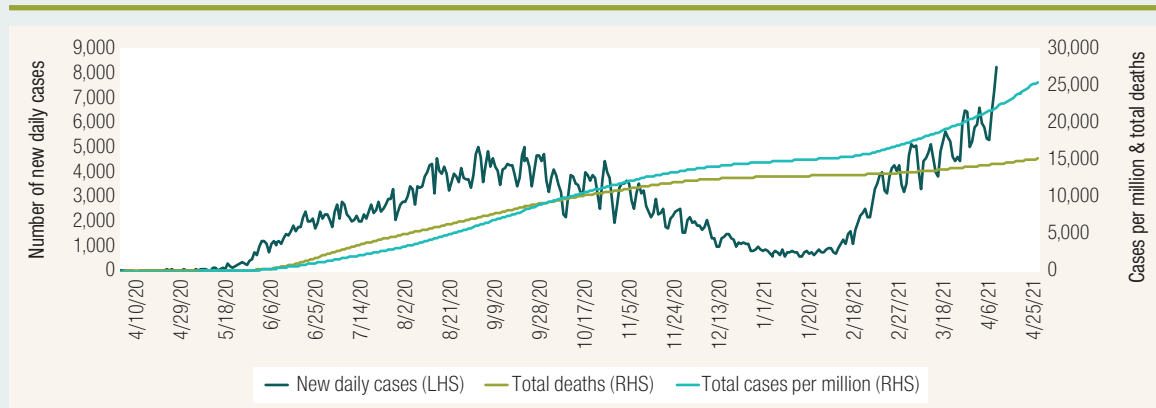


Source: Coronavirus Government Response Tracker, University of Oxford.

BOX 1.2 NEW STRAIN OF COVID-19 PROMPTED THE AUTHORITIES TO SPEED UP VACCINE PROCUREMENT

New COVID-19 cases and deaths surged in early 2021. As a result, new lockdown measures were imposed since mid-February 2021 on movement and businesses. As of April 25–2021, Iraq has reached a record level. Total cases per million in the country peaked over 25,600 and total COVID-19 related deaths passed 15,250 people, further strained the existing weaknesses in the health sector. Iraq has started its COVID-19 vaccination rollout, albeit at a slow pace. On March 2–2021, Iraq announced receiving its first 50,000 doses of the Sinopharm vaccine as a donation from China, with a total supply of around 2 million doses to follow in stages. In addition, an agreement was signed with Russia to import 1 million doses of Sputnik V, and discussions with the World Bank are underway to finance the import of Pfizer (US\$100 million). The recovery path remains highly uncertain considering recent surge in cases. However, the crisis represents an opportunity to promote best practices in developing a more resilient health system. Investment in vaccination and health infrastructure would not only reduce the risk of a prolonged crisis and speed up economic recovery, but also could contribute to better long-term public health outcomes.

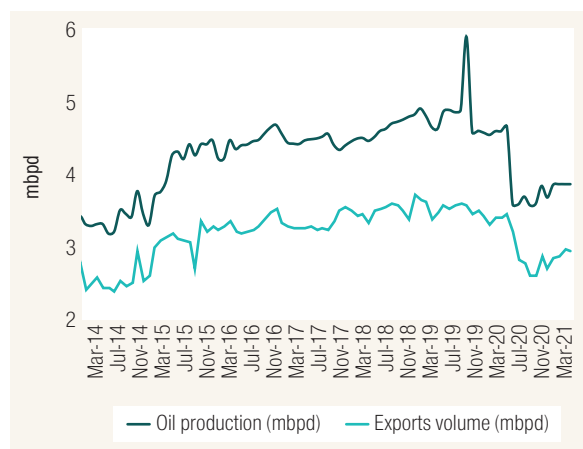
FIGURE B1.5 • New Strains of COVID-19



Source: Rapid Welfare Monitoring Survey (SWIFT) 2017/18 (B1.1.B1.3, B1.4); High Frequency Phone Survey 2020 (B1.2).
 Note: 2017 estimates are from the SWIFT survey and the 2020 are projections from a Macro-Micro simulation.

Source: <https://ourworldindata.org/coronavirus>.

FIGURE 7 • OPEC+ Cuts and Falling Global Demand Weighed Heavily on Oil Production and Exports Volume



Source: Iraq's Ministry of Oil (MoO).

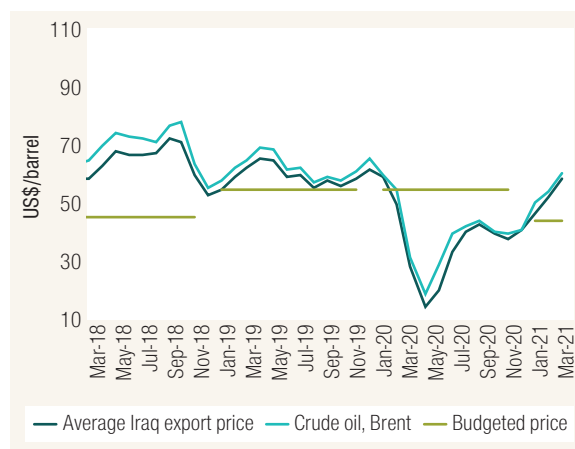
Gross capital formation remains a drag on growth as investment levels are well below par for an upper middle-income country. Despite steps such as the accession to the New York convention in March 2021, Iraq's investment climate remains a work in progress, reflected in low levels of foreign direct investment (FDI) especially outside the energy sector. At 1.4 percent of GDP in 2020, Iraq's net FDI flows remain low as compared to MENA region average of 2 percent.

Successive violent conflicts, poor business environment, and underdeveloped financial sector left the country short of much needed private domestic investment, especially in non-oil sectors. Even public investment, the main source for capital formation in the country, fell from over 14 percent of GDP in 2015 to only 1.6 percent of GDP in 2020 as budget rigidities accumulated and most of such investment was dedicated to the oil sector.

Oil and Gas Developments

The OPEC+ agreement, weighed heavily on Iraq's crude oil production and export volumes. The slump in global demand due to COVID-19 brought the world economy to a near standstill in 2020. To avert oversupply in production, OPEC+ members reached an agreement to cut oil supply by 9.7 mbpd in April 2020 which would be phased out by 2022. To meet

FIGURE 8 • But Iraq's Oil Prices have Rebounded since Mid-2020 Driven by the Partial Pick Up in Global Demand



Sources: MoO, Iraq's Ministry of Finance (MoF) and World Bank staff calculations.

its targeted quota, Iraq's oil production dropped from an average of 4.6 mbpd in the first quarter 2020 to around 4 mbpd in the second quarter before settling at an average of 3.7 mbpd towards the end of the year. As a result, total oil crude production fell by more than 17 percent (y/y) in 2020. In tandem, crude oil exports, which accounts for 95 percent of overall Iraqi exports, fell by nearly 16 percent (y/y) in 2020 (to an average of 2.9 mbpd) (Figure 7).

Oil price volatility continued to dominate Iraq's oil receipts. Iraq's average oil export prices recovered from a low of US\$13.8/barrel in April 2020 to US\$63.3/barrel by March 2021 (Figure 8). Favorable international markets supported by additional production cuts by Saudi Arabia, OPEC's largest producer, boosted oil prices in the second half of 2020. Nonetheless, oil revenues in 2020 dropped to US\$41.7 billion, a 47 percent reduction compared to 2019. The oil price recovery led Iraq to suspend a US\$2 billion oil pre-sale deal with a Chinese oil company to protect future revenues. The volatility in international oil prices and consequently the unpredictability of revenues raises the risks of over-reliance on oil as the sole source of budgetary revenues. This calls for accelerating reforms aimed at boosting domestic revenue mobilization (DRM). This is important if the Gol intends to create the needed fiscal space for a fiscal stimulus in the face of expenditure rigidities.

Despite having significant natural gas resources, Iraq flares sizable amount of this wealth and thus, remains heavily reliant on energy imports.

With 132 trillion cubic feet (Tcf) of proven reserves in 2020, Iraq's proven and largely untapped natural gas reserves are the twelfth largest in the world. It is also second only to Russia in terms of the uncontrolled flaring of natural gas. Despite its pressing electricity supply needs, Iraq flared 632 billion cubic feet (Bcf) of natural gas in 2019⁷ partly due to the absence of institutional, and regulatory framework for its gas sector development, and inadequate infrastructure, among others. This amount is equivalent to an annual economic loss of US\$2.5 billion and to 10,000 MW of much needed power generation capacity.⁸ In this regard, Iraq recently signed agreements with the US giant Honeywell and French company Total to utilize associated natural gas and increase refinery productivity. The company will also work on the development of Ratawi gas project in Basra province.⁹

Efforts are also underway to upgrade the energy infrastructure across the country. Iraq has the fifth largest proven crude oil reserves in the world (with 141.4 billion barrels). With the rapid increase in production from 3 mbpd in 2013 to 4.8 mbpd in 2019, the country became the world's third largest oil exporter. The government plans to ramp up oil output to 7 mbpd by 2027. In March 2021, the Iraqi cabinet approved a US\$480.5 million contract with Schlumberger to drill 96 oil wells for Basra Oil Company and ExxonMobil in southern Iraq.¹⁰ Other energy and infrastructure investment agreements were signed in 2020 to improve energy infrastructure and be less reliant on energy imports. Key projects include a US\$8 billion deal with five major US firms to help Iraq achieve its full potential in the energy sector. Other agreements were concluded with GCC, Turkey and Jordan¹¹ are also underway to diversify the source of energy imports and counter inefficiencies on the grid.¹² Nevertheless, experience has showed that these deals usually take a long time to materialize, which raises questions over the ability of the GoI to achieve its targets.

Public Finance

The oil shock has significantly impacted the fiscal position in Iraq forcing the government

to restructure domestic debt to ease financing pressures in 2020. High dependency on oil revenues coupled with budget rigidities linked to the public wage bill and pensions as well as a growing subsidy to the electricity sector meant that the oil price shock and resulting cuts in oil production have turned a 2.5 percent of GDP primary surplus in 2019 to a 5.3 percent of GDP primary deficit in 2020 (Figure 9). This raised gross budgetary financing needs to US\$15.3 billion (or 9.2 percent of GDP). Those needs could have been higher had the Ministry of Finance not rescheduled part of the domestic debt held by State-Owned-Banks (SOBs) and the Central Bank of Iraq (CBI).¹³ This strategy increases the financial risks of these institutions given the related loss in revenues and increasing exposure to the sovereign.

