

**Jobs in Iraq: a primer on job creation in the short-term**

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## Summary

**Iraq needs a strategy to make rapid progress in tackling its profound jobs challenges.** Iraq is facing a jobs crisis of unprecedented proportions. It could foment a resurgence in violence unless the Government of Iraq makes credible and swift progress in job creation and reconstruction. To shape a longer-term vision, Iraq can look beyond its recent history of conflict, and to its past as a diversified economy and home of an educated workforce. However, in the short-term, neither private nor public sector hiring can create jobs at the desired scale without significant new policy action. The first-best solution for large-scale private sector job creation hinges on structural reforms that must begin now, but are achievable only in the medium to longer term. This paper provides a primer on options to deliver large-scale job creation in the short term, based on investments in construction, agriculture and agribusiness, small and medium enterprises, and vocational skills. Its aim is to outline workable steps for progress in a jobs crisis in a post-conflict situation. Because these steps focus on rapid impact at scale, rather than structural reform, they are less-than-ideal or second-best. A similar logic applies to financing options. Financing needs for jobs are large, and while business climate reforms are under way, first-best private investment in jobs will remain limited. Yet, the recent oil price hike offers the Government of Iraq a uniquely timely opportunity to make an investment in jobs that makes a real difference.

**This paper aims to set the stage for dialogue on job creation in the short-term.** The evidence base on jobs in Iraq remains thin. This paper aims to set the stage for dialogue on jobs issues, drawing upon expert interviews in addition to various primary data sources, policy reports, and the background papers prepared for Iraq's *Vision 2030*. It flags some analytical questions that urgently need answering. The conclusions presented here will no doubt need to be revisited. The diagnostics, concepts, and financing model were presented and validated at a June 2017 Bank-wide workshop, and discussed in a workshop with the Government of Iraq in December 2017.

### A. The jobs environment: enormous needs and heavy constraints on job creation

**The demand for jobs in Iraq presents an extraordinary challenge.** At least 2.5 million unemployed Iraqis urgently need jobs today. Most of the unemployed are young: compared to the national unemployment rate of 16 percent, youth unemployment is about 36 percent (Figure 1.B). By 2030, Iraq's adult population will increase from 20 to 32 million (Figures 1.C and 1.D), and the number of Iraqis in need of new jobs is projected to range between five and seven million (holding labor force participation and public employment constant – see Figure 1.A). This projected increase of 100 to 180 percent in the demand for new jobs in the next 13 years underscores that Iraq's jobs challenge is anything but a short-term phenomenon. Rather, the challenge's magnitude could reach crisis proportions unless positive changes are enacted. Better jobs prospects matter in meeting the expectations Iraqis have for their lives. Because of the magnitude of the challenge, they also matter for stability and the success of reconstruction. Without the hope for a better future, the unemployed, and in particular youth, may

give up on their ideas and aspirations, disengage from the project of building a better future for Iraq, seek to leave, or potentially become targets for recruitment by armed factions.

**The potential future unmet demand for jobs hinges on policy choices.** Even if all current public sector jobs remain, there will be unmet demand for at least five million new jobs in 2030. If the Government of Iraq (GOI) were to cut public sector employment by 50 percent, Iraq would need 7 million new jobs. Two other factors will influence the unmet demand for jobs in the medium term. First, depleting sources of subsistence in rural areas have triggered large numbers of the poor to migrate to urban areas, exacerbating the demand for urban jobs. Evidently, more than eleven million Iraqis are currently considered to need some form of humanitarian assistance, and in 2014, poverty was estimated to vary between the national average of 22 percent and 44 percent in Daesh-occupied areas. Two, many Iraqis lack the practical skills necessary to find a job in a fragile, post-conflict country that is grappling with multiple challenges. About 33 percent of the youth between the ages of 15 and 29 are illiterate or only semi-literate, 33 percent have completed primary school, 28 percent have finished middle or high school, and only seven percent have completed post-secondary education.<sup>1</sup>

**Youth, women, and internally displaced persons (IDPs) urgently need more access to jobs.** Three groups – youth, women, and IDPs – are affected disproportionately by the paucity of jobs (Figure 1). Without special attention to their demand for jobs, peace and reconstruction are at risk. The nature and extent of joblessness are specific to each group and underscore why these excluded groups need a tailored solution in the short term.

- **Iraq has one of the youngest populations in the world.** Nearly 50 percent of Iraqis are younger than 19 years, and 60 percent are below 25 years of age. The youth population is projected to increase from seven to ten million between 2015 and 2030. Low levels of human capital constrain young Iraqis from engaging in productive activities. Of the seven million Iraqi youth, over 3.4 million are out of school. Insecurity, poor access to basic services and the dim prospect of finding a satisfying job anytime soon are recipes for distrust in the GOI, disengagement from the project of rebuilding Iraq, and perhaps even a low opportunity cost of joining militias who offer significant sums of money to potential recruits.
- **Iraqi women are well-represented in public sector employment and have a strong position under labor law, but few less educated women participate in the labor force.** Iraqi women have a strong presence in public sector employment, where they hold more than half of all positions. The law prohibits gender discrimination in hiring and firing decisions and provides for maternity leave. At the same time, the modeled labor force participation rate (LFPR) for women in Iraq is 19 percent, compared to 74 percent among men – below the median among Arab countries.<sup>2</sup> In particular, fewer than one in ten adult women with intermediate or lower levels of education participates in the labor market. Women who do participate in the labor market are also more likely to be unemployed. In 2016, about 27 percent of women of all ages were unemployed, compared to 14

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<sup>1</sup> IHSES 2012 and World Bank (2017) Iraq - Systematic Country Diagnostic.

<sup>2</sup> International Labor Organization, ILOSTAT.

percent of men; among youth, 65 percent of young women were unemployed compared to 32 percent of young men.<sup>3</sup>

- **Protracted violence and the conflict with Daesh have reared a large population of IDPs.** The challenge is further compounded by the fact that Iraq has experienced earlier waves of internal displacement in the course of the conflicts of the past decades. In 2015, about 4.2 million Iraqis were IDP and an additional 300,000 were officially registered refugees<sup>4</sup>. About 27 percent of the IDPs are unemployed. The most vulnerable IDPs are women and children – 49 percent are less than 18 years old. About 20 percent of the IDPs live in shelters/camps where service delivery is deplorable and less than half the children attend school. Opposition from militia in liberated areas, and *de facto* restrictions on IDP movements could bar many IDPs from returning to their homes (UNOCHA, 2015). A dignified life for this set of IDPs depends on acceptance and integration with their host communities. Yet, this requires economic self-sufficiency which is constrained by the lack of jobs and access to basic services. For IDPs who can return and reintegrate with their communities, jobs are also a necessity. Integration of both groups – those able to return to their homes and those who settle elsewhere in Iraq – also depends on ensuring that the communities they return to or remain with have sufficient job opportunities.

**Lack of progress on jobs could undermine trust in the GOI.** Iraq is still emerging from the shadows of one of the most sinister regional conflicts which witnessed the radicalization of some youth, amid a climate of tension between communities and frustration over a lack of life prospects. The GOI supports a large public payroll, but there is distrust in the GOI's ability to create jobs at the scale and with the speed Iraqi youth expect. There also is a fear opportunities may be parceled out to preferred groups. If joblessness – especially among youth – persists, the GOI risks losing the confidence of its most important constituency in the task of rebuilding Iraq; joblessness even risks reviving radicalization that could disrupt political and economic stability.

**Iraq's history attests to its potential to rise to the current jobs challenges.** Iraq's economy faces a difficult legacy of decades of conflict and sanctions. However, in considering the challenges of the present, it is worth recalling that history also demonstrates that Iraq can make significant strides toward an economy that generates good jobs. Indeed, before its long period of instability, Iraq had a comparatively strong infrastructure, as well as an education system at the top of the region, and a well-skilled workforce. Some oil revenue had been invested with the goal of diversification in mind, creating a substantial light manufacturing sector, as well as economic zones hosting heavy industry. These past experiences do not translate directly into a plan for the future. But they can build confidence that Iraq can succeed in overcoming its current difficult situation.

