ADDRESSING THE CONSEQUENCES OF IRAQ’S DIFFICULT LEGACY

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

Three Decades of Violence and Insecurity

Iraq has been a nexus of conflict and fragility since the early 1980s, and has experienced multiple types of conflict: insurgency, international war, sectarian strife, persistent terrorism, regional fragmentation, and spillovers from conflict in other countries. A promising endowment of natural resources (land, oil, and gas) and human capital has been repeatedly confounded by war and repression. The immediate focus of this report is Iraq’s economic and social development spanning a period of relative stability, following the end of the sectarian violence of 2007, and ending in 2012, prior to the militancy and insurgency in the northern governorates of the summer of 2014. However, the legacy of three decades of violence and instability has been far-reaching in terms of the structure of the state and the economy; a massive human capital deficit; and the exclusion of parts of the country from the development process.

A Skewed Role of the State

The invasion of Kuwait and the subsequent sanctions era marked a fundamental rupture in Iraq’s development trajectory. With the government focused on regime survival, and the private sector unable to work, the formal sector began to function increasingly through administrative fiat, while market activities shifted into the informal sector. This marked the beginning of large-scale detachment between the state and its citizens, laying the grounds for profound marginalization.

The resumption of growth in 2007 was driven by expanded crude oil production. Oil revenue has since been an enabler of public sector employment growth rather than a source of productive and economy wide investments. At the same time, state owned enterprises remain dominant; the decline of agriculture has continued unabated; and continuing civil conflict has further fragmented the economy and society.
Internal integration is limited and spatial divergence has become pronounced, with very limited devolution of functions, powers and revenues to sub-national governments and 90 percent of total public spending executed through the federal government and its deconcentrated structures.

**A Massive Development Deficit**

Iraq’s historical endowment and comparative advantage in human capital has been steadily eroded as a consequence of 30 years of violence, and the accompanying destruction and deterioration in infrastructure and severe shortages of qualified personnel. Girls and women lag behind in education, health, and workforce participation.

Today, Iraq has one of the lowest employment-to-adult population ratios in the region, and male and female rates of employment and labor force participation are low and stagnant. Male labor force participation was around 74 percent and female labor force participation around 11.5 percent in 2012.

There is also evidence of long-term deterioration in health outcomes. Until the mid-1970s, Iraqi males enjoyed higher life expectancy than their counterparts in the Middle East and North Africa (MENA) region. Since 1980, the beginning of the Iran-Iraq war, they have lagged behind. In 2011, Iraq’s Infant Mortality Rate was the highest in the region, barring Yemen.

Similarly, adult male and female literacy rates in Iraq are below the MENA average and well below the average for similar upper middle-income countries. For cohorts born after 1975, who were of school going age during the Iran-Iraq war and thereafter, progress in education stalled. For Iraqis of all ages, the most prevalent level of education is primary schooling or less, and 18 year olds in Iraq today are as likely to have completed primary school as those 30 years older.

**Unequal Spaces**

Relative peace and stability alone, where experienced, has not been sufficient for economic revival. Displacement and civilian deaths during the 2007 to 2012 period have been concentrated in Baghdad, the North, and in some of the Central governorates. The absence of peace and security has implied little change in welfare in Baghdad and the North, where the post-2003 violence was concentrated. It is only in the Centre where peace and stability have to some extent combined with an improvement in economic conditions.
activity, and where job growth has outpaced the growth in the male working age population.

While the South and Kurdistan were both subject to severe persecution under the Saddam Hussein regime, they have remained relatively untouched by the post 2003 violence; yet, they appear to be on opposite trajectories. In Kurdistan, outcomes are improving significantly for the young, and they are catching up to the rest of the country. On the other hand, while there is some improvement in educational attainment over cohorts within the South, the gap with the nation is widening.

Male employment has not kept up with the growth in working age male population in the South, while, in contrast, employment growth outpaced growth in the working age population for men in the Centre. In the southern governorates, and with the exception of Basra, the last five years appear to have compounded the neglect of the past.

**What Needs to Be Done**

**Establishment and Maintenance of Peace and Security**
- A broad-based and inclusive development process will help secure a fragile peace

**Strengthen the Citizen-State Relationship**
- Build “bottom-up” accountability by providing citizens with information
- Improve “top-down” accountability through a joint commitment from all levels of government to address the most glaring gaps in social and public services
- Link capacity building of sub-national governments directly to spending activities or the development of targets
- Align expenditure and revenue assignments with accountability mechanisms and needs

**Bridging the Human Capital Deficit and the Spatial Divide**
- Invest in infrastructure to guarantee basic level of access to education, health and basic services for all Iraqis, with a particular focus on the South
- Gender-sensitive design of the schooling and health system
- Improve the quality of education, curricula, and strengthen vocational training in collaboration with the private sector

**The Legacy of Violence in Iraq Has Been Far-Reaching—the Loss of Life and Livelihoods; the Displacement of People; the Destruction of Social Infrastructure and Markets; Weakening the Rule of Law and Governance, and by Severely Constraining Economic Activity.**
Iraq's Difficult Legacy: Three Decades of Instability

A promising endowment of natural resources (land, oil, and gas) and human capital has been repeatedly confounded by war and repression.

A skewed role of the state
State unable to provide fundamental services including:
- peace & security
- economic development
- basic services

Ensuring law and order and a safe environment remain challenges.
Oil revenues financed public sector expansion, further crowding out the private sector and leaving out the poor.
Basic services, such as health, education, and other social services are lacking.

Which implies a massive development deficit

Gender disparities
Girls, women lag behind in education, health, and workforce participation.

Employment
Rates of employment and labor force participation are low and stagnant.

Literacy
The most prevalent level of education is primary schooling or less, for Iraqis of all ages.

Gender Gaps
Disparities in human capital between different regions

Unequal Spaces

Continued insecurity
The absence of peace and security has limited welfare gains in many governorates.

Continued neglect
Decades of exclusion from the development process have been compounded by recent neglect, leading to increases in poverty in some governorates.

Economic revival
Relative peace and security in some governorates was accompanied by revival in economic activity and job growth.

(map of governorates: Anbar, Diyala, Saladin, Kirkuk, Nineveh, Baghdad; Babylon, Wasit, Karbala, Najaf, Erbil, Sulaimaniya, Duhok, Basra; Thi Qar, Missan, Qadisiya, Muthanna)