



Iraq Labour Force Analysis 2003-2008

January 2009

Introduction

This paper is a first analysis of Iraq's latest labour force data¹ that builds a picture of the Iraqi labour force and establishes workforce trends since 2003. Its findings underline the fragility of Iraq's labour market and the damaging impact of unemployment and underemployment on its economic stability. The depletion of the 2009 fiscal budget due to the recent drop in oil prices will also impact negatively on the Iraqi labour market. The paper explains the consequences of these trends on household vulnerability and concludes with strategies to address these issues.

Key Conclusions

- **The economy is unable to provide enough work for 28% of the labour force.** Unemployment² in Iraq is 18%. A further 10% of the labour force³ is part time workers wanting to work more hours.⁴
- **Unemployment is concentrated and rising among younger men.** 28% of the male labour force aged 15-29 is unemployed compared to the national average of 18%.⁵
- **Only 17% of Iraqi women participate in the labour force.** Women without a university education make up the vast majority of non-participants.
- **Opportunities for private sector job creation have been limited by a dominant public sector, the absence of a conducive regulatory environment, high dependence on oil revenues and security issues.** The number of Iraqis employed in the public sector has doubled since 2005, with the public sector currently providing 43% of all jobs in Iraq and almost 60% of all full time employment.
- **The recent sharp drop in oil prices and absence of other budget sources make this level of public employment unsustainable.** High public sector salaries are straining the public budget, consuming over a third of planned government expenditure in 2009.⁶
- **Households without a civil servant wage-earner are now more vulnerable to poverty.** However, Iraq cannot afford to expand its public sector any further.
- **Without a concerted effort to boost the private sector, most of the 450,000 new entrants into Iraq's labour force in 2009 will not find secure jobs.** This could challenge socio-economic recovery and stability in many of Iraq's governorates.

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Participating Agencies and NGOs:

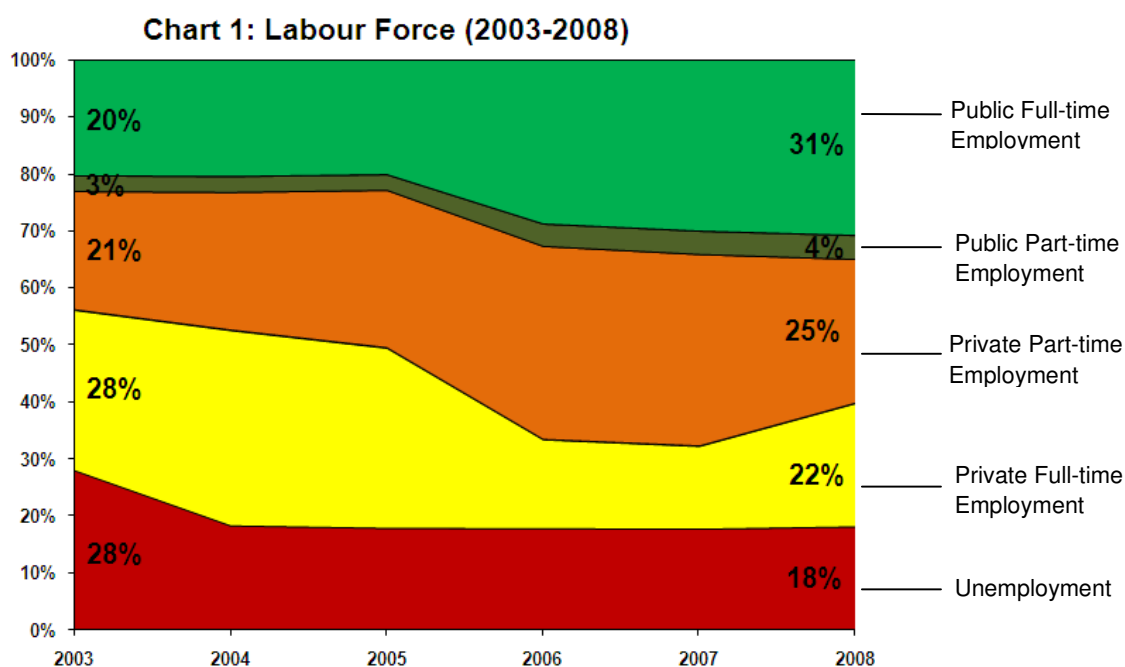
UNAMI, OCHA, UNDP, UNICEF, UNFPA, FAO, WHO, UNHCR, WFP, ILO, IOM, Mercy Corps, International Medical Corps, GenCap and IMMAP