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<sup>3</sup> IHSES 2012. The unemployment patterns are likely to partially reflect the fact that women are more likely to participate in the labor market if they have higher education, and that workers with higher education in Iraq are more likely to be unemployed while looking for jobs in the public sector or other formal sector.

<sup>4</sup> UNHCR: <http://reporting.unhcr.org/node/2547>.

## Obstacles to job creation

**Business climate reforms must begin now, but private sector job creation is a longer-term agenda.** In a conflict-free country, a vibrant private sector is the passport to job creation. In Iraq, however, limited growth in the private sector is a direct hurdle to large-scale employment creation, especially for young Iraqis. The lack of private sector dynamics is in important part due to the rapidly shifting security, social and political conditions, and governance deficits that see Iraq persistently ranked around or below the tenth percentile globally in governance indices.<sup>5</sup> Stability, reconciliation, and fulfilling the GOI's *National Development Plan's* objective to "reduce administrative and financial corruption" will be decisive in setting the conditions for economic transformation. In addition, the economic environment is a strong deterrent to private investors. Here, reforms can make a decisive difference. To chart a path toward greater investment and job creation in the private sector, Iraq must begin them now. Key areas for reform are the banking sector, access to power, and the footprint of state-owned enterprises (SOEs). Credit to the private sector is extremely low and the financial sector is dominated by state-owned banks which lend chiefly to SOEs. The effect of poor access to credit on business is compounded by significant domestic arrears. Before the most recent conflict, unreliable access to power was cited by businesses as the most significant obstacle to operations.<sup>6</sup> The overbearing presence of the public sector dominated by inefficient SOEs crowds out private businesses, and cannot in the short term be downsized due to political risk. Together, these constraints represent an imposing obstacle to private business. GOI has recently made some progress in launching some structural reforms. However, these important steps are far from sufficient to allay the fears of investors. With prohibitive country-risk to investment in the short term, the first best solution of a private-sector-led job creation strategy is unviable in the immediate term. GOI therefore needs to search for second best solutions for the short-term, while advancing reforms to alter the business climate.

**Public investment can lead a recovery that creates jobs, but should also lay the foundation for private sector growth.** With the recent rise in oil prices, fiscal pressure on Iraq has eased greatly. Public investments can lead in stoking a recovery that creates jobs. However, the fiscal outlook remains dependent on oil prices, and will be vulnerable to future price swings until the non-oil economy evolves. At the same time, the GOI already faces a large public payroll, and important security costs. It is therefore not prudent to expand the public payroll in a lasting way. Rather, as this note argues, public investment should jump-start job creation, but keep an eye toward expanding ways for the private sector to step into a more important role in growth and job creation.

**Despite the stifling effect of SOEs on business, cutting public sector employment is too risky in the short run, given the lack of other jobs.** GOI needs to eventually downsize the SOEs and reduce the public payroll at large, both in order to stop crowding out private sector investment and hiring, and to improve public-sector efficiency. However, the absence of job opportunities in the economy implies that in the short term, policies that lead to job losses in the public sector will only exacerbate unemployment, risk political and social instability and cast doubt on GOI's commitment to rebuild

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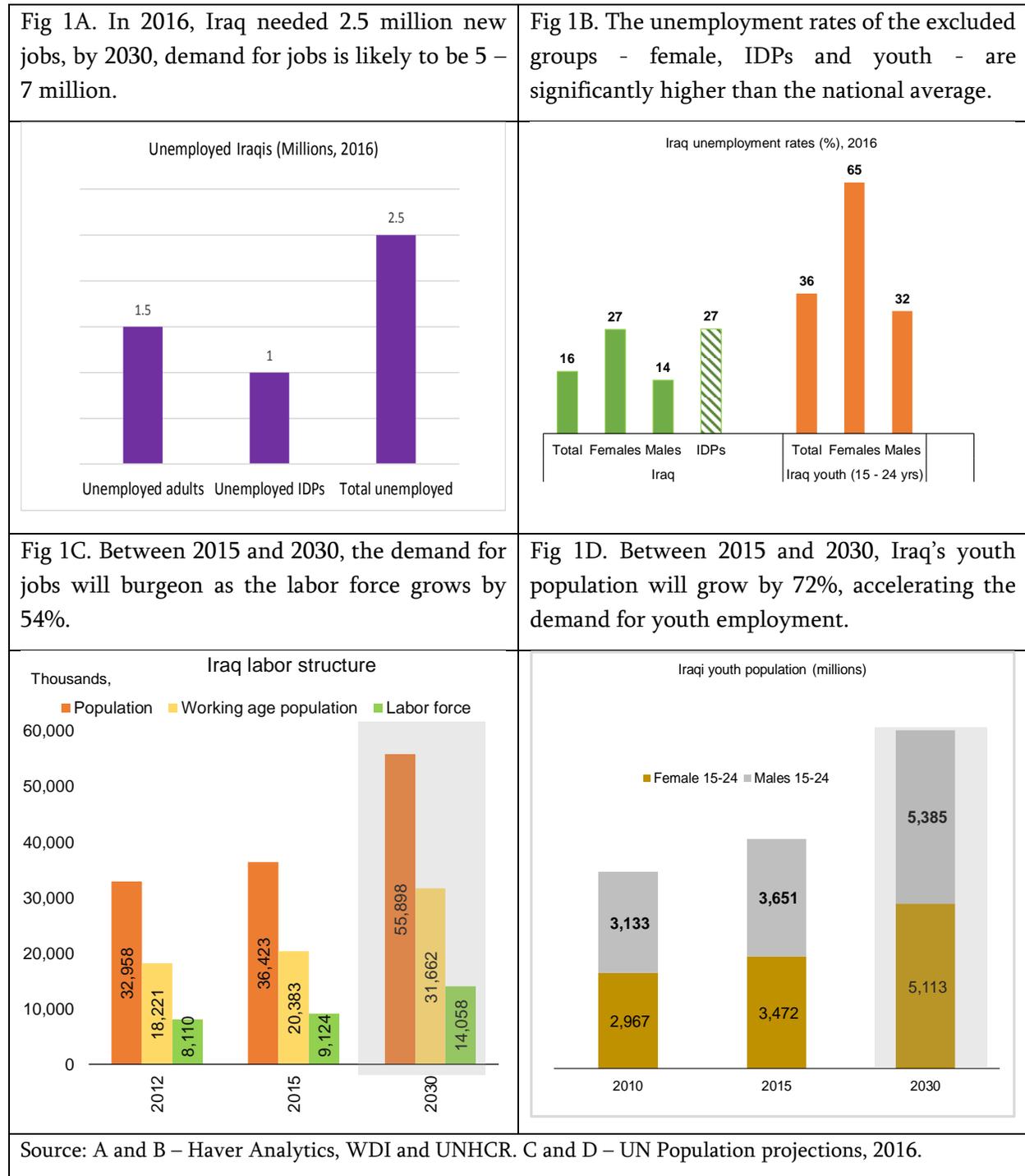
<sup>5</sup> World Bank (2017), *Doing Business in Iraq*.

<sup>6</sup> Enterprise Survey, 2011.

Iraq. However, the GOI has begun to explore policies toward reducing the footprint of SOEs, fostering a more effective public sector, and training its public employees with skills that would allow them to eventually also succeed in the private sector. To this end, it can further identify ways to move public employment from less productive to more productive SOEs, and consider schemes to pay public sector employees to train and build skills, instead of carrying out unproductive work.

**The weak skills base will exclude many young Iraqs from opportunities, and may eventually begin to hamper reconstruction.** Human capital embedded in practical entrepreneurial, technical and vocational skills has been depleted in Iraq. Reconstruction will create demand for related skills – to reconnect houses to basic services, or foremen, mechanics and construction workers to rebuild Iraq’s infrastructure, or drivers to revive its transport system. This demand will balloon as reconstruction gains speed and scale. However, these opportunities will remain out of reach for the many young Iraqis who lack the most basic training. In addition, the more reconstruction succeeds, the more likely is a weak skills base to become a drag on productivity. Typically, the traditional education system is the first-best channel for producing vocational skills. But while the necessary investments and policies must be made now, there is also a need for novel approaches to serve the pressing need to train unskilled Iraqis in the short term in skills that will be in high demand during reconstruction and beyond.