Budgetary revenues suffered given the prominent role of oil. With 95 percent share in revenues, Iraq remains highly dependent on oil exports to finance government spending. The OPEC+ oil production cuts and the drop in international oil prices resulted in a notable 41.3 percent (y/y) decline in overall budgetary revenues. Despite administrative efforts to improve revenue collection, notably from customs¹⁴, non-oil revenues only reached 3 percent of GDP in 2020 (Figure 9), registering a 28 percent decline (y/y). This is well below UMIC and MENA oil exporters respective averages of 24 and 10 percent of GDP. DRM reforms have been hampered by capacity constraints, poor tax compliance and tax exemptions

⁷ World Bank Global Gas Flaring Tracker Report, July 2020.

⁸ Carlos Alberto Lopez Quiroga, Yulia Buynova Gas Sector Reform in Iraq: Is It Working?, World Bank, March 2020.

⁹ Insight Iraq, August 25, 2020.

¹⁰ Insight Iraq, March 25, 2021.

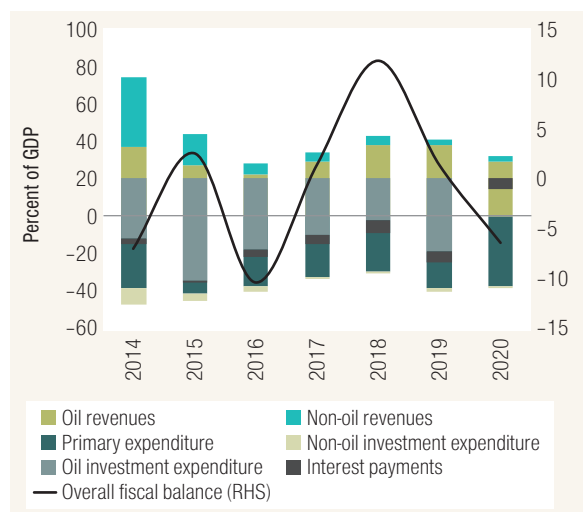
¹¹ The deal with Jordan will construct a transmission line linking both countries and allow Jordan to export about 114 MW of electricity to Iraq, EIA, February 2021.

¹² EIA, Middle East Economic Survey, February 2021.

¹³ World Bank estimates suggest that MoF has rescheduled around IQD3.7 trillion of domestic debt held by SOBs and CBI (equivalent to US\$2.6 billion under the new exchange rate). More than 70% was rescheduled with CBI.

¹⁴ According to Iraq's Border Ports Authority, customs revenues increased by 2.2% in 2020 compared to 2019.

FIGURE 9 • Sharp Decline in Oil Receipts Exerted Severe Pressure on Government Finances



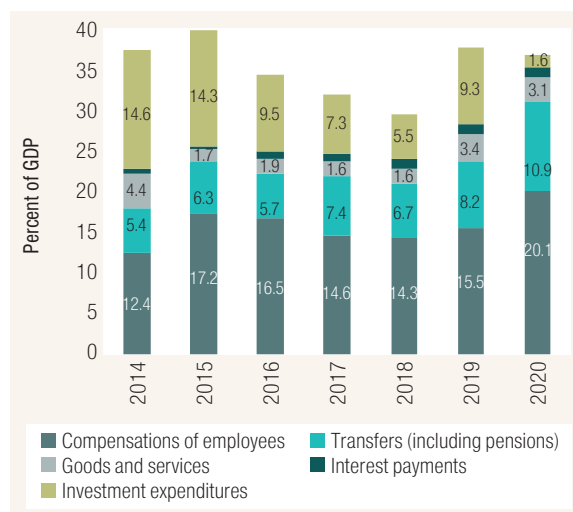
Source: Ministry of Finance (MoF) and World Bank staff calculations.

that contributed to a narrow tax base. Boosting DRM, a key reform feature of the GoI white paper, will be key to create fiscal buffers and mitigate against oil price shocks in the future.

Faced with these revenue shortfalls, the GoI resorted to severe cuts in discretionary spending. These include operational expenditures like purchases of goods and services as well as cuts in social assistance programs like the PDS.¹⁵ These measures were accompanied by a continuing policy of limiting public investment, which dropped by 87 percent by the end of 2020, with potential consequences on the development of the oil sector, service delivery quality and reducing the infrastructure gap. Cuts were particularly observed in oil-related investments. Those dropped by a dismal 98.3 percent over the year with only a mere 2.0 percent execution rate compared to the allocations planned in the draft 2020 budget. Meanwhile, investment in non-oil sectors also dropped by 47 percent (y/y) with an execution rate of only 13 percent (Figure 11). Such measures are expected to have an impact on medium-term growth potential.

The accumulated budget rigidities make fiscal adjustments much harder. Years of expansionary public employment policies and generous

FIGURE 10 • But Rigid Expenditures Continue to Pile, with the Wage Bill Remaining the Largest Budget Item

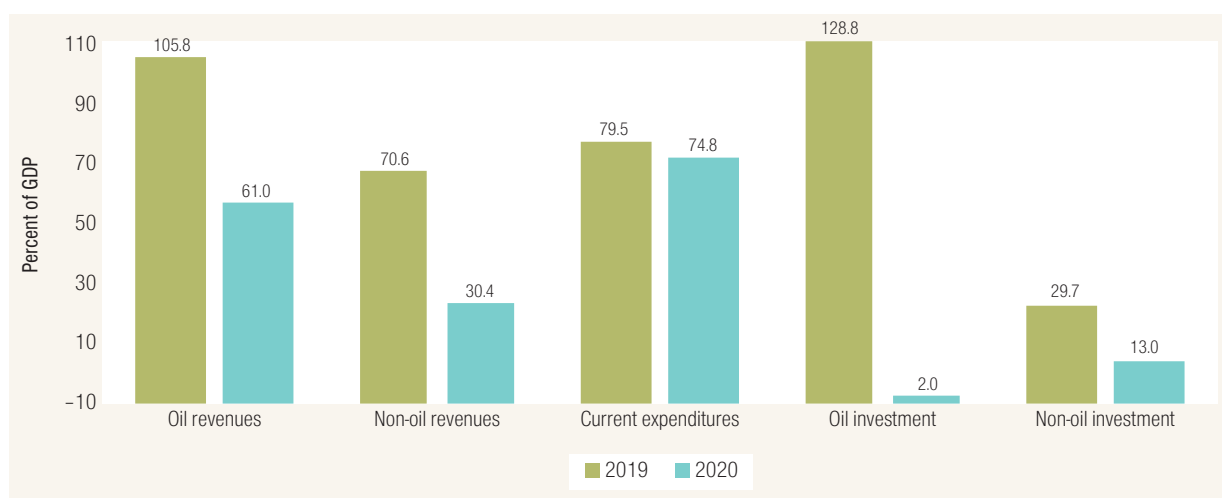


Source: MoF and World Bank staff calculations.

pension benefits, including the 2019 Parliament's decision to reduce the retirement age from 63 to 60, have resulted in a public wage bill that reached a sizeable 20 percent of GDP by end of 2020 (Figure 10). This is one of the highest levels in MENA oil exporters and UMIC (respectively averaging 9.6 and 12.8 percent). Two items alone, public wages and pensions, averaged 60 percent of total spending in the last 5 years and over 70 percent in 2020. Hence, without structural reforms tackling these items, a credible fiscal consolidation plan becomes harder to implement. Faced with this situation and in the absence of a budget law approved by parliament in 2020, the GoI deferred the regularization of new civil servant entrants and contractuels to 2021 and accruing wage arrears. As a result, public wages and pensions cumulatively dropped by 3.5 percent in 2020 (y/y), reaching IQD53.4 trillion. This compares with IQD65.3 trillion originally allocated in the draft budget law 2020. Part of these salary commitments have been transferred to the recently approved 2021 budget law.

¹⁵ In this regards goods and services dropped by over 50 percent in 2020 (y/y) and PDS spending by nearly 64 percent.

FIGURE 11 • Execution Rates, Particularly for Public Investment, have Deteriorated



Source: MoF and World Bank staff calculations.

Gol fiscal consolidation measures have succeeded in reining in the budget deficit on a cash basis, but they created negative externalities that can only be addressed through comprehensive reforms. Gol measures has succeeded in reducing overall expenditures by 27 percent in 2020 (y/y), and as a result, realizing a budget deficit of 6.4 percent of GDP on cash basis. This is much lower than what was anticipated in the previous Iraq Economic Monitor.¹⁶ While these measures succeeded in deferring the fiscal crunch, they come at an economic and social cost down the line. Cuts to pro-poor and pro-growth programs, like social assistance and public investment, have negative implications to medium-term growth and poverty reduction efforts. Arrears, especially those related to wages and pensions, raise social tensions and aggravate popular discontent.¹⁷ Moreover, restructuring domestic debt in the absence of a comprehensive macroeconomic program raises downstream risks as it puts further strains on the financial sector. The Gol white paper reforms constitute an opportunity to address these issues structurally in a comprehensive manner, while benefitting from recent rise in oil prices could attenuate the costs associated with reforms.

Economic contraction, fiscal deficit, and the devaluation led to a higher public debt ratio, with rising liquidity risks linked to increased reliance on domestic financing. Negative growth, large financing needs and the higher value of foreign debt following

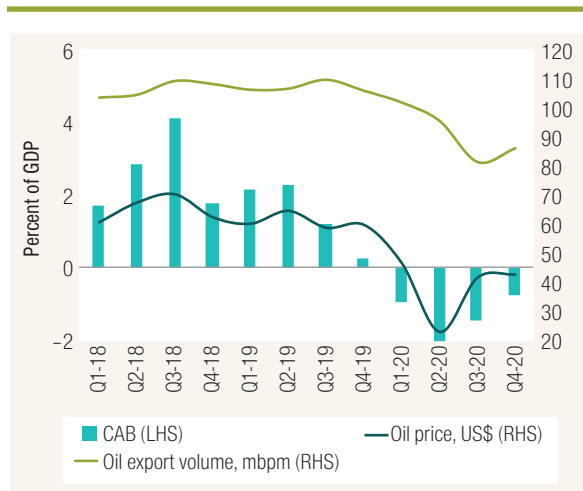
the IQD devaluation are expected to increase government debt-to-GDP ratio by 24 pp in 2020 to reach 71.4 percent of GDP. Even though two-thirds of the debt stock is long term, Iraq faces liquidity risks from rising gross financing needs, which reached US\$12.6 billion (9.2 percent of GDP) in 2020. As access to international financial markets remained uncertain, the Gol opted to finance most of the deficit by borrowing locally.¹⁸ Increased reliance on typically expensive short-term domestic debt entails rollover risks on a yearly basis; accentuating liquidity needs over time and crowds out much needed private sector credit. Additional risks arise from service guarantees related to the electricity sector (estimated at over 17 percent of GDP in 2017-IMF 2020) and contingent liabilities related to

¹⁶ Refer to World Bank Iraq Economic Monitor Fall 2020 <https://openknowledge.worldbank.org/handle/10986/34749>.