Analysis: Iraq's Labour Market 2008

(1) Unemployment and part time workers:

Unemployment in Iraq is 18%, and a further 10% of the labour force are part time workers wanting to work more hours. Overall, therefore, 28% of the labour force remains underutilised.⁷

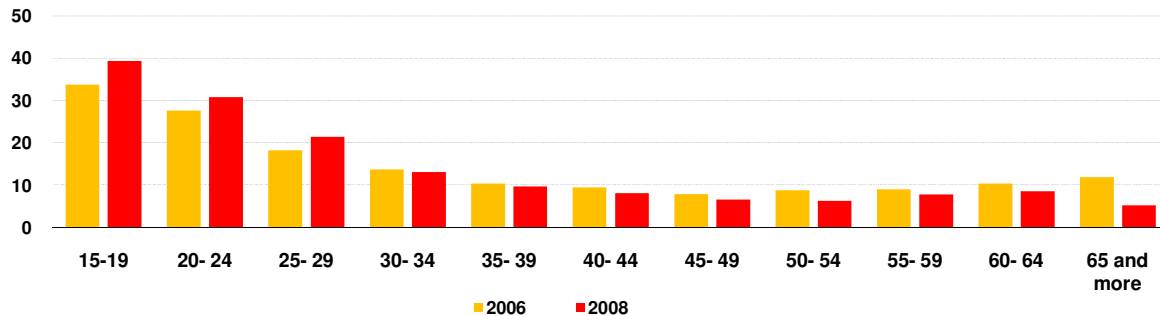
Iraq's unemployment rate has changed little since 2004 (see Chart 1).⁸ However, a closer inspection reveals a more complex situation.



Unemployment is concentrated and rising among young males aged between 15 and 29 (men in this age bracket make up 57% of all unemployed – see Chart 2), while decreasing among older workers. The government primarily employs older workers, leading to the drop in unemployment among older age groups. Between 2006 and 2008, there has been an increase in the labour force participation of those aged 45 to 64 (see Chart 2). This reduces job opportunities for the approximately 450,000 new entrants into the labour market yearly, the majority of whom are young men.

Part time workers⁹ currently make up nearly a third (29%)¹⁰ of the labour force (see Chart 1). Most are working in Iraq's private sector, where jobs tend to be informal, insecure and low-wage compared to public sector jobs. A third of these part time workers (10% of the labour force) would like to work more hours.

Chart 2: Unemployment Rate by Age Group

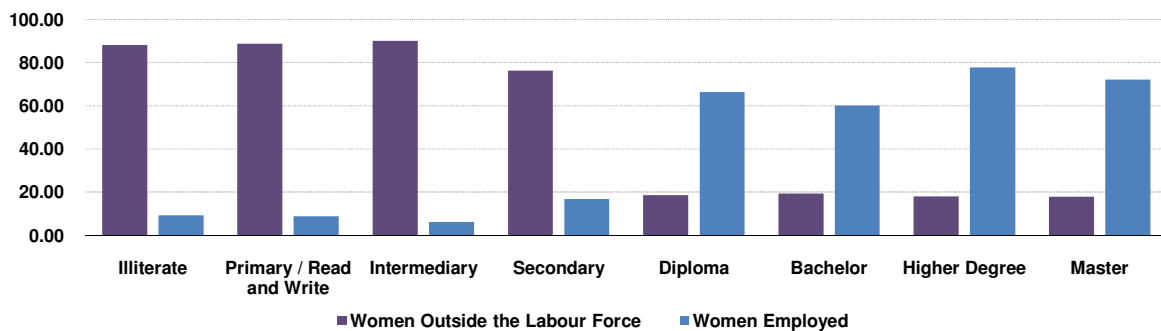


(2) Women out of the labour force

Only 17% of women participate in the labour force¹¹ – a low proportion compared to most of Iraq’s neighbours.¹² Of these, 23% are unemployed.