**Figure 1. Leading markers of the jobs crisis in Iraq.**



## B. Options for short-term job creation at large scale

**Reconstruction and stabilization in Iraq call for a vigorous jobs strategy, but an unconventional approach is needed to make progress in the short term despite important obstacles.** The prevailing social, political and economic conditions in Iraq present a compelling case for the GOI to launch a strategy that creates large numbers of jobs in the short-term. In the aftermath of one of the most ominous regional conflicts, Iraqi citizens of all sects expect a peace dividend, and many will use scale and speed of job creation as a measure of the GOI's commitment and capability. Several binding constraints will bear on any short-term jobs strategy. Investment climate and public sector reforms will need time to have an impact on job creation. Therefore, a short-term jobs strategy must proceed and succeed without them. A large share of job seekers lack basic skills and the traditional education system cannot effectively train those without skills in the short term. Above all, the threat of fragility and national security-related challenges will continue to depress demand and investment, and will require the GOI's unrelenting attention and engagement.

**This paper uses three criteria to identify sectoral and cross-cutting options for short-term job creation in Iraq:**

- (i) Is there a credible opportunity to support job creation in the immediate term?
- (ii) Is the sector jobs-intensive?
- (iii) Is business in the sector potentially sustainable and competitive in the longer term?

**In addition, certain overarching considerations should feature in any short-term actions on jobs that GOI takes:**

- (1) The approach should be implementable concurrently in regions where the jobs challenge is pressing, since speed and scale of job creation are crucial.
- (2) While it is critical to create jobs for all, the excluded groups should receive special attention.
- (3) The actions should serve to revive GOI's credibility. Actions that demonstrate sect-neutrality and a true commitment to creating jobs for all Iraqis are important to buy the government the necessary goodwill to see its strategy through implementation, and embark on longer-term reforms.
- (4) Where possible, job creation in the short run should lay the ground for future sustained job growth. To this end, the GOI should accord special importance to enabling small and medium enterprises (SMEs) and the larger private sector to participate in job creation wherever possible. As the shortage of simple vocational skills for reconstruction can stymie job creation, the short-term jobs strategy should foster the generation of these skills.

**The following three options have potential for short-term job creation:**

- 1. Construction and public works.** Reconstruction and repair is expected to span at least a decade and will be supplemented with new infrastructure projects and maintenance. This will make the sector an ongoing activity in the economy. By nature, reconstruction and repairs can commence immediately, and are potentially jobs-intensive. In addition, there is a private sector and SME presence in the construction and construction materials sectors, so that there is a direct opportunity for the GOI to use its investments to help build private sector capacity.
- 2. Agriculture and agribusiness to improve food security and generate jobs, particularly for women and returning IDPs.** A revival of agriculture offers opportunities for immediate permanent job creation in farming and livestock, as there is a reservoir of skill, demand for food, and private ownership to offer an impetus for growth and sustainability. A revived primary agriculture sector will boost job creation through SMEs as farm-to-firm related services and processing scale up the agribusiness sector.
- 3. Support to SMEs and vocational skills development for jobs in services and across other sectors.** SMEs are active across the economy, including in service sub-sectors with short-term jobs potential, such as transport, IT, (religious) tourism, food and beverages, and retail trade. With the scaling-up of infrastructure and agriculture, SMEs will be able to seize some opportunities and create new jobs through backward and forward linkages. At the same time, it will be difficult for the large number of unskilled job seekers to benefit from new opportunities. Policies that foster vocational skills are a promising way of promoting access to jobs across all productive sectors.

**The rehabilitation of infrastructure, and demand driven by successful job creation can benefit productivity and job creation beyond construction and agriculture.** Construction and maintenance of roads, ports, irrigation systems, and other infrastructure lowers cost and raises productivity. This has the potential to create jobs in the many types of businesses across the economy that rely on these services. Similarly, agriculture and construction activities can give a demand boost to linked businesses and foster their ability to create jobs. This is the case for firms directly linked to the sectors – for instance, food processing and construction materials, but also transport and retail trade. A large enough – and jobs-intensive – recovery in the two sectors also has the potential to raise aggregate demand and fuel recovery of the economy as a whole.

**Other sectors in Iraq's economy do not pass the three-point test.** For example, export-oriented light manufacturing creates large numbers of jobs in lower-income countries, but Iraq's income levels are not competitive. Moreover, the prevailing insecurity and poor investment climate are a strong deterrent to new investors in the manufacturing sector. Domestically-oriented manufacturing of fast-moving consumer goods may be a medium-term perspective. There is some scope for a revival of Iraq's heavy manufacturing industries, including through reforms to the inefficient SOEs in the sector. However, the sector is not jobs-intensive; scaling up presents a medium to longer-term agenda.

## 1. Construction and public works

**Reconstruction and repair offer the most obvious opportunities for short-term job creation, but policies are needed to ensure Iraqis benefit.** As the reconstruction of Iraq and the rehabilitation of its long-neglected infrastructure commences, the combined demand for construction labor and related services can support large-scale job creation in the short term. Construction and public works can create employment for Iraqis of all sects, in rural and urban areas, and across the country. This offers GOI a prized opportunity to signal its commitment to attend to the needs of all Iraqis fairly and transparently. It also provides GOI a leverage point to support SME development at significant scale, while circumventing obstacles that make other approaches to SME support difficult. However, post-conflict experience shows that demand does not automatically translate either into business opportunities for local firms or into jobs for local communities. Benefits may be limited where an excessive number of projects are led by international companies, or rely on capital-intensive processes or even imported labor. The goal of GOI policy must be to ensure that the opportunity benefits Iraqis.

*In the short-term, the construction sector offers significant opportunities for job creation.*

**The winding down of conflict reveals that Iraq has a colossal deficit in infrastructure caused by destruction in areas of active fighting, but also by a lack of maintenance over decades.** In addition, there is a huge backlog in the delivery of basic services. Some infrastructure projects, such as new interstate highways, airports, and dams have long gestation lags and are a longer-term proposition. However, in the short term, there are many achievable construction projects that can create large numbers of jobs across the country:

- (i) Across the country, there is a considerable backlog in the restoration and maintenance of basic infrastructure such as access roads, bridges, irrigation and drainage channels, sanitation, and electricity connections. The Damage and Needs Assessment for Iraq estimates \$16bn in investment needs in reconstruction alone.<sup>7</sup>
- (ii) In the housing sector, a 2012 USAID estimate showed a shortfall of 1-3.5 million housing units even prior to the height of the internal displacement crisis. The World Bank estimates that almost 30-40 percent of the population lives in very poor housing conditions.<sup>8</sup> Financing needs are estimated to amount to \$17bn.<sup>9</sup> In liberated areas in particular, public buildings and office space are also in disrepair. For instance, a 2016 Ministry of Education Survey found that about half of the school buildings in Iraq needed rehabilitation or reconstruction. After the liberation of Mosul, these numbers have increased.

**Public procurement offers the GOI a direct opportunity to support jobs and foster private sector development at a significant scale.** The National Development Plan 2018-2022 envisions a rise of the

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<sup>7</sup> Iraq Reconstruction and Investment: Damage and Needs Assessment of Affected Governorates, World Bank, 2018.

<sup>8</sup> Emergency Operation for Development Project, Project Appraisal Document, World Bank, 2015.

<sup>9</sup> Iraq Reconstruction and Investment: Damage and Needs Assessment of Affected Governorates, World Bank, 2018.

share of private capital by 2022, but recognizes that public investment is likely to still play a large role, and a role that is not limited to the oil sector. Thus, by 2022, public investment is expected to account for 75 percent of capital investment in electricity and water (compared to 81 percent in 2015), and 40 percent in construction and buildings (43 percent in 2015). This implies planned public investments of about \$2.6bn in the water and electricity sector and \$845m in the building and construction sector each year through 2022.<sup>10</sup> These projections are based on the assumption that oil revenues remain stable. With the right policies, these important public investments given the GOI a unique opportunity to favor job creation, and to support SME development.