¹⁷ Wage and Pensions arrears are calculated by the authors as the difference between allocated budget for these two items in the draft budget law 2020 and the realized spending. This adds to around IQD11.9 trillion (6 percent of GDP). Moreover, arrears for electricity and gas imports and for contractors are estimated at IQD2.9 trillion (1.5 percent of GDP). In total this raises the budget deficit on accrual basis in 2020 to around 13.9 percent of GDP.

¹⁸ In November, parliament approved the Gol's request to issue USD10bn of debt to cover the government wages.

FIGURE 12 • Lower Oil Export Volumes Weighed Heavily on the CAB in Q3-2020...



Source: CBI, MoO and World Bank staff calculations.

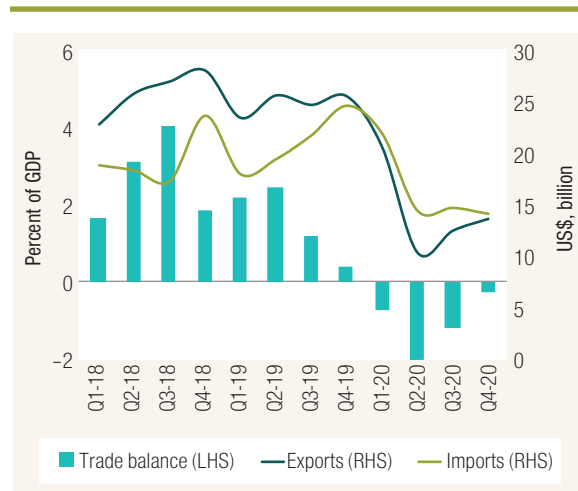
the restructuring of the two largest SOBs. However, provided that the planned fiscal adjustment outlined in the Gol white paper is implemented, public debt is projected to remain sustainable over the medium term.

External Sector

Lower export volumes turned the current account balance (CAB) into a deficit in 2020 despite the oil price recovery in the second half of 2020. As in previous periods, the CAB dynamics was dominated by the oil sector developments which are estimated to account for 95 percent of exports in 2020. Average oil export price in the second half of 2020 (H2-2020) rose to US\$42/barrel, up 20 percent from the record low levels of the COVID-19 induced global markets collapse in the first half of the year. However, the sharp decline in oil export volumes (down 47 percent) was the main driver of the CAB registering a 5.8 percent of GDP deficit in 2020 (Figure 12). This is equivalent to US\$9.7 billion, a deficit comparable to that of during the ISIS insurgency in 2015.

The external deficit was softened as imports continued to decline due to weaker aggregate demand. The economic contraction coupled with the government decision to cut discretionary spending including public investments and PDS have resulted in a notable 22 percent reduction in goods and

FIGURE 13 • Though a Decline in Imports Softened the Shock



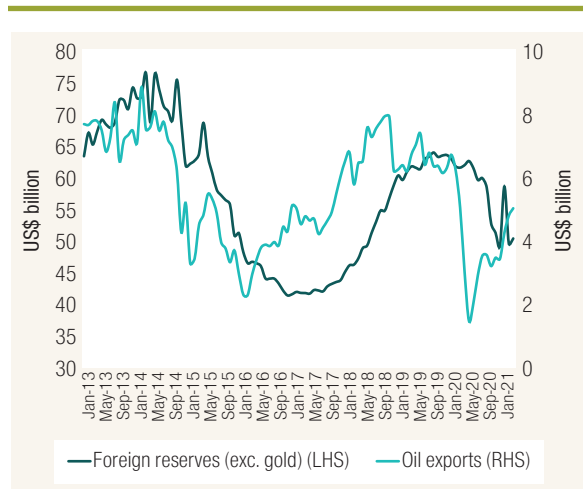
Source: CBI and World Bank staff calculations.

services imports in 2020 (Figure 13). Private sector imports, mainly consisting of capital goods, shrank by 10 percent amplifying the declining capital formation trend and reflecting the less favorable business environment. Public imports also fell by 42 percent as no financing was authorized by parliament to meet operational demands. The decline in imports had eased external financing pressure but was not enough to fully offset the declining oil export revenues.

External financing available for the balance of payments (BOP) deteriorated further due to the COVID-19 global economic downturn. Iraq's external financing sources remained constrained due to a combination of lower global investment flows¹⁹ and domestic absorption capacity constraints. Net foreign direct investment (FDI) in 2020 was reported to be little short of US\$3 billion (1.8 percent of GDP) with 40 percent of it coming in Q1-20 just before the onset of COVID-19. The recovery of net portfolio investment flows was more than offset by a large decline in official and private investment which jointly registered net outflows of US\$6.8 billion. Other flows including remittances and portfolio investments also remained weak. Towards end-2020, the gradual recovery in oil prices and a modest rise in export

¹⁹ Global FDI inflows declined by an estimated 42 percent in 2020 (UNCTAD Investment Trends Monitor, Jan. 2021).

FIGURE 14 • Better Oil Export Values Moderated Pressures on CBI Reserves in end-2020...

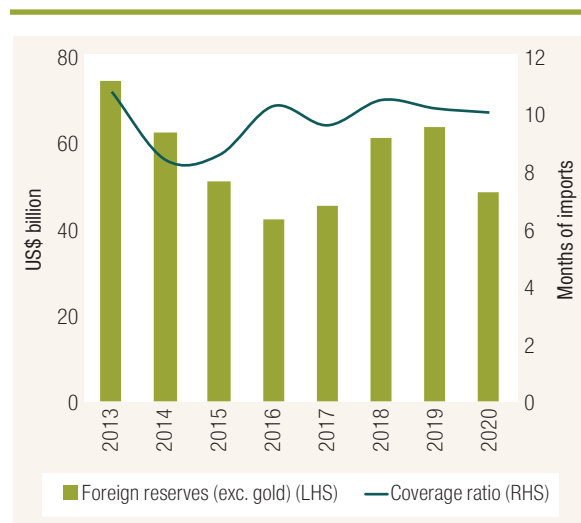


Source: CBI, MoO and World Bank staff calculations.

volumes contributed to lowering short term external account pressures (Figure 14).

The devaluation of the Iraqi Dinar eases pressures on international reserves and reverse part of the appreciation of the local currency relative to the main import partners. Limited availability of external financing led to a steady decline of international reserves in 2020. The readily usable component of reserves (i.e., reserves excluding gold) in this period fell to US\$48 billion, covering 9.9 months of imports (despite lower imports), down from US\$63 billion in 2019 (covering 10.1 months of imports) (Figure 15). In this backdrop and while the 18.5 percent devaluation of the dinar against the US\$ in December 2020 was primarily aimed at addressing fiscal pressures in the short run, it will also help ease pressures on reserves going forward. Moreover, from January 2020 to November 2020, before the devaluation was announced, the Iraqi dinar gained 103 percent and 35 percent against the Iranian Rial and Turkish Lira, respectively (Figure 16). The accumulated depreciation over the recent years has increased Iraq's overdependence on imports at the expense of domestic production. However, COVID-19 trade restrictions and the exchange rate devaluation dampened imports in 2020 thereby modestly reducing external account pressures.

FIGURE 15 • Though Usable Reserves have Fallen



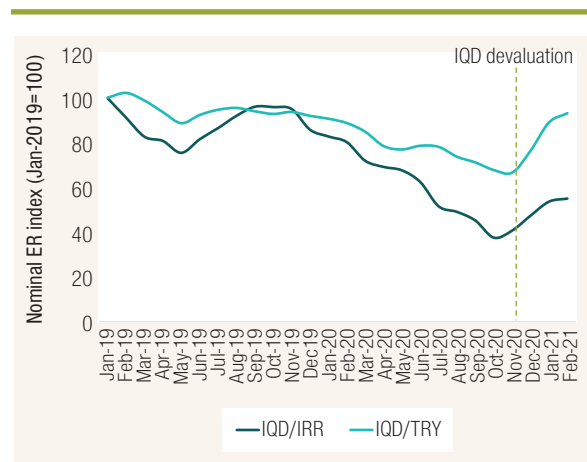
Source: CBI and World Bank staff calculations.

Currency devaluation alone will not be enough to boost competitiveness and reduce import dependence. The import adjustment to the exchange rate devaluation was largely constrained by limited domestic productive capacity. Domestic production and non-oil exports diversification are inhibited by other structural bottlenecks such as inadequate transportation and energy infrastructure which together with security issues and a fragmented incentive structure undermine productive activities. Iraq ranks poorly (147 in the world) in the global logistic rankings lagging especially behind in the customs component (Figure 17). These challenges are yet to be addressed as part of a strategic medium-term plan that would also require improvements in technology adoption by firms and provision of adequate skills for the labor force. The reforms proposed by the Gol white paper are well placed to tackle those bottlenecks and boost Iraq's competitiveness.

Monetary Policy and Prices

Weak domestic demand and cheaper imported consumption goods kept inflation pressures low in 2020. Iraq's consumer prices remained muted in 2020 due to weak domestic demand and

FIGURE 16 • The Devaluation Partially Offsets the Recent Depreciation Trend against Main Import Partner Currencies



Source: CEIC data, Central Bank of Iran, and World Bank staff calculations.

cheaper imported consumption goods. As a result, headline and core inflation only edged up to 0.6 and 1.0 percent in 2020, respectively (Figure 18). However, the combination of currency devaluation and recovering domestic demand have drove up inflation since December 2020. Jan-Feb 2021 saw an increase on inflationary pressures largely driven by items such as health (13.5 percent), transportation (12 percent), and recreation and culture (10 percent). Thus, the headline and core inflation rose to an average of 3.6 percent and 5 percent (y/y) over this period. The devaluation and disruptions to the flow of goods due to tightened border measures following the spike in COVID-19 are expected to keep inflation elevated, at an average of 8.5 percent, throughout the year (Table 1).