COSIT data shows that women without a university education are more likely to be unemployed or not seeking a job (see Chart 3). Only 30% of working age women¹³ with a secondary education participate in the labour force, and this figure drops to 10% for those with just a primary education. By contrast, around 80% of university-educated women are seeking a job or employed, and of these most are employed.¹⁴

Chart 3: Women Outside the Labour Force vs. Employed according to education level (2008)
(% of women 15-64yr. for each level)



(3) Public sector dominance over private sector growth

Public sector employment has risen in the last five years. Numbers of public employees and employees in state-owned companies have almost doubled since 2005, and now account for 43% of all employed,¹⁵ while full time private employment has fallen from 25% in 2003 to 17% in 2008. The increase in full time private sector work since 2007 (see Chart 1) is largely due to government outsourcing to the private sector.

Iraq’s public sector has been dominant over the private sector because of three primary factors:

(i) State subsidies and salaries: The secure, relatively highly-paid jobs in the public sector compare favourably against the more insecure, lower-paid jobs in the private sector. This means that the public

sector attracts skilled and educated workers while micro and small businesses experience problems in recruiting qualified workers.¹⁶

Potential entrepreneurs are restricted by the presence of subsidised government-owned companies. In addition, high public sector salaries and income from oil exports have driven inflation higher, indirectly leading to problems for potential investors: high inflation has meant interest rates being maintained at similarly high levels, making borrowing for investment more expensive.¹⁷

(ii) Lack of economic diversification and an unfavourable investment climate: The lack of diversification away from the low-labour oil industry into more labour-intensive industries has limited the ability of the public and private sectors to create jobs. Iraq's legal structures also provide a poor climate for competition. Businessmen lack knowledge about, and have limited access to, formal financing. Less than 2% of micro and small business owners and managers surveyed by the SIRSS stated that they had borrowed money from a private or public bank or other government institution.¹⁸ In addition, few businesses have taken on new employees in the past year,¹⁹ underlining the private sector's limited ability to generate enough work for current employees and job-seekers.

(iii) Security: Investor concerns about Iraq's stability have been a major factor inhibiting investment in job-creating industries. Though the security outlook remains uncertain, trends of the past year suggest some improvement.²⁰

(4) Impact of a drop in oil prices

The fall in oil prices combined with the absence of other budget sources have dramatically affected Iraq's revenues. In a climate of financial constraint caused by the drop in oil prices, public sector salaries and pensions (constituting 35% of planned expenditure in 2009) will strain the government budget. If the oil price drops below US\$52 per barrel (at the time of writing, it is US\$40 per barrel),²¹ spending will have to be diverted from investment to financing public salaries.²² In the long run, however, reduced spending on investments means fewer new jobs.

(5) Impact at the household level

These labour market trends affect the ability of Iraqi households to cope. The Food Security and Vulnerability Survey 2007 data shows that 6% of households do not have any income from work. In addition, if a household does not contain a civil servant,²³ it is more likely to be vulnerable to poverty.

The average per capita income for a household with one civil servant (and no other workers) is 14% greater than that of a household with just one non-civil servant.²⁴ However, the gap is wider in rural areas (22%) than in urban areas (7%), suggesting that well-paid work opportunities for those who are not civil servants are fewer in rural areas. Furthermore, the average per capita income of a household with one civil servant is 25% greater than that of a household with no civil servants.²⁵ No matter how many workers there are in a household, a household without a civil servant is likely to be worse-off and 55% of households do not contain a civil servant.

The high proportion of women who are either unemployed or discouraged from looking for a job means that women are at particular risk of poverty. According to an Iraqi AlAmal survey, 40% of families receiving free Ramadan meals²⁶ in September 2008 were headed by women, 66% of whom were widows. This points to a high incidence of poverty among female-headed households.

Rising unemployment among men aged 15 to 29 is making them and any dependents more vulnerable to poverty. It is likely that men aged 15 to 29 will suffer the most from any increase in unemployment, should current trends continue.