**There is substantial private sector activity in the construction sector and linked industries that could potentially benefit from this demand boost.** Fifteen percent of all private sector employment is in the construction sector. Private firms routinely bid for smaller contracts in World Bank projects, and are sub-contracted by SOEs to carry out the principal activities for larger contracts. In addition, there is the potential for indirect jobs through backward linkages. Indeed, the construction materials industry is one of only two manufacturing sub-sectors in Iraq (in addition to food processing) with a meaningful level of private activity (see Figure 3B). Reconstruction is also likely to boost some supporting services, such as security services, food and beverages, logistics and transport, and telecommunications. In the medium term, domestic light manufacturing might become more viable due to the demand for fast-moving consumer goods associated with residential construction. Finally, infrastructure rehabilitation is likely to reduce the cost of doing business for private firms, as well as to significantly enhance the mobility of individual Iraqis, and their ability to participate in economic life. This is particularly true of those who are poor and reside in rural areas, with inadequate connections through unpaved roads. For example, poor workers in non-wage agriculture are more likely than others to live on unpaved roads and to live more than five kilometers from a market.

#### Who can deliver infrastructure reconstruction?

**Jobs in the short term will be best-served by relying on local private business and public works.**

Reconstruction and repair can in principle be carried out in four ways:

- Traditional government-driven delivery, including through SOEs;
- Foreign construction conglomerates;
- Local private construction businesses;
- Public works.

The traditional model of infrastructure delivery in Iraq is mired in an inefficient bureaucracy and regulatory system. It is unlikely to serve large-scale reconstruction needs efficiently, or to create large-scale employment in the short term, beyond jobs that already exist in SOEs. Large foreign construction conglomerates are certain to be involved in marquee infrastructure projects. However, delivery through the local private sector should be encouraged where possible, as a way of favoring more labor-

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<sup>10</sup> Calculation based on the investment amounts shown in Table 9 of the NDP Summary, and assuming that the share of private investment rises linearly from the 2015 values to the 2022 values shown in Table 12.

intensive processes, and to encourage multiplier effects that may not arise through foreign firms. Public works are an important alternative where a local private-sector response is unlikely to be vigorous enough. They also allow GOI to emphasize access to jobs to assist in the reintegration of former militia members, and for disadvantaged groups, including IDPs and returnees, as well as their host communities. Public works and delivery through smaller local firms may not uniformly deliver high quality. However, in cognizance of Iraq's political reality, the government must consider in its assessment of the costs and benefits of different ways of undertaking construction the social externalities that arise where it creates local jobs and foster local business. Thus, the *Vision 2030* Infrastructure Note recommends embracing pragmatic, best-fit options to address immediate challenges related with infrastructure and related services restoration.

**Reconstruction policy – and changes in the way Iraq undertakes maintenance – can support job creation without downsizing in SOEs.** Much like business climate reform at large, construction SOEs are unlikely to reform rapidly. However, the process needs to begin – by deepening steps toward greater transparency, integrity, and accountability in public procurement, and by adopting a vision of SOEs behaving as more like that of private businesses, and being governed by less politically dependent boards. In addition, local hiring requirements make sense for SOEs bidding for government contracts. Private construction companies are active, but hampered by poor access to credit, government arrears, outdated procurement and contract management, rules on registration and classification that have the effect of restricting competition, and the political clout of SOEs in bidding processes. Yet, the GOI has a range of attractive opportunities to directly support SMEs through changes in its procurement process – some of which have been successfully developed at the sub-national level in the Kurdistan region. Thus, to enable greater private-sector participation, the GOI should consider giving priority to local private enterprises in bids, in recognition of the social and economic value of carrying out projects through SMEs (at least for a certain share of projects bid out). To create opportunities for the large majority of small businesses that are informal, the GOI could weigh simplifying or temporarily waiving some registration and classification requirements for the smallest contracts likely to be within reach of small firms. In addition, the GOI could make bidding more financially viable for small firms by ensuring rapid payment of contracts, introducing SME preference programs and policies, and easing the requirements for small bidders to provide securities. Financial market interventions could target relief from government arrears, or revive Iraq's housing loans scheme. It is worth noting that the hurdles for SMEs to become engaged may be lowest in maintenance contracts (where there is, in addition, the prospect of durable business opportunities). In the somewhat longer term, an effective public-private partnership (PPP) framework could provide business opportunities for private enterprises in operation and maintenance at larger scale.

**Past experience suggests that simple construction projects in Iraq can create one new additional job for every \$5,000 invested in simple projects, and \$25,000 in more complex ones.** While any estimate of cost per direct (indirect) short-term job created from construction investment in Iraq is necessarily very uncertain, information provided in Estache et al. (2013) suggests that one could reasonably expect the construction of buildings to create one job for roughly every \$25,000 invested, and road and other

simple construction activities to create one job for about every \$5,000 invested.<sup>11</sup> Each \$100m invested in roads and simple infrastructure would therefore be expected to be associated with about 20,000 short-term jobs, and \$100m invested in building construction and more complex infrastructure, 4,000 jobs. Assuming equal amounts invested in simple and more complex infrastructure, a reconstruction investment of \$7.5bn could provide jobs for one in five Iraqis currently unemployed.

## 2. Agriculture and agribusiness

### Why agriculture and agribusiness?

**Agriculture offers the potential to create jobs in the immediate term, in particular for groups now excluded from other opportunities.** The agriculture sector is an integral part of the Iraqi economy and embodies the skills and expertise required to support large-scale job creation in the short term. An emphasis on agriculture and agribusiness in job creation has several advantages. The need for jobs is certainly great in rural areas, where some 31 percent of the Iraqi population resides: about one in three members of the rural labor force is unemployed. At the same time, with 20 percent of total employment in agriculture, the sector makes a large contribution to overall employment, and offers the potential for job creation at scale.<sup>12</sup> Jobs created in rural areas reach women, and the poor; the sector is also vital to the future prospects of returning IDPs and their home communities. Jobs in agriculture require modest skills that can be developed in the short term; and a stronger agriculture sector could play a crucial role in Iraq's food security.

**Agriculture in Iraq has profoundly declined.** Historically, Iraqi agriculture was an important source of jobs and food for its citizens, but decades of conflict and sanctions have gradually eroded its performance. Today, half the cereals consumed are imported, and the share of food products in Iraq's import basket is 20 percent (Figure 2, Panel A and B). While food dependence is not unusual for an oil exporter, conflict-battered and neglected transport networks have limited access to major trading routes, which raises import bills and exacerbates concerns about food insecurity. Already, 2.4 million people across the country require food security assistance (FAO 2016). Reach and Big Heart (2016),

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<sup>11</sup> Estache et al. (2013). Infrastructure and employment creation in the Middle East and North Africa. World Bank. Estache et al. (2013) do not provide dedicated estimates for Iraq. To approach likely cost, we first note that, among MENA countries discussed in detail in the report, the elasticity of employment to infrastructure investment in Iraq is similar to Morocco, Lebanon, and Libya (Table 4.3). Among these three, the median cost per direct (direct, indirect, or induced) job in building construction is \$33,036 (\$20,268), and in road construction, \$5,302 (\$4,865) (Tables 3.7 and 3.6). Secondly, we note that Estache et al. provide an estimate of cost per direct (direct, indirect, or induced) job from any infrastructure investment in MENA developing oil-exporters of about \$21,000-25,000. At the project level in the MENA region, cost per job-year FTE \$5,818 in public works supported by the World Bank through Egypt's Labor Intensive Public Investment.