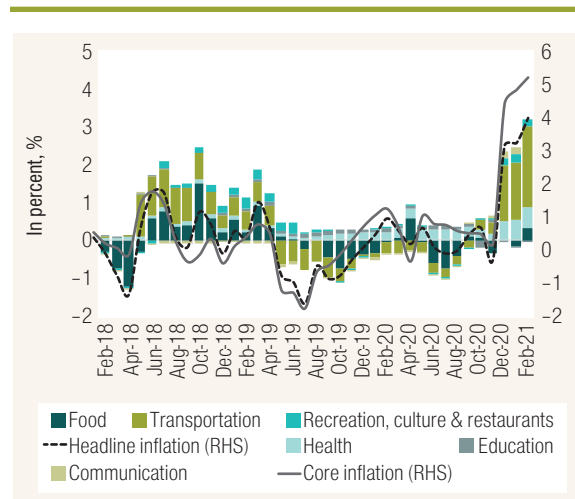
Prompt and corrective policy measures by CBI in response to the twin shocks of Covid-19 and low oil prices have managed to maintain financial stability. To minimize the impacts on an already fragile banking system, CBI rolled out several policy measures to inject much needed liquidity. These included lowering the reserve requirement and extending repayments on its directed lending initiatives; moratoriums on principal and interest payments on loans for Small and Medium-Sized Enterprises (SMEs). In September 2020, the CBI

FIGURE 17 • Though Non-Price Barriers Inhibit Trade Diversification



Source: World Bank Logistics Performance Index (LPI), 2018.
Note: A score of 5 represents best outcome.

FIGURE 18 • Inflation Remained Low in 2020 but the Currency Devaluation Pushed Up Prices in Recent Months



Source: CBI and World Bank staff calculations.

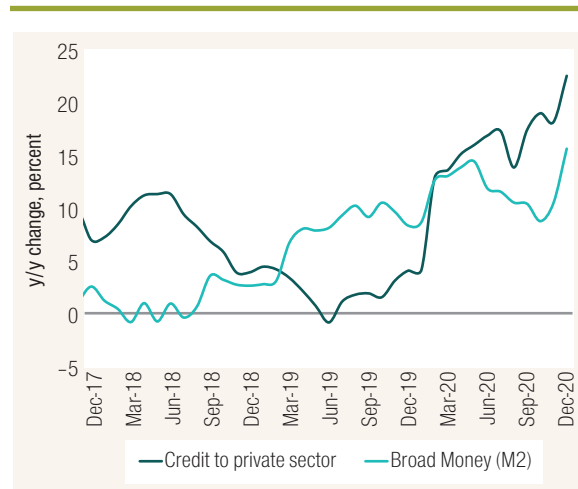
also requested banks to suspend charging commissions on electronic payment transactions for 6 months and directed banks to provide consumers flexibilities to extend maturities on loans and reduce interest rates. Furthermore, CBI took another action in March 2021 to further reduce all interests imposed on loans granted within the CBI's one trillion dinars

initiative.²⁰ These measures have somewhat mitigated the liquidity crisis and financial stress brought by the pandemic.

While access to credit remains a challenge in Iraq, the above-mentioned measures have supported an increase in credit to the private sector and money supply in 2020. Iraq ranks 186 out of 190 in terms of ease of getting credit in the World Bank's 2020 Doing Business Report. Years of increased borrowing by the public sector to finance the deficit has largely crowded out the private sector. This is also exacerbated by credit infrastructure shortfalls, weakness in credit information and legal procedures. Therefore, credit remains difficult to obtain and requires high levels of collateral. In 2019, total credit to the economy was only 8 percent of GDP, the lowest level in MENA region. However, measures adopted by the CBI to help mitigate the impact of the outbreak on households and businesses have supported a better outcome in 2020. As such, lowering reserve requirement on banks' lending to households and businesses together with extending repayment on CBI directed lending initiatives have resulted in a 22.6 percent (y/y) increase in private sector credit by Dec-2020 (Figure 19).

Iraq is making progress in strengthening its financial sector. Gol has identified financial sector reforms as a key structural improvement and is undertaking a series of reforms to unlock the banking sector's latent potential and facilitate the sector to play its required part in the economy, including reforming the State Owned Banks (SOBs). The WB and IMF continue to provide technical assistance to the CBI to strengthen the supervisory and regulatory frameworks and adopt international standards. These reforms will allow the sector to provide support to the Iraqi economy through increased financial intermediation, access to finance, and enhanced digital payment

FIGURE 19 • Measures by CBI in Response to COVID-19 Boosted Credit to Private Sector and Money Supply



Source: CBI and World Bank staff calculations.

channels, among other. CBI is encouraging the usage of digital finance and sees access to finance and financial inclusion including through the development of digital financial services as priorities. As part of its COVID-19 response and to encourage the usage of electronic payments in lieu of cash, CBI has issued temporary eKYC regulations allowing Iraqi citizens to open e-wallets from home. These measures have facilitated the distribution of cash transfers to citizens during the pandemic. This is a step forward toward strengthening the legal and supervisory framework of the financial system as stipulated under the Gol white paper for economic reform adopted in October 2020.

²⁰ These include reducing interest for large projects to 1% (from 2%), interest for banks on housing loans to 2% (from 4%) and amending the CBI commission (for housing loans) 5 per thousand (from 7 per thousand), www.cbi.gov.iq.

OUTLOOK AND RISKS

Outlook

Iraq's economic outlook hinges on global oil market prospects, the implementation of the white paper reforms, and the evolution of COVID-19. The economy is forecast to gradually recover on the back of rising oil prices and OPEC+ production quotas. GDP growth is projected to rise to 1.9 percent in 2021 and 6.3 percent on average over the subsequent two years (Table 1). Delays in vaccine rollout could lead to additional lockdowns, which in turn impact economic activity. Non-oil GDP is forecast to recover in 2021, growing by 5.5 percent before converging to historically low potential GDP growth trend in 2022–23. However, continued underinvestment such as the one experienced in 2020 can hamper future growth in both oil and non-oil sectors.

The economic recovery and mass vaccination would gradually reverse the surge in poverty. The COVID-19 shock and economic recession is projected to have increased poverty by 7 to 14 pp at the national poverty line of IQD110,881 per person per month. The disproportional impact of the shock on the informal sector, dominated by the poorer segment of the population and vulnerable groups,

will likely result in increased inequality, and worsen the pre-existing group disparities. Higher inflation will present an additional pressure on Iraqi households' wellbeing and impede poverty reduction.

The fiscal stance remains expansionary and only limited reform measures were included in the 2021 budget law after an extended deliberation in the parliament. Higher oil revenues coupled with the devaluation effect on those receipts are projected to narrow the fiscal deficit to 5.4 percent of GDP in 2021. Gross financing needs are forecast to remain elevated compared to pre-COVID-19 levels, averaging at US\$13.7 billion per year (7.5 percent of GDP) during the outlook period. The 2021 approved budget includes reforms such as the introduction of consumption taxes (on gasoline, tobacco, and alcohol), better targeting of PDS benefits, improved electricity tariff collection and automatization of customs. These measures are in line with the Gol white paper and if implemented could help moderate the fiscal deficit and pressures on the exchange rate. However, more structural issues such as the rigidities in expenditures remain unaddressed. In the absence of sustained and more comprehensive fiscal reforms, the budget deficit could be markedly worse and become unsustainable.

The projected recovery in global oil market dynamics will boost Iraq’s export while the devaluation is expected to have some impact on imports.

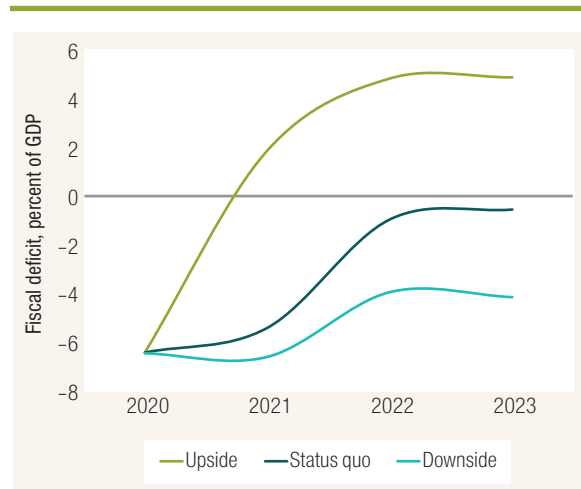
Oil windfalls and a stability in the levels of imports will contribute to reversing the current account deficit in 2020 and 2021 into a surplus of 3.4 percent of GDP by 2023 (Table 1). Reforms could help motivate new FDI which could assist the country meet its external financing needs and reduce pressures on the CBI foreign exchange reserves. As a result, usable reserves are projected to recover and exceed 10 months of imports coverage over the outlook period.

Risks and Opportunities

Sizeable risks cloud the prospects for Iraq’s economic recovery over the medium-term. Oil price down cycles are the largest source of risks and volatility to the country’s outlook that can materialize at short notice. Lower oil receipts could severely impact service delivery and wage bill payments and have knock-on effects on social and political stability. Other significant downside risks include failure to implement fiscal and structural reforms in an election year, delays in vaccine rollout, and deteriorating security conditions amidst high regional geopolitical tensions. Fiscal policy could remain expansionary and not address rigidities in recurrent expenditures due to parliamentary election dynamics (scheduled in October 2021). The continuation of reforms will also depend on the policy stance of the elected government.

On the upside, a faster pick up in non-oil activity together with implementation of fiscal reforms could improve Iraq’s fiscal outlook. If the COVID-19 vaccination process is streamlined and past years trend of under investment is reversed, as presented in the budget law, the overall macroeconomic outlook could be markedly better. In the absence of sustained fiscal reforms, however, the budget deficit could be considerably worse. Figure 20 compares the baseline fiscal deficit trajectory with two alternative scenarios. The downside scenario shows the outcome if DRM efforts are not pursued and recurrent expenditures remains at the same share of GDP in the outer years. In the upward scenario, higher non-oil growth and continued fiscal adjustments will

FIGURE 20 • Higher Non-Oil Growth and Wage Bill Reforms Would Improve the fiscal Deficit



Source: World Bank staff calculations.

help improve the fiscal trajectory. This simulation demonstrates that reforms which spur growth and right size expenditures can help reduce the fiscal deficit-to-GDP ratio by 5.5 pp (or annual fiscal gains of US\$11 billion). The white paper policies could help achieve an outcome along the same line and help put Iraq’s on the path to macroeconomic sustainability.