(6) Conclusion

Iraq's private and public sectors are ill-equipped to provide jobs for the 450,000 new entrants yearly into the labour force.²⁷ The public sector overwhelms the private sector and can no longer expand while the private sector has seen insufficient investment and opportunities for expansion.

Iraq's budget structure and financial laws limit possibilities for job creation. In addition, Iraq's growing jobless population is a socio-economic challenge for a country in transition. This unemployed or disenfranchised pool of young men and women is critical to Iraq's future socio-economic health. More immediately, it is a key factor in consolidating Iraq's political and security gains into a fuller recovery.

There is an urgent need for policy action in three areas: 1) to re-model budgetary and legal constraints to private sector development and create a more conducive regulatory environment to encourage formal economic activity; 2) to support economic diversification to increase employment and 3) to develop Iraq's private sector, with a focus on creating opportunities for unemployed youth and women. Amongst other initiatives, a Private Sector Development programme has been launched through a partnership between the UN, Government of Iraq and the World Bank.

Appendix

- This analysis relies primarily on two sets of data: COSIT Labour Force surveys and the COSIT / KRSO / NRI / WFP Food Security and Vulnerability 2007 Survey. The Food Security and Vulnerability Survey's data collection covered 115 districts and 25,875 rural and urban households in the 18 governorates of Iraq. The COSIT Labour Force surveys since 2003 have used several methodologies and covered varying governorates in Iraq. To allow for a trends analysis, the following methodology was used: real numbers for all key indicators were re-calculated from 2003 to 2008 using the same coverage and definition by bringing all down to the lowest common denominator. This meant excluding from the sample the results for all three governorates of the KRG (Dahuk, Erbil and Sulaymaniyah) and Anbar. The real numbers were then used to estimate the total rates nationwide assuming these four governorates did not significantly influence the total national rates.
- Our results for 2008 were compared to the actual 2008 survey results (which covered all of Iraq for the first time since 2003), and only one indicator differed by more than one percentage point: total public employment (including SOEs). The rates of total public employment were underestimated (31.4% against 34.9%) because the three KRG governorates have a higher than average concentration of public employees (1.25 times the national average in each). The figure for public employment in the COSIT data was originally expressed as the equivalent number of full time employees. The figure for part time public employment shown in Chart 1 was calculated on the basis of the Food Security and Vulnerability Survey's data, which stated that 12% of government employees work part time. It was then hypothesised that the ratio of part time workers to full time workers in the public sector has remained constant from 2003 to 2008. Further details on definitions, survey methodology, sampling and coverage can be found at the annexes of the COSIT Labour Force surveys, which are available at <http://cosit.gov.iq>.
- A third set of data comes from interviews carried out for the ILO and UNOPS by the Sumar Institute for Research and Strategic Studies (SIRSS). SIRSS surveyed micro and small business owners and managers in 2008, comprising: 300 interviews in Marshlands, covering the districts of Al-Midaynah, Al-Maimuna, Al-Chibayish and Basrah City; 300 interviews in Hillah city; and 350 interviews in three districts of Sulaymaniyah governorate (Said Sadik, New Halabja and Sulaymaniyah city). The interviews were conducted between May and June in Hillah and Marshlands, and between August and September in Sulaymaniyah. The survey reports have yet to be published.
- The analysis was cross-referenced with data from the COSIT / KRSO / World Bank Iraq Household Socio-Economic Survey (IHSES) 2007. The data for this survey was collected from 18,144 households (972 in Baghdad governorate and 324 in each of the other 17 governorates) between 1 November 2006 and 30 October 2007.

¹ Conducted by the Central Organisation for Statistics and Information Technology (COSIT). See Appendix 1 for more information on the methodology for this analysis.

² Unemployment is defined by the COSIT 2008 Labour Force survey as having worked less than one hour in the previous week but being available for work. It is expressed as a percentage of the labour force (see note 2).

³ The labour force is defined by COSIT as those who are employed or unemployed and actively seeking work. This definition does not include students, housewives, retirees and the disabled.