<sup>12</sup> *Vision Agriculture Note*. In the IEHS, in 2012, the share of agricultural employment in total employment was nine percent.

quoted in FAO (2017), find that since the Daesh occupation, Iraq has additionally lost 40 percent of the agricultural production in predominantly agricultural provinces.<sup>13</sup>

**A revival of agriculture would have the potential to be a boon for jobs.** Production in primary agriculture is labor-intensive, with a labor share of about 40 percent of total factor share, compared to a share of capital and machinery of less than 15 percent (Figure 2F). It is important to note that, in the immediate term, the goal of recovery is to allow Iraqis to return to farming activities they used to carry out, including until quite recently. There are two important implications to this fact, as far as the potential of agriculture to foster jobs growth is concerned. First, while successful recovery might in the medium term imply more capital-intensive production, it may be reasonable to assume that a resumption of activities would not immediately involve a leap to much lower labor intensity. Secondly, while it is important to ask whether cultural reservations and reservation wages might lead unemployed Iraqis to reject work in agriculture, this concern is less acute for those returning to farming. Further, tradition-constrained rural Iraqi women who are presently excluded from the workforce in other sectors will benefit disproportionately. Thus, women hold a far higher share of jobs in the sector than in the economy at large: between 1980 and 2010, the share of women in agriculture increased from 30 to 50 percent, and it may now be as high as 60 percent.<sup>14</sup> This compares to a share of women of just 9 percent among all employed. Employment in the sector is particularly important for less-educated women.

**Linkages in the food system could become a source of additional jobs.** Scaling up agriculture in Iraq also has the potential for spillovers for job creation in industry. In Iraq, food processing is the manufacturing subsector in which the most private firms – the large majority of them informal – are active (Figure 3B). Forward linkages are therefore quite likely to help generate jobs. Among these, jobs in home-based production could provide further opportunities for women who have little other access to jobs. If recovery proceeds well, it could also nurture the revival of larger downstream industries such as a sugar processing plant that was abandoned by private owners. Finally, there are also possible backward linkages through new demand for industrial inputs – fertilizers, chemicals, seeds, among others. These are, however, capital-intensive industries dominated by SOEs.

**A 10 percent increase in primary production may generate revenue for farmers and farm workers equivalent to 126,000 jobs, in addition to jobs in services and manufacturing.** Agriculture value added in Iraq was about \$8.7bn in 2016 (World Development Indicators). The factor shares shown in Figure 2.F can help provide a sense of what may be the jobs implications of such a recovery. We make the conservative assumption that farmers and farm workers appropriate only the value added due to labor and land, and also assume that an expansion of production at the margin would utilize the same factor input mix observed at the mean. With these assumptions, a 10 percent recovery in agriculture would translate into nearly \$400m in additional revenue. Some of this revenue will be additional income for those already active in agriculture, that is, better jobs. Some of it will go to new hires, that is, additional

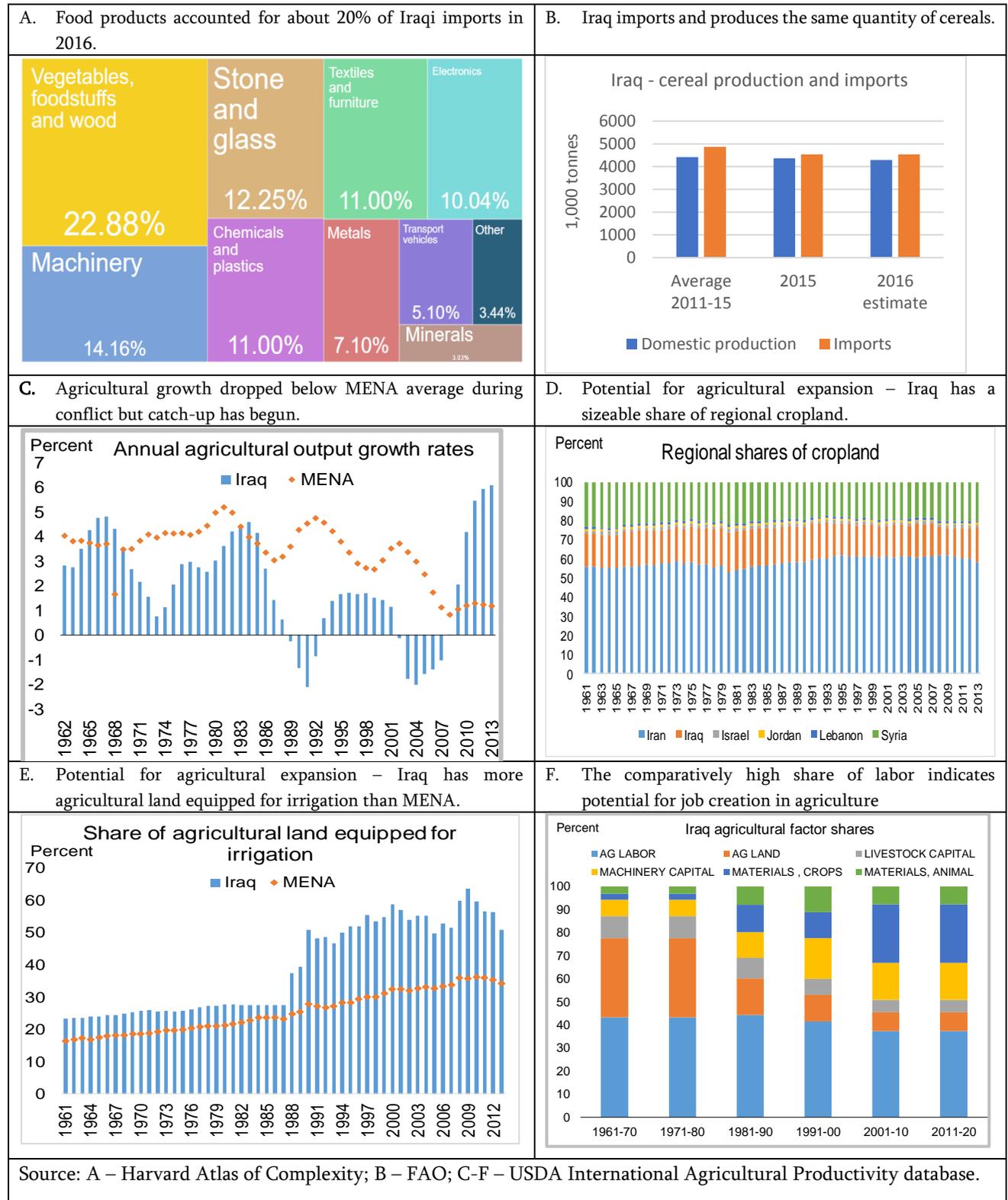
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<sup>13</sup>Reach and Big Heart, 2016, *Agricultural Market Assessment*. FAO (2017), *Near East and North Africa Regional Overview of Food Insecurity 2016*.

<sup>14</sup> *Vision 2030 Agriculture Note*.

jobs. To provide a sense of the scale of the potential jobs impact, one can note that the revenue increase is equivalent to about 126,000 times the average wage of workers in agriculture, or about 174,000 times the average consumption of a household of four (IHSES 2012). These estimates only consider the benefits of recovery to those who are directly working in agriculture; in addition, other jobs would be created or improved throughout the economy in linked businesses.

**Figure 2: Agriculture has potential to serve as an important source of food and jobs in the short term.**



## There is potential for a recovery in agriculture

**By regional comparison, Iraq has an abundance of land potentially available for production.** Only about 22 percent, or 9.5 million hectares, of Iraq's land area is arable land suitable for agriculture. However, relative to other Middle Eastern and North African countries, this represents a sizeable acreage – and with only five million hectares currently cultivated (mostly on small farming units), there is a large potential in principle to expand tillage (Figure 2D; see also *Vision Agriculture Note*). Similarly, in Iraq, 60 percent of tilled land is irrigated, relative to an average of about 30 percent in the Middle East and North Africa, although the scarcity of water and salinity have emerged as important constraints to agricultural expansion in the short-term (Figures 2 D and E).

**There is potential for diversified production.** Unlike other sectors of the Iraqi economy, agriculture remains somewhat diversified, and was more diversified in the past. About half of the cereals consumed are produced domestically (Figure 2B). The country also produces vegetables, dates, figs, as well as grapes, raisins, and other dried fruit. Indeed, dates are the one export item that registers next to oil and precious metals. Date cultivation and processing is labor-intensive. In addition, fisheries are an important source of income for the rural population. Iraq also raises a significant number of livestock including sheep and goats, cattle, camels, and buffaloes. Indeed, when Iraq was conflict-free, livestock production represented 30-40 percent of the total value of agricultural production and contributed significantly to household nutrition. It remains to be seen in which of these sectors Iraq may hold a comparative advantage in the medium term. Yet, in the short run, there clearly is a range of activities that can resume and provide urgently needed jobs.