Incorporating climate change policies at the heart of Iraq’s development can help raise revenues and help job creation in the medium term. Apart from the negative health and environment externalities, the lack of adoption of climate related goals continues to present significant direct and indirect costs for the country. Despite joining multiple global emissions control initiatives, Iraq is the world’s second largest gas flaring country (after Russia) and burns the equivalent of 320 thousand barrels of oil per day in associated gas (as a byproduct of oil production). This underinvestment in processing and waste of resources is estimated to directly cost Iraq’s economy by US\$2.5 billion annually. Thus, the case for greener investment and climate aware policies in Iraq is one of good economics and could be a crucial measure to improve government finances, reduce imports and bring growth and employment gains.²¹

²¹ Globally, there are large deviations from sustainable paths of greener growth and maintaining emissions

While there has been important progress on the path and commitment to reforms there is still more to be done to deeply ingrain the reform momentum. The authorities have made important progress in pushing the reforms agenda ahead despite a difficult socio-economic and security context. The formation of the Higher Council of Reforms and some reform measures along the Gol reform plan in the revised 2021 budget law demonstrates the commitment of all players to making difficult decisions. However, these steps only mark the first stage and other crucial steps still need to be taken to put the economy on a sustainable path that is less reliant on oil. To this end, creating fiscal space and reducing economic volatility (e.g. through utilizing fiscal rules and creating a sovereign wealth fund from oil receipts) could ultimately pave the way for sustained investments. Moreover, wage bill rightsizing and pension reforms including the consolidation of relevant laws will also be paramount to keeping the fiscal pressures

in check.²² It will be important for the Gol to avoid repeating past experiences and not allow reforms to be derailed as oil prices trend upwards. The implementation of policies and governance framework of the Gol white paper geared towards promoting private sector and economic diversification will be crucial in achieving this long-sought paradigm shift.

in line with global conventions such as the Paris Agreement. For example, the current carbon price of US\$2/ton is far below the level needed to meet those agreements. However, studies show that greener investment and higher carbon prices can be good economics and lead to higher GDP growth (0.7 pp per year over the next 15 years) and create millions of jobs. <https://www.imf.org/en/News/Articles/2021/04/22/sp042221-md-remarks-at-the-leaders-summit-on-climate>.
²² The forthcoming Iraq Human Development Public Expenditure Review report by the World Bank proposes some actionable pension reform options.

TABLE 1 • Iraq: Selected Economic and Financial Indicators, 2018-2023

	2018	2019	2020e	2021p	2022p	2023p
Economic growth and prices						
Real GDP (percentage change)	-1.2	4.4	-10.4	1.9	8.4	4.2
Non-oil real GDP (percentage change)	-1.0	5.6	-9.1	5.5	3.2	3.2
GDP per capita (US\$)	5,340	5,550	4,028	3,979	4,296	4,722
GDP (in IQD trillion)	251.1	262.9	199.3	248.0	277.3	295.6
Non-oil GDP (in IQD trillion)	133.2	148.9	135.5	155.0	166.1	177.1
Oil production (mbpd)	4.61	4.84	4.00	3.98	4.44	4.65
Oil exports (mbpd)	3.50	3.54	2.99	3.25	3.34	3.51
Iraq oil export prices (US\$ pb)	65.5	61.1	38.4	56.0	60.0	61.0
Consumer price inflation (percentage change; average)	0.4	-0.2	0.6	8.5	3.8	3.3
In percent of GDP						
Public Finance						
Government revenue and grants	42.4	40.9	31.7	40.1	42.0	42.0
Government oil revenue	38.1	37.7	28.7	36.0	38.3	38.4
Government non-oil revenue	4.4	3.2	3.0	4.1	3.7	3.6
Expenditures	30.7	39.6	38.1	45.5	43.0	42.6
Current expenditure	25.2	30.3	36.5	39.5	36.8	36.0

(continued on next page)

TABLE 1 • Iraq: Selected Economic and Financial Indicators, 2018-2023 *(continued)*

	2018	2019	2020e	2021p	2022p	2023p
Wages and salaries	14.3	15.5	20.1	21.7	20.0	19.3
Goods and Service	1.6	3.4	3.1	4.4	4.1	3.9
Interest payment	1.2	1.2	1.1	1.4	1.9	2.3
Other	8.1	10.3	12.2	12.1	10.9	10.4
Investment Expenditure	5.5	9.3	1.6	6.0	6.2	6.6
Oil investment	4.2	7.2	0.2	4.3	4.3	4.5
Non-oil investment	1.3	2.1	1.5	1.7	1.9	2.1
Primary fiscal balance, cash basis	13.0	2.5	-5.3	-4.1	0.9	1.7
Budget balance	11.8	1.4	-6.4	-5.4	-1.0	-0.6
Gross budget financing needs	10.2	-1.6	-9.2	-11.2	-6.0	-5.2
In percent of GDP, unless otherwise indicated						
Public Debt						
Total government debt (percent of GDP)	52.1	46.9	71.4	62.8	57.1	54.2
Total government debt (US\$ billion)	110.6	104.4	98.1	107.4	109.3	110.4
External government debt (percent of GDP)	27.8	24.3	36.9	32.5	33.0	28.0
External government debt (US\$ billion)	59.0	54.0	50.7	55.5	56.5	57.1
Monetary indicators						
Growth in broad money	2.7	8.4	15.8	n.a	n.a	n.a
Policy interest rate (end of period)	4.0	4.0	4.0	4.0	4.0	4.0
In percent of GDP, unless otherwise indicated						
External sector						
Current account	10.5	5.9	-5.8	-0.7	2.7	3.4
Trade balance	16.7	13.3	1.5	6.6	9.9	10.6
Exports of goods	41.1	36.7	28.0	37.4	39.7	39.8
Imports of goods	24.4	23.4	26.5	30.8	29.8	29.2
Gross reserves (US\$ billion, excl. gold)	60.3	62.9	48.1	45.6	49.7	56.0
In months of imports of goods and services (excl. gold)	10.4	10.1	9.9	8.1	10.5	11.3
Exchange rate (IQD per US\$; period average)	1183	1182	1192	n.a	n.a	n.a

Sources: Iraqi authorities and World Bank staff estimates and projections.



SPECIAL FOCUS: TOWARDS INCREASED ECONOMIC OPPORTUNITIES FOR WOMEN IN IRAQ

Summary: Beyond the intrinsic value of empowering women and girls, greater gender equality in the labor market is smart economics. Iraq has one of the lowest female labor force participation rates (LFPR) in the World. Boosting female labor force participation enough to raise the country's LFPR to its income group average (Upper-middle Income Countries) would increase GDP per capita by almost 31 percent. Weak labor demand, while affecting both women and men, disproportionately impacts women, as the few jobs that are created are in the oil-related, male-dominated industries. Obstacles to entering and remaining in the labor market vary drastically for women from different socio-economic groups, and across critical turning points in women's lives. In addition to job creation, labor market Interventions

centered around different challenges faced by women in Iraq are needed to encourage women to actively participate in the economy and to ensure a better match of labor supply and demand.

1. Introduction

Promoting women's access to economic opportunities not only improves the welfare of women and reduces inequality, but also implies large benefits in terms of output and economic growth. The potential economic contribution of women remains untapped in most parts of the world, but especially in the Middle East and North Africa region (MENA), which is estimated to have lost up to 38 percent of its income due to

BOX 2.1 GOVERNMENT INITIATIVES AND THE WORLD BANK GROUP ADMINISTERED MASHREQ GENDER FACILITY (MGF)

To respond to challenges to women's access to employment opportunities, the government of Iraq has developed a Women's Economic Empowerment Action Plan. The World Bank's MGF* is supporting the implementation of the Action Plan based on a government-led country work plan developed within the context of Iraq, inclusive of the Kurdistan region. In collaboration across government agencies and with the private sector, civil society and development partners, the MGF Iraq work plan focuses on strengthening the enabling environment and on addressing specific constraints to women's economic activity.

**The MGF, established in 2019, provides technical assistance to the Mashreq countries to enhance women's economic empowerment and opportunities as a catalyst towards more inclusive, sustainable, and peaceful societies, where economic growth benefits all. <https://www.worldbank.org/en/programs/mashreq-gender-facility>.*

BOX 2.2 DATA SOURCES

Labor market indicators in this chapter are drawn from two different data sources. International Labor Organization (ILO) modeled estimates, which are harmonized to allow for international benchmarking, were used for comparisons with global and MENA figures. The rest of the analysis focuses on the Iraqi context and relies on the most recent household socio-economic survey (IHSES), which was conducted in 2012. Figures listed throughout this report include the Kurdistan Region of Iraq (KRI).

existing gender inequality in the labor market.²³ Lagging behind both MENA countries and Upper-Middle Income Countries (UMIC), Iraq has one of the lowest female labor force participation rates (LFPR) in the World. Boosting female labor force participation enough to raise the country's LFPR to the UMIC average would increase GDP per capita by almost 31 percent.²⁴

Iraq has set a policy objective of increasing women's LFPR by 5 percentage points (pp) between 2019 and 2024. If the country reaches this objective, it could benefit from a 1.6 pp increase in its annual economic growth.²⁵ While not explicitly mentioned, increasing women's labor force participation is part of reaching the objectives of economic transformation put forward in the Government of Iraq's white paper. Increasing the LFPR of women in Iraq is particularly challenging, as the country has one of the youngest populations in the World, and the economy needs to cater to a growing number of individuals joining the labor force.²⁶

Most of the labor market statistics referred to in this chapter rely on data collected prior to the COVID-19 crisis. Labor market outcomes are expected to have significantly deteriorated since then, especially for women. High frequency phone surveys conducted

in Iraq, reveal that labor force participation among women decreased drastically in September 2020 compared to pre-crisis levels, whereas participation in the labor market remained similar to the pre-crisis level for men.²⁷ The burden of additional unpaid care and domestic work during COVID-19 falls almost exclusively on women in the household. Around 25 percent of men compared to more than 40 percent of women reported an increase in time spent on unpaid

²³ IMF, 2016. Women, work, and economic growth: leveling the playing field. Washington, DC: International Monetary Fund.

²⁴ World Bank, 2020. *Breaking Out of Fragility, A Country Economic Memorandum for Diversification and Growth in Iraq*. Washington, DC: World Bank. Raising overall LFPR to UMIC average is nearly equivalent to raising the LFPR of women to the UMIC average for women, because the LFPR of men in Iraq and UMIC are nearly equal, see figure 1.