⁴ 29% of the labour force is made up of part time workers.

⁵ Both the COSIT / KRSO / World Bank IHSES 2007 and COSIT / KRSO / NRI / WFP Food Security and Vulnerability Survey 2007 give an unemployment rate of 12%. The difference may be explained by seasonal agricultural workers, who work mainly during the harvest periods in September and October. All of these figures use the same definition of unemployment. The

unemployment figures from WFP, World Bank and COSIT would be higher if unemployment was defined as having worked less than 15 hours, as was used in the COSIT 2003 Labour Force Survey (ILO, *Jobs for Iraq: An Employment and Decent Work Strategy*, 2007, p. 20). The COSIT Labour Force survey for 2008 included only the first two quarters of the year. Preliminary data from the complete annual report indicates an unemployment rate of approximately 15%.

⁶ Ministry of Finance Official Government of Iraq Federal Budget

⁷ Underutilisation is defined here as being unemployed, working part time and wanting to work more hours, or being over-qualified for the job currently held.

⁸ Analysis of the distribution of public and private sector employment to part time and full time is based on data from COSIT / KRSO / NRI / WFP Food Security and Vulnerability Survey, which shows that 88% of public employment is full time.

⁹ Part time work is defined by COSIT as working between 1 and 34 hours per week.

¹⁰ This figure is the sum of the proportions of the labour force made up of part time workers in the public and private sectors, as shown in Chart 1.

¹¹ COSIT Labour Force Survey, 2007

¹² Female labour force participation for countries bordering on Iraq: Iran, 42%; Jordan, 29%; Kuwait, 52%; Saudi Arabia, 18%; Syria, 40%; Turkey, 28%. These figures are ILO projections for labour force participation among women aged 15 years and above in 2008. The ILO projection for Iraq is 21%. (<http://data.un.org/Data.aspx?d=ILO&f=srID%3a4270>).

¹³ Working age is defined as being aged between 15 and 64 years.

¹⁴ The COSIT / KRSO / World Bank IHSES 2007 and the COSIT / KRSO / NRI / WFP Food Security and Vulnerability Survey 2007 show a similar trend.

¹⁵ The COSIT / KRSO / World Bank IHSES 2007 states that public employment provides 32% of all jobs in Iraq (this figure excludes employees in government-owned companies, which according to budget figures constitute approximately 20% of total public employment).

¹⁶ The Sumar Institute for Research and Strategic Studies (SIRSS) surveyed 300 micro and small business owners and managers in Marshlands, 300 in Hillah and 350 in Sulaymaniyah during May and June (Marshlands and Hillah), August and September (Sulaymaniyah) 2008 on behalf of the ILO and UNOPS (Survey of Micro and Small Businesses). 72% of micro and small business owners in Marshlands, 93% in Hillah and 81% in Sulaymaniyah stated that they had experienced problems in recruiting qualified workers.

¹⁷ The Central Bank of Iraq policy to appreciate the Iraqi Dinar and subsequently contain inflation also hit foreign direct investors by making investment more expensive.

¹⁸ Access to finance was cited as a problem by over 50% of those surveyed in Marshlands, by around a third of respondents in Hillah and by 18% of those surveyed in Sulaymaniyah.

¹⁹ Percentage of businesses surveyed that have invested in new staff during the past year: Marshlands, less than 3%; Hillah, less than 15%; Sulaymaniyah, 3%.

²⁰ According to the UNAMI SSI, the monthly number of security incidents in Iraq has fallen by 58% between October 2007 and September 2008.

²¹ Based on OPEC basket prices, 2 Feb 2009

²² Based on government budget projections

²³ Workers in government-owned companies are not included within the definition of public servants.

²⁴ Based on median per capita monthly income data from the Food Security and Vulnerability survey 2007

²⁵ Regardless of the overall number of workers in the household

²⁶ The provision of free Ramadan meals is a form of aid, and can therefore be considered as an indicator of poverty. Iraqi AlAmal Association, *Results of the Field Survey: For the Needs and Opinions of the Poor in Iraq*, September 2008. www.iraqi-alamal.org

²⁷ According to COSIT data