**With the right investments, vigorous domestic demand could fuel a successful recovery.** Despite poor access to markets, in areas of Iraq that have been relatively stable, agricultural growth has picked up, and catch-up growth rates have exceeded growth in the Middle East and North Africa (Figure 2C). The area planted to wheat more than doubled over the years 2008-2014, with a concurrent rise in seed use. This reversal could continue. Firstly, public works can rebuild rural infrastructure that has fallen into disrepair or has been destroyed. Such reconstruction projects could include rural roads to connect farms to markets and irrigation channels that will enable farm owners to resume production. Secondly, in post-conflict areas, recovery can make important first gains by replacing lost livestock, machinery, and other capital inputs. Thirdly, international experience has shown that adoption of relatively basic technologies can boost agricultural productivity in the short term. Finally, there is high demand potential: food shortages satisfied presently by imports have created a substantial demand for farm fresh and processed food. Thanks to private ownership, growth of these components is not contingent on public sector reforms. On the public side, however, there is also the potential to shift cereal sourcing in the Public Distribution System from the current parity between imported and domestically produced cereals.<sup>15</sup>

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<sup>15</sup> There is an urgent need to understand the way the Public Distribution System currently shapes the product markets. While it is certain that the system induces price distortions, these could be both beneficial – a virtual uptake guarantee – and negative.

**Some important constraints to agriculture are immediately actionable.** In the 1980s, growth in Iraq's agriculture sector was often higher than in the Middle East and North Africa region (Figure 2C), but conflict and lack of reforms have disrupted access to key inputs and links to markets, fueling import dependence. On the input side, FAO (2017) finds that contributors include: (i) damaged machineries and tools, (ii) reduced access to irrigation equipment (currently 20 percent of farmers have access to irrigation compared to 65 percent before the conflict), (iii) lack of fertilizers, pesticides, and seeds have increased due to the suspension of government input provisions, import and transport regulations that prevent the use of fertilizers, and damage to transport and infrastructure, and (iv) lack of finance for repairing or replacing equipment and tools. The resulting damage to crop and livestock production has been significant: some areas have lost up to 95 percent of livestock. These constraints can in principle be addressed through policies and programs that are well understood. In the area of finance, the domestic banking is unlikely to offer a short-term solution. Since lessons from experience show that improved access to finance for both farmers and input dealers is critical for success, the GOI should consider alternative paths to alleviating the finance constraint, perhaps through a revival of its subsidized agricultural credit program.

**Displacement, water scarcity, soil degradation, and land markets pose more profound obstacles to recovery, and must be addressed.** Its potential for job creation notwithstanding, the agriculture sector faces significant constraints to recovery. The most fundamental is to ensure that land owners can return to plough their land. This means ensuring that internally displaced Iraqis of all sects and backgrounds can come back to their home communities. It also means addressing damaged irrigation systems, an inadequate water supply, and very significant problems with soil salinity. FAO estimates that approximately 60 percent of cultivated land is negatively affected by salinity, and 20-30 percent has been abandoned because of salinity. It is important to note that gains in water use efficiency are likely crucial to ensuring that a recovery in agriculture does not create the kind of unsustainable water stress observed in other countries in the region, and erodes gains made in the sector.<sup>16</sup> There is also a need to better understand how land markets and tenure impact prospects in agriculture. A recent IFAD review reports that land markets are informal, and the government still owns two thirds of the land, but also judges tenure to be somewhat functional, and considers that the poor have a degree of access.<sup>17</sup>

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<sup>16</sup> Gassert et al. (2013). "Aqueduct country and river basin rankings: a weighted aggregation of spatially distinct hydrological indicators." Working paper. Washington, DC: World Resources Institute, November 2013.

<sup>17</sup> IFAD (2016). *Iraq – Smallholder Agricultural Policy Analysis*.

### 3. Enabling recovery: support to SMEs and vocational skills

**An effective jobs strategy should support SMEs and vocational skills training in order to boost job creation from construction and the food system, seize opportunities in other sectors, and build business capacity.** Previously, we have identified two sectors of the economy with the potential to create large numbers of jobs in the short term. In addition, the GOI can consider two key actions to enable recovery that matter for construction and agriculture, but also cut across sectors. The two actions proposed are broad-based support to SMEs, and unconventional support to vocational skills. Support to both is needed to (i) maximize the job impact of investments in construction and agriculture – in particular, in the service and manufacturing sub-sectors likely to see an increase in demand through linkages to agriculture and construction. It is also crucial in order to (ii) seize short-term opportunities in sectors beyond these two sectors, and (iii) strengthen business capacity for the longer term.

**Most private sector activity is in SMEs – support across sectors is not easily achieved, but there are some starting points**

**Sixty percent of jobs in Iraq are in the private sector; most of them are in SMEs, in services, and in the informal sector.** Iraq's private sector creates about 60 percent of all jobs; about 30 percent of all jobs are in private business in the services sector. The investment environment has stifled large private firms, and large employers tend to be SOEs. By way of contrast, SMEs are active across sectors, and can form the basis for jobs growth in the private sector. SME employment is concentrated in particular in commerce (retail and wholesale trade), transport and communications, and construction.<sup>18</sup> The sector is largely informal.

**Business climate reforms are crucial to allow job creation in SMEs.** The poor business environment has hindered job creation through SME development. Long-term job creation through SME growth will require wide-ranging structural reforms, to allow for reliable access to electricity, build a banking system that provides real services to SMEs, and create a more level playing field between SOEs and private businesses. These reforms are a longer-term agenda, but the GOI should not delay further steps to deepen the important changes already begun.

**In the immediate term, government procurement offers a direct opportunity for support to SMEs at scale, and some marquee foreign investments could offer targeted opportunities at a limited scale.** Taking cognizance of how its policies have thwarted a key source of job creation, the GOI can create more space for SME participation in its current economic activities. A prominent opportunity is to give preference to local sourcing and hiring in procurement contracts. Some preferential treatment in the award of construction contracts is one current positive example of such support. Foreign investors also have some potential to foster SME development – but not without specific policies and arrangements that provide special incentives. 'Indirect Offsets' are an example of how GOI can require foreign firms benefiting from oil and defense contracts to promote SME development. In the longer term, similar support can be asked of firms investing in Iraq's reconstruction in capital-intensive sectors such as energy, transport and power.

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<sup>18</sup> *Enterprise Survey 2011*

**Investment in agriculture, construction, and religious tourism can boost demand for SMEs, in particular those active in services.** A short-term job strategy led by agriculture and construction will provide business opportunities for SMEs. We have argued that SME job creation in construction will benefit if the agencies implementing construction and public works rely as much as possible on local private businesses. Agribusiness also has abundant employment potential in the short term, if progress can be made in agriculture recovery. The presence of SMEs in activities such as transport to farm and to market can facilitate job creation in the short to medium term, unconstrained by government regulations and delays due to overdue reforms. Home-based businesses can create opportunities for women excluded from other segments of the labor market. Business opportunities for IDPs and returnees who were previously active in commerce deserve particular attention. In the longer term, budding SME involvement can foster upstream industries for agro-processing and modern services. Beyond these two sectors, religious tourism is worth highlighting as an additional source of demand. The sub-sector has shown remarkable resilience throughout the years of conflict, and it is estimated that in 2014, it supported 161,000 jobs directly, and 447,000 when linkages are taken into account, with a high elasticity of employment to income growth of 0.54 over the years 2009-2014.<sup>19</sup> The facilities and transport religious tourists use are mostly basic, and there is much potential for services that provide greater value added.

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<sup>19</sup> Source: Central Bank of Iraq, Balance of Payments; Ministry of Planning.

**Figure 3: private business are important employers and have a presence in construction materials and food processing**

Figure 3A. In 2014, 60% of total employment was in the private sector - construction, commerce, and transport were the largest employers.