²⁵ World Bank, 2020. Women's Economic Participation in Iraq, Jordan and Lebanon. Washington DC: World Bank.

²⁶ World Bank, 2020. *Breaking Out of Fragility, A Country Economic Memorandum for Diversification and Growth in Iraq*. Washington, DC: World Bank.

²⁷ World Bank, 2020. Iraq High Frequency Phone Survey (IHFPS) Results from August, September, and October 2020 Rounds. Unpublished.

domestic work since COVID-19 in Iraq.²⁸ Additionally, general societal attitudes suggest that the few available jobs should go to men, further excluding women from the labor market.²⁹

This Special Focus first offers a brief description of key labor market indicators for women in Iraq, highlighting differences across life stages and levels of education. It then goes over evidence on the different barriers faced by women in Iraq towards participating in the labor market, such as legal, behavioral, and market-related constraints. It recognizes that women of different socio-economic backgrounds and at different life stages and experience these challenges differently (using both education and location as proxies for socioeconomic status). The chapter concludes with possible interventions and lessons for policy.

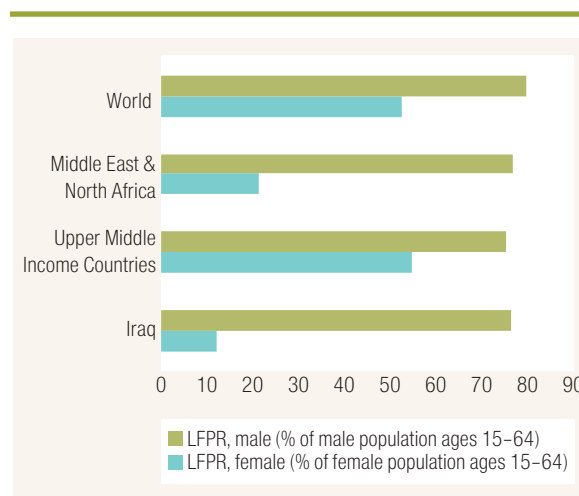
2. An Overview of the Labor Market Outcomes for Women in Iraq

2.1. Low economic participation for women, especially for less-educated women, women in rural areas, and married women with young children

With little more than 1 out of 10 women economically active, female LFPR in Iraq is among the lowest in the world. Women in the MENA region are twice as likely to be in the labor force compared to women in Iraq. On the global level, the average woman is four times as likely to be in the labor force compared to a woman in Iraq (Figure 21). In comparison, standing at 74 percent, men's participation rate is in line with global levels. This gives Iraq one of the highest gender gaps in labor participation worldwide.

There are no obvious patterns of differential participation for women across age groups in Iraq. Labor force participation remains relatively constant for women until the age 54,³⁰ as women start exiting the labor force. In comparison, younger women (ages 15–44) in the MENA are almost twice as likely to participate in the labor force than those over 45 years of age, indicating a generational shift (where younger women are more willing to join the

FIGURE 21 • LFPR by Gender (Iraq, MENA, UMIC, World)



Source: World Development Indicators, ILO modeled estimates for 2019.

labor force compared to their older counterparts) which has yet to happen in Iraq.³¹

In contrast, a strong positive association between women's education-level and their labor participation can be observed. Women with tertiary education are more than six times as likely to join the labor market compared to women with less than secondary education (Figure 22). This association is weaker for men, who are only slightly more likely to join the labor force when they acquire tertiary education, compared to having some secondary education or less than secondary education (93.2 percent, 89.9 percent, and 88.5 percent, respectively).

While this positive association between LFPR and education level is also observed in other countries, less-educated women represent a larger share of the female population in Iraq. This partially explains overall low female LFPR. This trend is magnified in rural areas, where 90 percent of women have no secondary education, but is partially offset by the observation that less educated women in Iraq are more likely to work if they live in rural areas

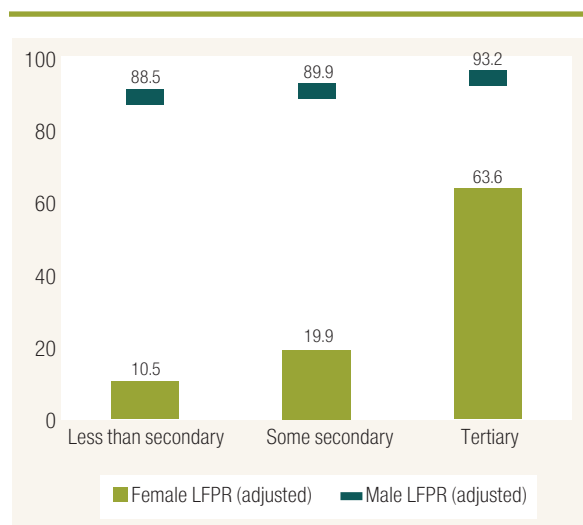
²⁸ UNW, 2020. Whose Time to Care? Unpaid Care and Domestic Work during COVID-19.

²⁹ World Values Survey Wave 7 (2017–2020), Iraq.

³⁰ World Bank, 2020. Women's Economic Participation in Iraq, Jordan and Lebanon. Washington DC: World Bank.

³¹ 2019 ILO Modeled Estimates for MENA data.

FIGURE 22 • Adjusted LFPR by Gender and Level of Education



Source: World Bank 2020, based on 2012 Iraq household socio-economic survey.
 Note: adjusted participation rate is the share of the population in the labor force over the total population excluding those in full-time education.

rather than urban.³² Various factors contribute towards Iraq’s educational gender gap, with a main reason being that schools are overcrowded and not within a safe traveling distance, especially in rural areas, a situation that is intensifying due to public budget cuts.³³

Unmarried women without children are the most likely to participate in the labor force. Female LFPR drop from 22 percent to 14 percent once women get married,³⁴ and only recover once the youngest child finishes compulsory education. Stark distinctions exist between rural and urban areas. While in urban areas, unmarried women have the highest participation rates, in rural areas, married women with older children are more likely than their unmarried counterparts to participate in the labor force. The relatively high LFPR of women with older children and women living in rural areas likely arise out of necessity and poverty, similarly to high LFPR observed in low-income countries (excluding MENA).³⁵

2.2. Women in the labor market are more likely to be unemployed, and tend to experience worse labor market outcomes compared to men

Unemployment rates were high among women even before the pandemic. Women in Iraq are

almost three times as likely to be unemployed compared to men, 30.6 percent of women are unemployed, compared to 10 percent of men.³⁶ These numbers are likely to have increased significantly today. Based on a rapid assessment of the impacts of COVID-19 on vulnerable populations and small-scale enterprises in Iraq, about one-quarter of those who were employed prior to the lockdown reported that they were permanently laid-off.³⁷

Women with tertiary education are the most likely to be unemployed, followed by women with less than secondary education, and women with some secondary education (with unemployment rates of 17 percent, 13 percent, and 10 percent, respectively). These unemployment trends reflect the propensity of women to queue for scarce public sector jobs (further details in the following section).

While the composition of employment for women in Iraq is similar to what is observed in upper-middle-income countries, these similarities do not prevent significantly different gender barriers from occurring. Around 60 percent of employed women in Iraq are wage workers, compared to a quarter who are self-employed.³⁸ The vast majority of wage-employed women reside in urban areas, have public sector jobs, and are likely to have tertiary education. Women’s engagement in the digital economy remains very limited.³⁹ Because public employment is estimated to absorb the majority of working women in Iraq, being a woman is associated with a lower probability of being employed in the informal sector compared to men, who are mostly engaged in private

³² World Bank, 2020. Women’s Economic Participation in Iraq, Jordan and Lebanon. Washington DC: World Bank.

³³ OXFAM, 2018. Gender Profile, Iraq: A Situation Analysis on Gender Equality and Women’s Empowerment in Iraq.

³⁴ Adjusted LFPR for women aged 15–44.

³⁵ ILO modeled estimates, 2019.

³⁶ Ibid.

³⁷ ILO, FAFO, 2020. Rapid Assessment of the impacts of COVID-19 on vulnerable populations and small-scale enterprises in Iraq.

³⁸ The remaining 15 percent are categorized as employers or contributing family workers.

³⁹ Women’s Economic Empowerment Action Plan (WEEAP), Challenges Strategies and Initiatives, 2019.

sector employment, the vast majority of which is informal.⁴⁰

The vast majority of self-employed women are engaged in own-farm activities in the agriculture sector, have less than primary education, and very limited access to assets.⁴¹ The main sector of employment for women in rural areas is agriculture, 55 percent of women in rural areas are employed in agriculture, compared to 21.5 percent of men. Across Iraq, 34.6 percent of working women are considered to be unpaid, this increases to 79.3 percent in rural areas is particularly pronounced in the agriculture sector.⁴² Women's access to assets, in terms of land titles (inheritance rights) and bank accounts (see section 3 of this chapter), remains extremely limited (70 percent of women in UMIC own an account at a financial institution or with mobile-money-service provider, 38 percent in MENA, compared to 20 percent in Iraq).⁴³

3. A Restrictive Environment for Women's Access to Employment Opportunities

3.1. Limited economic opportunities compounded by significant supply-side challenges

3.1.1. Challenges related to labor demand Iraq faces a significant employment challenge, as low economic growth is compounded by low employment-growth elasticity, characteristic of most MENA countries. Employment is relatively inelastic to GDP growth in Iraq: a 1 percent increase in GDP only generates 0.3 percent growth in employment.⁴⁴ Recent economic growth was driven mainly by growth in mining, a sector that employs a very small share of the labor force (1 percent). However, while not as pronounced as in the mining sector, the weak link between employment and growth in Iraq is evident across all other economic sectors, with the exception of manufacturing and the finance.⁴⁵ Economic growth prospects have been hampered by the 2003–2011 and 2014–2017 Iraq wars, and the creation of “good jobs” in productive sectors hindered by a high dependency on oil. Over two-thirds of both

women and men employed in the private and public sectors reported experiencing challenges finding their current job because of lack of job opportunities.⁴⁶

Weak labor demand, while affecting both women and men, disproportionately impacts women, as the few jobs that are created are in the oil-related, male-dominated industries. The combined sectors of Manufacturing and Agriculture constitute less than 6 percent of GDP.⁴⁷ Employment opportunities for women are consequently limited to the public sector (also aligned with preferences), which, given the fiscal constraints of the country, is limited in size and growth potential.

