EXPANDING PROTECTION TO THE POOR AND VULNERABLE

POLICY NOTE III
The Unfulfilled Promise of Oil and Growth: Poverty, Inclusion and Welfare in Iraq, 2007–2012

A Significant Share of the Iraqi Population Remains Vulnerable to Falling Into Poverty

A significant share of Iraq’s population consumes at levels close to the poverty line and remains vulnerable to falling into poverty. In other words, a small increase or decrease in incomes and consumption can lead to large changes in the incidence of poverty. For instance, a five percent increase in the cost of basic needs (including food, fuel, clothing and shelter) in Iraq would raise poverty by 16 percent, while a ten percent increase would raise poverty by more than 30 percent.

The Less Well-Off Rely Heavily on Public Assistance

The poor are disproportionately dependent on non-labor incomes and, in particular, on transfers from the Public Distribution System (PDS), due to a lack of assets and employment opportunities. Public and private transfers still account for 36 percent of total income for the bottom decile, of which more than 80 percent is comprised of public transfers. In some parts of the country, such as the South, more than 60 percent of income for the bottom 10 percent of the distribution comprises of transfer income rather than earned incomes.

High Rates of Poverty Among Certain Types of Households

Despite significant poverty reduction in rural areas between 2007 and 2012, poverty among rural households remains high. Similar households face higher poverty simply because they live in rural areas. For instance, at each education level, poverty rates are almost double in rural areas. An urban household whose head has primary education has the same likelihood of being poor as a rural household whose head has completed higher secondary education.

The concentration of the poor has also increased: in 2012, five governorates—Nineveh, Thi Qar, Qadisiya, Muthanna, and Missan, almost 60 percent of Iraq’s poor live in these five governorates.
Missan, Muthanna and Qadisiya—accounted for almost 60 percent of Iraq’s poor, compared to 40 percent in 2007.

About half of Iraq’s poor live in the South—in Thi Qar, Missan, Muthanna and Qadisiya. High poverty rates in the South also combine with poor human development outcomes, and limited livelihood options, especially in rural areas. In the South, especially agriculture has been in long term decline, with falling employment and earnings. Consequently, rural households that are completely dependent on agriculture and have been unable to find employment in other sectors faced extraordinarily high poverty rates, of 70 percent in some places.

**Many Dimensions of Deprivation**

Over and above consumption expenditures, Iraqi people take into account many other dimensions when evaluating their own welfare—education, health, housing and basic services, local labor markets and security concerns. In determining subjective self-assessments of poverty status, the largest weight is placed on lack of consumption or income, with smaller but relatively equal weight on educational deprivation or on place of residence. In contrast, dissatisfaction with life appears to be driven more by where an individual lives, reflecting the additional importance of location specific factors including security concerns, local labor market conditions and service delivery.

Using these deprivations to construct a multidimensional index of deprivation; headcount rates would be higher than as measured by consumption poverty—25.6 percent—if derived from the subjective poverty measure and 28.4 percent if the life (dis) satisfaction measure were used (compared to 19.8 percent consumption poverty) in 2012.

**Only One Dimension of Protection**

While welfare and deprivation are multidimensional, only one source of protection covers all of the poor: the Public Distribution System. It is hugely important, and is the overwhelming source of calories for the poor and bottom 40 percent, accounting for 74 and 64 percent of their total caloric consumption respectively in 2012.

Yet, it covers only one aspect of deprivation—basic caloric needs; while nutritional deficiencies remain an important challenge, influenced by a broad range
of factors, including early marriage, and spatial inequality in access to basic services. Moreover, the universal nature of the PDS and the lack of other safety nets imply that barring a few exceptions, demand for PDS items is almost inelastic. As a result, any one-shot reform of the PDS will have an adverse welfare impact in the absence of a significant expansion in earnings and employment opportunities, and a comprehensive safety net system.

**A Comprehensive Safety Net is Needed**

Ensuring adequate and quality work for Iraqis is a long-term challenge. Over and above the continuing violence and insecurity, the private sector has been increasingly crowded out of market activities. Access to adequate infrastructure including reliable power supply and capital are major hurdles to job creation. Moreover, with low average education levels, the workforce lacks the skills for many private sector and entrepreneurial activities. Many Iraqi children are still dropping out or never going to school because of financial considerations; social norms; and worryingly, lack of interest. In part this is due to the deterioration in infrastructure, lack of qualified teachers, poor teaching quality and curriculum, but also because the incentives to invest in education have become distorted. Unless the private sector can create jobs and reward investments in education appropriately, this vicious cycle of low human capital and poor employment opportunities will continue.

Therefore, in the short term, there is no substitute for a comprehensive and diversified safety net system that addresses the multiple deprivations of the poor, and targets pockets of high poverty.

**What Needs to Be Done**

**Establish and Maintain Peace and Security**

- Essential for service delivery and reviving local markets and economic activity

**Design and Implement a Comprehensive Safety Net**

- Nationwide public works program, with spatially differentiated components to:
  - Provide employment and incomes in the immediate term;
  - Rebuild local infrastructure and service delivery;
  - Invest in skills for future employment.
- Physical labor works to build roads, schools, health posts, sanitation improvements; environmental and agricultural projects; complemented with social services in urban areas
- Specifically target young men who have the highest rates of joblessness, and prepare them for future employment in formal labor markets
- Targeted conditional cash transfers to ease financial constraints and provide incentives to attend school and access health care
- Where poverty rates are very high, especially in rural parts of the South, universal programs would have enormous benefits

**The current Public Distribution System is inadequate to address multiple deprivations in human capital and labor market opportunities faced by poor and vulnerable Iraqi population. However, the continuing instability and insecurity in the country have made it difficult to put in place alternative means of securing livelihoods, either through public intervention or through the revival of local economic activity.**
The Many Faces of Vulnerability in Iraq

A significant share of the Iraqi population remains vulnerable to falling into poverty, despite a 40% GDP growth from 2007-2012.

Many dimensions of deprivation:

- Almost 1/3 of Iraqi children, ages 0-5, are stunted.
- 1/2 of the population has only primary education or less.
- Over 90% of households in Baghdad and central and southern governorates receive less than 12 hours of electricity daily.
- 1/3 of Iraqi men & 90% of Iraqi women, ages 15-64, are neither employed nor looking for work.
- The current system of safety nets is inadequate.

- Only one dimension of protection - basic caloric needs - is guaranteed. The Public Distribution System is the only safety net that covers almost all the poor.
- 60% of the calories consumed by the poor come from the PDS.

A comprehensive, multiple intervention program of social protection is needed, with spatially and individually targeted sub-components.

- Build and maintain infrastructure.
- Nationwide public works programs.
- Spatially and individually targeted programs to improve health and education and supplement earnings.
- Establishment & maintenance of peace & security.