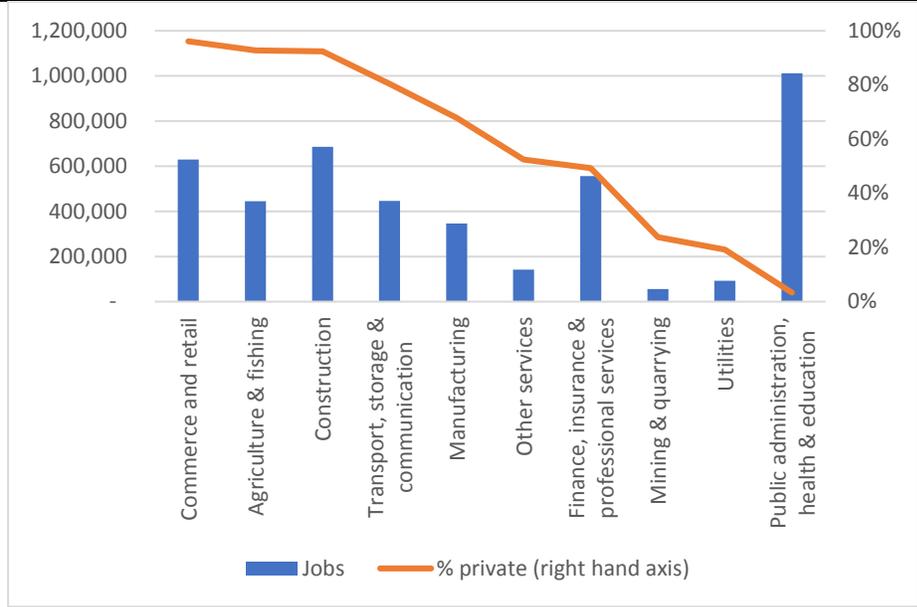
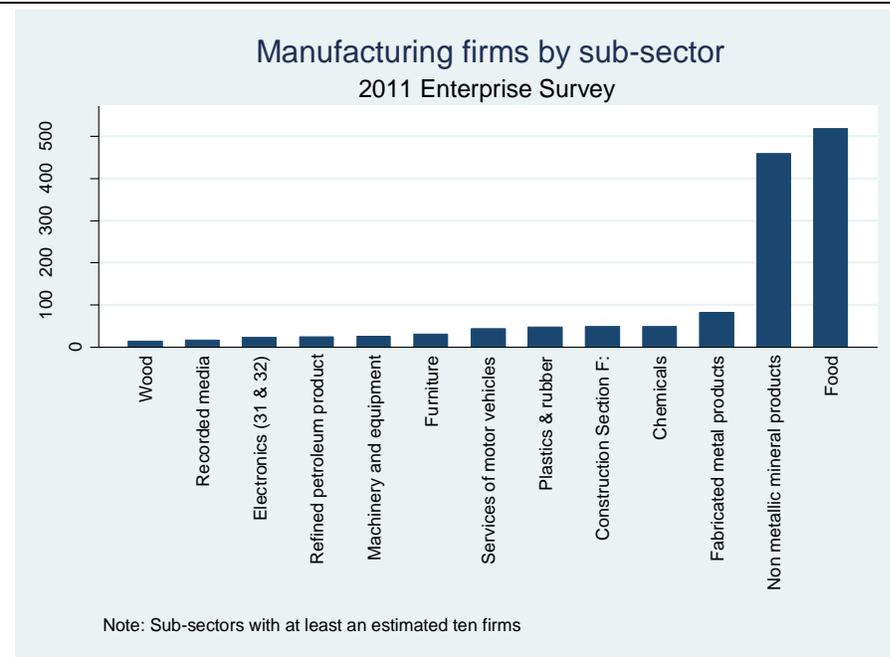


Figure 3B. In manufacturing, private sector activity is most common in construction materials and food processing.



Source: 2014 IHSES, 2011 Enterprise Survey.

**SME support at project scale can help sow the seeds for a better business environment at large.** Across the Middle East and North Africa region, the World Bank Group (WBG) has supported SMEs, and the relevant instruments are well-understood. In Iraq, the difficult business environment closes some entry points in the immediate term. However, there are possible starting points. These include projects that finance community investments and deliver them through the private firms wherever possible. The World Bank's *Emergency Operation for Development* has made a concerted effort to streamline bidding processes and make them as accessible as possible to SMEs, and the *Social Fund for Development* envisages an SME window. The MENA experience suggests that the potential scale of job creation at the project level can be significant, though far from adequate in itself compared to the needs in Iraq.

To help the lowest-skilled Iraqis access jobs, Iraq should support vocational skills training, including through unconventional means

**Vocational skills are indispensable to allow the lowest-skilled Iraqis access to jobs, and can support reconstruction and recovery.** About 35 percent of Iraqis aged 15-24 do not have complete primary education. It is essential for stability as well as poverty reduction to facilitate their access to jobs and reasonable prospects for advancement. The opportunities this note identifies will create demand for basic activities that do not require technical training. Examples include brick layers and manual laborers; janitors, hotel and restaurant workers, sales workers, farm and non-farm jobs in rural areas. These jobs require basic literacy; other training is usually done on the job. They are in principle accessible to the lowest-skilled Iraqis. In addition, recovery will yield demand for somewhat more complex jobs that have some technical content. Examples of the latter include foremen and contractors, plumbers, electricians in construction and housing, drivers and mechanics in trucking and transportation, managers and supervisors for manufacturing and service industries, office support workers, and agricultural extension workers. Vocational skills (VS) training can help low-skilled Iraqis access these opportunities. It is also worth noting that, while it is not clear whether VS are likely to become a constraint on recovery (or indeed, whether soft skills or a lack of intermediation is likely to limit recovery), investment in VS to increase access to jobs would have the co-benefit of ensuring that there is a sufficient reservoir of skilled workers.

**Crash courses can provide vocational training in the short run.** Most Iraqis who need VS training will not have the necessary academic qualifications to enroll in secondary or tertiary education programs which provide VS. Nor does Iraq currently have a system that can deliver on a broad base and in the short-term. However, most VS can be produced through short-term crash courses, for example, through three to 24-month evening or day courses. Global experience shows that with efficient policies, Iraq can indeed achieve the objective of providing effective training for the first steps toward better job opportunities.<sup>20</sup> Toward this goal, two questions need to be answered: (i) who can provide

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<sup>20</sup> At the same time, it is well understood that, much as investments for immediate job creation are indispensable but no substitute for structural reforms, VS development also is not a substitute for a resumption of effective regular schooling. How these traditional paths to training can contribute to job creation in Iraq is discussed in the *Vision's* Education Note.

training that effectively aligns with market demand, and (ii) how can one incentivize job seekers to consider training.

**Providers must seek to target skills for which there is market demand, and it is worth looking for ways to set explicit incentives for such a focus.** Skills training can only make a difference in helping trainees access jobs if there is demand for the skills they acquire. International experience shows that it is not an easy feat to align training provision with market needs. At a minimum, providers should keep close tabs on which skills are in demand, and be prepared to adapt their programs. In addition, there is currently much interest in working with training contracts that tie some share of the providers' payments to success in placing trainees in work. Where possible, this model should be considered, although it is worth acknowledging that in Iraq's tight labor market, such a results-based payment approach may be quite risky for providers. As noted, the traditional schooling system is ill-equipped to churn out large-scale VS in the short-term. Instead, domestic NGOs and businesses can contribute to their delivery, in addition to international NGOs (who are currently deeply engaged in providing education for the displaced). Working with a multitude of providers poses challenges, but does offer the opportunity to try out different approaches in pursuing market alignment.