3.1.2. Challenges related to labor supply

Women's human capital accumulation, especially in terms of formal education and skills, plays a pivotal role in the labor market outcomes they experience. There are significant gender gaps in education. Only one in two girls complete primary education compared to three out of four boys. These gaps are accentuated with age, 40 percent of girls and 80 percent of boys at age 13 still attend school, and are even more striking for women in rural areas, who begin to drop out of school at the age of nine.⁴⁸

Factors affecting low enrollment and high dropouts of girls in Iraq are numerous. These include concerns over safety (in traveling to school), family and household responsibilities, child marriage, lack of availability of schooling infrastructure (some

⁴⁰ World Bank, 2014. *Striving for Better Jobs: The Challenge of Informality in the Middle East and North Africa*. Washington DC: World Bank.

⁴¹ Ibid.

⁴² Women's Economic Empowerment Action Plan (WEEAP), *Challenges Strategies and Initiatives*, 2019.

⁴³ World Development Indicators, 2017.

⁴⁴ World Bank, 2014. *The unfulfilled promise of oil and growth: poverty, inclusion and welfare in Iraq 2007–2012*. Washington DC: World Bank.

⁴⁵ Ibid.

⁴⁶ IMPACT, 2020. *Assessment on Barriers to Women's Economic Empowerment in al Basra, Baghdad and Erbil*.

⁴⁷ World Bank, 2020. *Women's Economic Participation in Iraq, Jordan and Lebanon*. Washington DC: World Bank.

⁴⁸ Ibid, Based on data from 2012 Iraq Household Socio-Economic Survey.

schools work morning shifts and night shifts due to limited capacity), combined with the consequences of years of unrest and conflict.

Gendered time-use profiles restrict women's capacity to participate in the labor market, the situation is accentuated for women with children and women in rural areas. Iraqi women spend on average more than six hours a day performing unpaid domestic and care work,⁴⁹ figures that are in line with the time-use profiles of women in other MENA countries.⁵⁰ As such, they account for 86 percent of the time dedicated to care work, while men only account for 14 percent.⁵¹ Households very rarely rely on external institutions for childcare, as statistics show that only 3% of children age 3–4 attend any form of Early Childhood Care and Education (ECCE) and only half have any experience of childhood development activities.⁵²

The amount of time Iraqi significantly decreases their chances of participating in the labor market. Spending 10 hours a week on childcare or domestic work is associated with a 20 percent lower probability of participating in the labor market for women with a tertiary degree, this rate drastically increases to 70 percent for women with less than secondary education.

The digital economy has the potential to provide jobs for young women in Iraq that offer flexible hours and the ability to work from home, overcoming many constraints identified in this chapter. Iraq fares significantly worse in the digital economy compared to the of the MENA (even when excluding GCC countries), and the situation is disproportionately worse for women, only 72 women using the Internet for every 100 men.⁵³ The main barriers for women are ownership are cost, low literacy and digital skills, and safety concerns, and a general belief that the digital economy is not relevant to them.

3.2. Legal and s gaps and restrictions

Iraq scores 45 out of 100 on the Women Business and the Law Index, a score that is lower than the regional average observed across the MENA (51.5 out of 100). The World Bank's Women, Business and the Law index is estimated on a yearly basis and covers 190 countries by measures laws and regulations that

affect women's economic empowerment. It should be noted that the index for Iraq refers to the laws and regulations that are applicable to the main business city (Baghdad), and therefore excludes the KRI.⁵⁴

3.2.1. Employment restrictions

Specific legislation and regulations limit women's access to employment opportunities in Iraq (including the KRI). The Labor Law prohibits women from working night hours and from working in jobs that are deemed dangerous. In Iraq, Law, Art. 85 refers to instructions to be issued by the Minister that determine the exact sectors and jobs which fall under this provision. To date, no decrees or instructions have been issued to regulate this provision. While the Labor Law mandates equal remuneration for work of equal value, gender wage gap for women and men working similar jobs with similar education and experience is about 22 percent in Iraq.

3.2.2. Sexual harassment in the workplace

While the Labor Law in KRI guarantees the right to work without discrimination, it does not specifically mention sexual harassment. Iraq has passed laws prohibiting sexual harassment at the workplace which include imposing penalties on perpetrators of sexual harassment (Labor Law article 10-1), however exposure to harassment for women who are working is still prevalent.⁵⁵ This indicates a lack of enforcement and communication surrounding law and regulations protecting women in the workplace,⁵⁶ combined with

⁴⁹ Vilardo, V., Bittar, S., 2018. Gender Profile—Iraq: A Situation Analysis on Gender Equality and Women's Empowerment in Iraq. Oxfam International, Oxford, U.K.

⁵⁰ World Development Indicators, various years (latest year available for each country).

⁵¹ ILO, 2018. Care Work and Care Jobs for the Future of Decent Work. Geneva: ILO.

⁵² World Bank, 2014. Early childhood development in Iraq. Washington DC: World Bank.

⁵³ Digital Gender Gaps, www.digitalgendergaps.org.

⁵⁴ World Bank, 2021. Women, Business, and the Law. Washington DC: World bank.

⁵⁵ IMPACT, 2020. Assessment on Barriers to Women's Economic Empowerment in al Basra, Baghdad and Erbil.

⁵⁶ World Bank, 2020. Women's Economic Participation in Iraq, Jordan and Lebanon. Washington DC: World Bank.

general reluctance to enforce these laws because of entrenched social norms. Women who still perceive a risk of being exposed to sexual harassment might refrain from joining the labor market.⁵⁷

3.2.3. Obstacles to starting a business including access to property and inheritance

The World Bank Doing Business report ranks Iraq 172nd in the world (out of 190) for its ease of doing business.⁵⁸ The most frequently reported challenge in starting self-employment activities for self-employed respondents was a lack of financial support or capital.⁵⁹ These difficulties in starting and growing a business are compounded for women:⁶⁰ while women are technically allowed to open a bank account in the same way as men, no legislation or amendment prohibits discrimination by creditors based on gender in access to credit.⁶¹ For instance, women reportedly face higher collateral requirements compared to men, compounded by difficulties in owning assets.

Striking gender inequalities exist in property and inheritance rights. Male children and male surviving spouses have clear advantages over female children and female surviving spouses in terms of their rights to inherit assets (Personal Status Law, Arts. 89 and 90), (Personal Status Law, Arts. 90 and 91).⁶²

Discriminatory inheritance and property laws, combined with traditional social norms, make it hard for rural women to own agricultural land.⁶³ Women own a smaller share of agriculture land compared to men, they account for 28 percent of agricultural landowners in the country compared to 72 percent of men. Women are also significantly less likely to own land compared to men, only 1 out of 10 women in Iraq owns land, compared to nearly 3 out of 10 men. It should be noted that women in Iraq fair significantly better than their global (15 percent of all landowners are women) and MENA counterparts (5 percent of landowners in the MENA are women).⁶⁴

A growing body of research demonstrates the importance of women's ownership of and control over assets for a range of development outcomes.⁶⁵ In the agriculture sector and in developing countries specifically, an equal access to productive resources for men and women would increase farm yields by 20 to 30 percent.⁶⁶

3.2.4. Parental leave and benefits

Women are granted 98 days of maternity leave paid by the employer in Iraq, and 62 days in the KRI. Iraq also requires all employers to provide onsite childcare.⁶⁷ These provisions meet the ILO standards on the length of maternity leave found in the Maternity Protection Convention, 2000 (No. 183).⁶⁸ However, contrary to best practice,⁶⁹ current responsibility for paying maternity leave falls exclusively on the employer, which may dissuade employers from hiring women. For pregnant women that are already in employment, there is heightened risk of dismissal, especially as no law prohibits the dismissal of pregnant women.⁷⁰

It should be noted that the above-mentioned maternity benefits only apply to formally employed women, i.e. registered work contracts that fall under the labor code. The fact that 40 percent of women are non-wage workers, and others are informally employed by private sector firms, implies that many women do not get access to this paid maternity leave.

Paid leave is not available for fathers. While the burden of care work and child rearing already falls

⁵⁷ IMPACT, 2020. Assessment on Barriers to Women's Economic Empowerment in al Basra, Baghdad and Erbil.

⁵⁸ World Bank, 2020. Doing Business 2020, Comparing Business Regulation in 190 Economies.

⁵⁹ IMPACT, 2020. Assessment on Barriers to Women's Economic Empowerment in al Basra, Baghdad and Erbil.

⁶⁰ World Bank, 2020. Doing Business 2020: Economy Profile of Iraq. Washington DC: World Bank.

⁶¹ World Bank, 2021. Women, Business, and the Law. Washington DC: World Bank.

⁶² Ibid.

⁶³ World Bank, 2020. Gender in the Agri-Food Sector of Iraq. Unpublished.

⁶⁴ FAO, 2018. The Gender Gap in Land Rights.

⁶⁵ World Bank, Land tenure in Iraq and KRG. Unpublished.

⁶⁶ World Bank, 2020. Gender in the Agri-Food Sector of Iraq. Unpublished.

⁶⁷ With the exception of women engaged in a family business.

⁶⁸ Iraq has not ratified Convention No. 183.

⁶⁹ World Bank, 2021. Women Business, and the law. Washington DC: World Bank.

⁷⁰ World Bank, 2021. Women, Business, and the Law. Washington DC: World Bank.

disproportionally on women, the absence of legislation or provisions providing for paid paternity and parental leave⁷¹ places the responsibility of caring for young children almost exclusively on women.

3.2.5. Domestic violence

While a law on combatting domestic violence was passed in KRI in 2011, no such law exists in Iraq.

Domestic violence not only affects the safety and well-being of women, it also hampers their capacity to generate income and participate in the labor market. There are high levels of acceptance of GBV in Iraq, where half of women believe that it is justified for husbands to beat their wives under certain circumstances (World Values Survey 2014). Recent studies have shown that domestic violence against women and girls has increased since the outbreak of COVID-19.⁷²

3.2.6. Child marriage

After Yemen, Iraq is the Arab country with the highest prevalence of child marriage,⁷³

where one out of four girls is married by the age of 18 and 5 percent of girls get married before they reach the age of 15.⁷⁴ While the legal minimum age of marriage is 18, the law permits a judge to marry children as young as 15 (16 in the KRI) under loose circumstances (1959 Personal Status Law).⁷⁵ Apart from being a form of violence against women, child marriage lowers economic outcomes for women and jeopardizes girls' ability to invest in their education. Relatedly, the adolescent fertility rate (women aged 15–19) is much higher than that of the MENA average (72 and 40 births per 1,000, respectively).

3.3. Barriers related to social norms

While traditional, patriarchal gender norms assigning men as protectors and providers, and women as care givers, are still prevalent, there seems to be an ongoing renegotiation of gender norms as a result of the displacement resulting from the conflict with ISIS.⁷⁶ Part of this shift arises as a matter of economic necessity, as men face considerable constraints in living up to their expected roles as the main household providers, and more women find themselves in the position of heads of

households as a result of the armed conflict (widowed women or women living with men who were injured and unable to work).⁷⁷ The UNDP estimates that 10 percent of households in Iraq were headed by women in 2019. It should be noted that economic necessity does not necessarily generate a shift in social norms and can increase the incidence of sexual and gender-based violence (SGBV) against women and girls, a risk that is compounded by the ongoing COVID-19 crisis.⁷⁸

3.3.1. Attitudes towards work in general and work in the private sector specifically

In Iraq, societal expectations remain a barrier to women's engagement in employment.

These expectations partly stem from prevalent negative perceptions toward the frequent presence of women in public spaces, and especially when engaging in physical activities.⁷⁹ It should be noted that women are socially more encouraged to work in the KRI, compared to other parts of Iraq.⁸⁰ Higher drop-out and lower enrollment rates for girls living in rural areas (as described in section 2 of this chapter) seem to indicate that these gendered societal expectations are more pronounced in rural areas.

Anecdotal evidence of distinctive private/public sector preferences for women and men are supported by employment figures described in the previous section. A majority of men reported

⁷¹ Defined as leave shared between parents to care for children.

⁷² UNW, 2020. The Shadow Pandemic: Violence Against Women During COVID-19.

⁷³ UNICEF Global Databases, 2019.

⁷⁴ *ibid.*

⁷⁵ World Bank, Iraq Legal Review. Unpublished.

⁷⁶ Dietrich, L., and Carter, S.E., 2017. Gender and Conflict Analysis in ISIS Affected Communities of Iraq. OXFAM Report.

⁷⁷ National Democratic Institute, 2018. Opening up new opportunities for women in Iraq: Report on focus group discussions in Iraq.

⁷⁸ UNFPA, 2020. COVID-19: Reporting on gender-based violence during public health crises.

⁷⁹ Vilardo, V., Bittar, S., 2018. Gender Profile—Iraq: A Situation Analysis on Gender Equality and Women's Empowerment in Iraq. Oxfam International, Oxford, U.K.

⁸⁰ UNDP, 2015.

preferring to work in the private sector compared the public sector, conversely a majority of women reported preferring to work in the public sector compare to the private sector.⁸¹ Women employed in the public sector reported fewer working hours (main reason), better benefits and amenities, job security and a steady income as reasons for preferring to work in the public sector.⁸² Perceptions towards private sector work are influenced by both societal expectations and counter-part beliefs within the household. These perceptions improve with knowing more people who work in the private sector.⁸³

Even where job opportunities are available, gender norms can prevent women from taking part in certain activities. This stems from a general attitude against women mixing with men in public spaces.⁸⁴ Activities that suit women's conventional roles as caretakers are relatively more acceptable from cultural or religious points of view, such as cleaning schools, childcare, or cooking for male workers.⁸⁵

3.3.2. Women as caregivers and attitudes towards childcare

Women's position in society and within their families as wives and care providers constrains their participation in the labor market. As shown in the previous section, getting married is associated with a lower probability of participating in the labor market. Participation rates fall for married women because of expectations around women's roles and post-marriage responsibilities. These observations hold across most MENA countries.

The burden of unpaid care work is amplified in the context of conflict and displacement, where it is disproportionately carried out by women and girls, perpetuating gender inequalities. This is especially relevant to the Iraqi context, where the provision of care work has become a part of women's identity and is perceived as a social responsibility.⁸⁶ These childcare and household responsibilities have been further exacerbated throughout the COVID-19 pandemic.

Data from the 7th wave of the World Values Survey shows a generational gap in the perception of women's roles in the household, but no significant gender gap. Agreement or strong agreement with the statement "when a mother works

for pay, children suffer" decreases from 100 percent among older generations (70 to 74-year-olds) to 45 percent among the youth (20 to 24-year-olds), but only decreases slightly from 68 percent among men to 59 percent among women. This indicates a relative internalization of women's roles as mothers and caretakers.

4. The Way Forward

Iraq has one of the lowest female LFPRs in the world, across all age groups. Obstacles to entering and remaining in the labor market vary across different socio-economic groups and across critical turning points in women's lives.

For instance, women in urban areas who have higher education levels and higher reservation wages, tend to seek scarce public sector jobs, and are therefore more likely to be unemployed compared to their rural counterparts. In comparison, women in rural areas are more likely to participate in the labor market,

⁸¹ IMPACT, 2020. Assessment on Barriers to Women's Economic Empowerment in al Basra, Baghdad and Erbil. Based on Key Informant Interviews (KIIs) and Individual Interviews (IIs) held with members of the target populations across Iraq. In total, 94 KIIs were conducted between 21 May and 6 October 2020 with public and private employers, female business owners, and subject matter experts.

⁸² Ibid.

⁸³ both women and men know very few women actually working in the private sector (about 1 out of 10 working women on average), Sen, I., Afif, Z., Gauri, V., and Mohamed, G., 2020. Women's labor force participation in the Kurdistan Region of Iraq: a study of social and psychological barriers.

⁸⁴ Cash for work activities as part of an Oxfam livelihoods project in Diyala (2015) were modified to better suit women's acceptable roles, namely cleaning schools, childcare, or cooking for male workers, after staff were told by the local leaders (mukhtars) that women were "unable". Sider, R., and Sissons, C., 2016. Researching Livelihoods Recovery and Support for Vulnerable Conflict-Affected Women. *Gender & Development*, 24(3): 317-441.

⁸⁵ Dietrich, Carter, 2017. Gender and conflict analysis in ISIS affected communities of Iraq.

⁸⁶ Ibid.

and accept low-paid (or unpaid) private sector jobs, out of necessity and poverty, they also take on more unpaid (domestic and care) work compared to their urban counterparts. Challenges vary in nature and scale according to whether women are preparing for participation in the labor market, entering and remaining in the labor market, or getting married and having children.⁸⁷

Based on the challenges identified in section 3, and since gender constraints are not explicitly mentioned in Iraq's white paper, this section suggests a non-exhaustive set of recommendations that can support the government in reaching its objective of increasing women's LFPR by 5 pp in 2025. The regulatory reforms and policy recommendations spelt-out in the table below aim to loosen the constraints women face in accessing

economic opportunities in Iraq: getting ready to join the labor market, entering and remaining in the labor market, getting married and having a child. These recommendations call for, among other things, a better match between labor supply and demand (e.g. via the development of credible matchmaking services) and the establishment of gender-specific solutions in the workplace (including enforcing sexual harassment regulations and providing childcare), and the creation of an inclusive legislative framework (e.g. via the elimination of occupational and sectoral restrictions).

⁸⁷ The critical turning points for women participation in the labor market are highlighted in World Bank, 2020. Women's Economic Participation in Iraq, Jordan and Lebanon. Washington DC: World Bank.

TABLE 2 • Addressing Female Labor Force Participation Challenges

Addressing challenges related to

	Demand for labor	Supply of labor	Legal and regulatory framework ^a	Social norms
1. Getting ready	<ul style="list-style-type: none"> Enhance access to and retention of girls and women in education, including through ensuring safe and accessible transport for girls in rural areas;^b Encourage demand-driven upskilling and training of women. 	<ul style="list-style-type: none"> Implement policies that increase digital skills in young women who have left school and those still in it, including training programs for women.^c 	<ul style="list-style-type: none"> Enforce prohibition of child marriage. 	<ul style="list-style-type: none"> Work with men and boys on the promotion of alternative gender roles as positive role models.
2. Entering and remaining in the labor market	<ul style="list-style-type: none"> Encourage women's collectives and collaborative work schemes, including women's social enterprises;^d Devise employer-oriented incentives for hiring women in all sectors; Provide incentives to the private sector to invest in sectors that employ more women, e.g. care economy; Promote entrepreneurship among women, enabling wider assistance for HBB's to register, create market linkages and integrate in value chains nationally, regionally and globally by easing export licensing and unifying formal registration. 	<ul style="list-style-type: none"> Focus on the existence and accessibility of skills training programs to address gaps in knowledge and experience for Iraqi women searching for work or seeking to grow in their employment;^e Improve job matching for women by expanding access to formal and informal networks. 	<ul style="list-style-type: none"> Remove night hour restrictions imposed on women; Remove job and sector restrictions imposed on women; Prohibit discrimination in access to credit based on gender; Grant male and female children as well as female and male surviving spouses equal inheritance rights; Expand and strengthen the labor inspection system and enforce appropriate penalties to ensure employer adherence with relevant international labor standards and local labor laws including contracts, pay equity and protection from sexual harassment. 	<ul style="list-style-type: none"> Provide female job seekers with more information about jobs available in the private sector, including which parts of the private sector women are already working in, and highlighting jobs with greater skill requirements; Provide culturally acceptable income-generation options for women: e.g. avoiding mixing with unrelated men, providing options within the home or in an enclosed area nearby.^f
3. Getting married and having a child		<ul style="list-style-type: none"> Expand access to affordable, quality childcare.^g 	<ul style="list-style-type: none"> Introduce legislation criminalizing domestic violence Amend legislation to shift responsibility for administering maternity leave benefits to the government; Introduce legislation or amendments providing for paid paternity and shared parental leave; Prohibit dismissal of pregnant workers; Consider mandating employer-supported childcare. 	<ul style="list-style-type: none"> Contribute to shifts in unpaid care work by reducing the stigmatization of men's household and care work.

^a World Bank, 2021. Women Business, and the law. Washington DC: World Bank.

^b World Bank, 2020. Women's Economic Participation in Iraq, Jordan and Lebanon. Washington DC: World Bank.

^c Ibid.

^d Dietrich, L., and Carter, S.E., 2017. Gender and Conflict Analysis in ISIS Affected Communities of Iraq. OXFAM Report.

^e IMPACT, 2020. Assessment on Barriers to Women's Economic Empowerment in al Basra, Baghdad and Erbil.

^f Ibid.

^g IMPACT, 2020. Assessment on Barriers to Women's Economic Empowerment in al Basra, Baghdad and Erbil.



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