**A 'train for cash' program could provide the necessary incentives for participation.** International experience suggests that it will not be easy to motivate unemployed Iraqis to enroll for VS training, as long as training does not generate an income. Given living expenses, tuition waivers are rarely enough. A 'train for cash' program could overcome this motivational hurdle and offer youth an opportunity to earn for a fixed period a small income in the form of a stipend, while they complete a market-relevant skills training program. Development partners have gathered useful experience with such approaches, for instance in UN Habitat programs providing paid skills training for IDPs. In addition to advancing VS, a 'train for cash' program could be a strategic entry point for the GOI to flag its commitment to job creation for all Iraqis in the short-term, and to build trust. According to needs and the GOI's priorities, 'train for cash' programs can be tailored toward excluded groups – for instance, forcibly displaced communities – who are also excluded from the traditional schooling system. It can also complement technical training with mentorship to build the soft skills needed to help young IDPs, former militia members, and others find a firmer foothold in the labor market. As noted above, a companion program could also allow public employees with unproductive assignments to enroll in training activities.

### **C. How can Iraq finance large-scale job creation in the short term?**

**Business climate reforms must begin in order to attract private investments to finance job creation in the longer term.** Iraq is facing a very significant jobs challenge, and can ultimately only hope to tackle it if it changes the environment for businesses, and harnesses private investment to the task of providing jobs. Crucial areas for reform include the banking sector, access to reliable electricity, and a reduced footprint of the SOEs. Some important steps have been taken, but reforms will take time to unfold, and should be tackled without delay. However, meaningful reform requires a stable social and political environment – and to promote stability, it is essential that the GOI find ways to finance job creation in the short-term.

**The recent oil price increase offers the GOI a uniquely timely opportunity to invest in rapid job creation in a serious way.** To deliver jobs at the scale and speed desired for the reconstruction of Iraq, an effective short-term jobs strategy requires large-scale financing. As reported, the cost of reconstructing Iraq's infrastructure alone is estimated at around \$16bn, excluding the oil and gas sector. Given the difficult climate for private investment, the first-best financing option is traditional public investments. The recent increase in oil prices has reversed the budgetary outlook, and gives the GOI a uniquely timely opportunity to step in and invest in jobs at scale.

**Because of the scale and difficulty of the jobs challenge, meaningful investments in jobs require significant political will.** It is important to recognize that meaningful action on jobs will inherently require taking risks, because of the scale of job needs and because new delivery systems will be needed. However, a cautious approach that moves from one traditional project to another is also not a risk-free option for the GOI. On account of the urgency to mitigate the risk of renewed strife and discontent, and to show GOI's commitment to reconstruction and recovery for all Iraqis, it is worth looking closely at bold options, especially if they have been tested successfully elsewhere.

**It would be counterproductive to try to solve the jobs challenge by permanently expanding the public payroll.** The public payroll has risen in past years. This paper has argued that it should not be cut in the absence of other job opportunities. Rather than contemplating a reduction, it might instead be tempting to look to further expand the civil service and of SOEs as an apparent solution to the jobs challenge. However, this strategy would have serious drawbacks for jobs. Crucially, it would risk further squeezing the space in which the private sector can grow, rather than beginning to expand it. Furthermore, it begs future jobs crises when oil prices decline. As we have discussed, other forms of public investment for jobs offer a better balance of costs and benefits – for instance, public works, and financing schemes for agriculture investments and home construction.

**Concessional donor funding is insufficient to meet Iraq's jobs needs, but can have an important role in seeding investments.** In addition to significant past budget support, the WBG and other donors extend traditional financing for specific investment projects. While they cannot solve the jobs challenge at scale, they can help seed activities for GOI investment, bring in know-how, and buy down the discovery cost that comes with setting up new delivery systems. In addition, the good governance framework that adheres to investments by the multilateral development banks can be useful if GOI would like to consider exploring unconventional financing options to leverage its own resources and foster international private investment.

**Innovative financing arrangements could allow the GOI to leverage its resources for jobs investments, and set impulses for business climate reform.** The severe country risk and business climate constraints laid out make it unrealistic to rely on traditional foreign investment for job creation at scale. However, the GOI could look to use some of its resources under an innovative financing arrangement that reduces private investor risk and allows the GOI to leverage its own funds. For instance, the GOI could use a share of its incremental hydrocarbon revenue to endow a special purpose vehicle under a transparent governance structure, and seek to leverage private funds for jobs-intensive projects, perhaps with contributions from multilateral development banks and donors. SPV funds are ring-fenced and

managed through governing boards that comply with international best practice. The creation of such a structure could both reflect GOI's commitment to financing job creation in Iraq, and allow the GOI to test business climate reforms.

**Indirect offsets in lucrative contracts could attract some financing and knowledge for SMEs and labor force skills.** Iraq can also look to 'indirect offsets' as a further element of an unconventional financing structure. Indirect offsets create an obligation for investors taking on attractive contracts (for instance in the energy sector, or in marquee reconstruction projects) to invest in SMEs or vocational skills development, with the goal of nurturing the emergence of a strong Iraqi private sector. However, the advantages of offsets have to be balanced against a possible loss in the number of interested bidders for investments, and a potential decrease in transparency of the bidding processes.

## D. Conclusion

**The purpose of this paper is to provide a starting point for dialogue on job creation at scale in the short run.** This note has sought to (i) describe the pressing current job needs in Iraq; (ii) argue that the construction and agriculture sectors of the economy can anchor large-scale job creation during the reconstruction of Iraq; (iii) pinpoint SME support and vocational skills training as key actions that could enable a job-intensive recovery in the services sector and across the economy; and (iv) emphasize the scale of investment needed and the importance of political will.

**There is a set of policies with the *prima facie* potential to foster short-term job creation at scale.** Within each option it identifies, this paper has flagged concrete policy options – ranging from public works programs and policies to favor SME contracting to agriculture credit programs, and to a train-for-cash scheme. However, the purpose of this paper is not to detail or prioritize individual actions. Rather, it is to show that there is a set of actions that *prima facie* may have the potential to have a jobs impact at a meaningful scale, and to set the stage for dialogue on them. To develop concrete policy actions, more in-depth analysis is required, for instance, to understand the state of input and product markets in agriculture, or the specific needs of SMEs in construction materials and agri-processing – the two manufacturing sub-sectors with the greatest private business presence. Annex A summarizes some important questions that need to be tracked. The World Bank is already tackling a number of them through its initiatives, including the *Bringing Back Business* project.

**To meaningfully address Iraq's jobs crisis, the GOI must inform reconstruction activities with a sense of ambition and urgency.** Reconstruction in Iraq has begun. The GOI, the World Bank, and other international partners are engaged in each area discussed in this paper. What it has argued is that the scale of the jobs challenge Iraq faces is unusual, and calls for bold actions – and that there are credible paths for taking such action. Investments for jobs will have budget implications. While Iraq is looking to expand its investment budget, and currently has some fiscal space, actions must be carefully considered. Indeed, this paper has argued that investments should be selective, and targeted where they are jobs-intensive. The crucial next step is for GOI to define the level of ambition it wishes to pursue, and to shape the pillars of its own jobs strategy. In charting this path, it can be heartened by Iraq's

historical record of high skills levels, entrepreneurship, and success in its establishment of a more diverse range of industries than in many other countries in the region.

## Annex A: Important jobs questions to answer

<b>Agriculture</b>	<ul style="list-style-type: none"><li>- Does recovery rely on labor-intensive production or increasingly on mechanization?</li><li>- What is the status of key input and output markets (Public Distribution System as a buyer, SOEs in fertilizer and seeds, private alternatives)?</li><li>- What is the status of agriculture credit programs?</li><li>- What are the options for managing salinity and water scarcity?</li></ul>
<b>Construction</b>	<ul style="list-style-type: none"><li>- Which businesses in construction create large numbers of jobs, and what are their constraints?</li><li>- Are SMEs able to successfully bid for government contracts, and is there local hiring?</li><li>- What is the status of housing loan programs?</li><li>- What is the potential for productivity growth through standardization and joint ventures to build technical capacity?</li></ul>
<b>SMEs and access to jobs</b>	<ul style="list-style-type: none"><li>- Which SME sub-sectors can expect a demand boost, and what are their constraints?</li><li>- What is the state of SME credit markets?</li><li>- Do reservation wages limit interest in jobs in agriculture and construction?</li><li>- Is there a need for better job intermediation for women?</li><li>- What is the market access for home-based businesses for women?</li><li>- Which among the policies to help public sector employees retrain and seek private sector employment are showing promise?</li></ul>