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Employment Profile and Challenges of the Private Sector in Iraq

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1. Introduction

The United Nations Sustainable Development Goals (SDGs) primarily address the essential components of achieving a better path of equitable economic growth, providing proper and equal education, equality between gender and good physiological and material wellbeing in several dimensions. In this employment profile we focus on Sustainable Development Goal 8 that aims at promoting inclusive and sustainable economic growth, full and productive employment, and decent work for all. Several targets underlie these aims: sustained economic growth (8.1), high levels of economic productivity (8.2), promotion of productive activities (8.3), full productive employment and decent work for all (8.5), reduced number of youth not in employment, education or training (8.6), the eradication of forced labor, human trafficking and the worst forms of child labor (8.7)¹. The purpose of this country profile is to provide a general overview of the labor market and productivity in Iraq and provide policy guidance that could help achieve the above presented targets in line with the 2030 Agenda for Sustainable Development.

This profile primarily utilizes the World Bank Development Indicators (WDI) and World Bank Enterprise Survey (WEBS) datasets for Iraq. The first dataset collects macroeconomic data on different aspect of the economy, while WEBS is a microeconomic dataset that covers a comprehensive sample of representative firms operating in the private sector. This country profile presents recent demographic and labor market trends as well as productivity for Iraq. At the aggregate level, topics such as population growth, labor force participation, employment, unemployment, informality, child labour, economic growth and employment elasticities will be addressed. We also investigate employment issues using firm level data for Iraq to showcase the role of private sector development in employment creation. This profile is expected to be a first step in triggering a policy debate on how to achieve more inclusive employment in Iraq and to form an informative basis for future research.

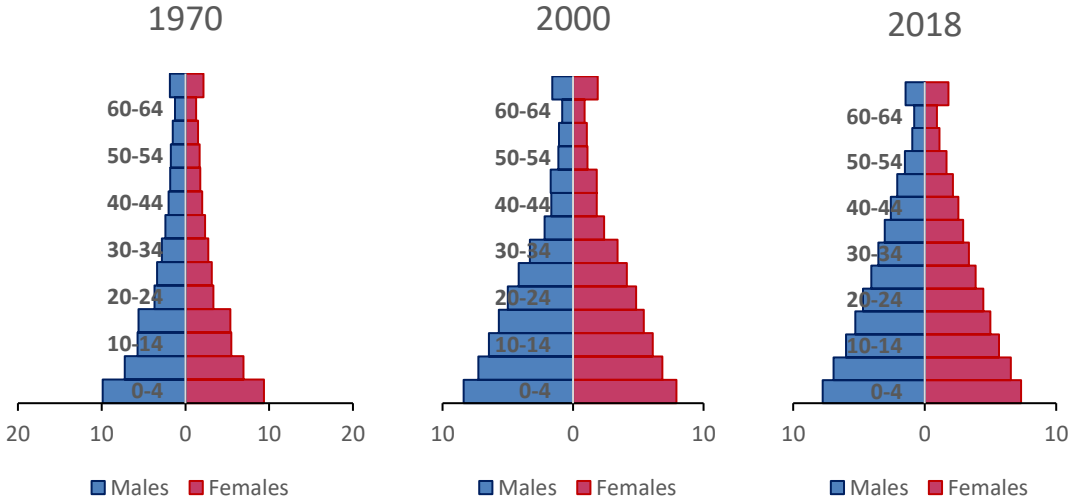
2. Population trends and demographic analysis

Fertility rates in Iraq have witnessed a significant drop in the last few decades from a figure of 6.35 in 1985 to 4.5 in 2017, still placing Iraq in a relatively high birth rate. Iraq's average population growth is considered extremely high ranking 17th globally and growing at an annual average rate of 3% during the last few decades. The age pyramids below (Figure 1) reflect the demographic shift in Iraq between 1970 and 2018. If we take 1970 as our base year, one can see a more expansive share of the pyramid at younger ages (0-24 years) compared to older ages due to high birth rates. The population share between 0-24 accumulates up to 62% of the total population. In 2000, Iraq experienced a slight decrease in the number of births resulted in a narrower base of the pyramid (0-14), while older cohorts (between 15-24) became more populous leaving the youth share at 63.8 % of total population.

¹ The remaining targets and their respective indicators are available at:
<https://sustainabledevelopment.un.org/sdg8>

In 2018, age groups between 0-29 experienced a decrease in their share of total population while older cohorts (34+ years) represent an increasingly high share of the population compared to 2000. As a result of this demographic shift, there is a larger working age population, however, as will be noted below in future sections, Iraq did not experience a particular increase in the labor force. Looking into the age pyramids, we can see that the age segment 15-64 appears to be increasing overtime from 51% of total population to approximately 56.5 %, signaling to the inevitable link between these demographic shifts and labour market outcomes . What is interesting is that the 65+ age bracket decreased from almost 4% to 3.2% between 1985 and 2018. Labour market policies are worth considering these demographic shifts to mitigate the ramifications of unemployment given the expansive share of working age population.

Figure 1. Population pyramid 1970, 2000 and 2017



Sources: World Bank Indicators.

Looking at the age pyramids, Iraq suffers from a high dependency rate² which is approximated to be over 86% in 2018. The Iraqi population can be described as relatively young with a median age of 20 years old and almost 70% of the population is heavily concentrated in urban areas such as Irbil and Baghdad. The economic dependency rate witnessed a slight decline from a peak of 103% in 1980 to 86.6 in 2018. This rate is still remarkably higher than many states in the Arab region, manifesting an exacerbating burden on the Iraqi labor force. In the absence of social benefit schemes, a higher dependency ratio means that there is more pressure on the labor force especially those that are unemployed as the number of dependents who are either too young or too old to work increases. The

² Total Dependency Ratio ((Age 0-14 + Age 65+) / Age 15-64), UNDP 2018.

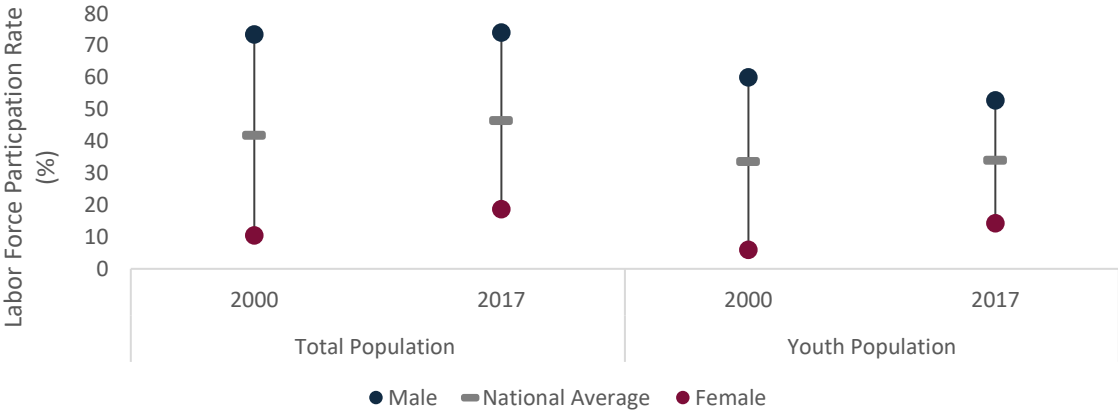
dependency ratio places Iraq in a dismal situation compared to other MENA region countries, such as Egypt, Jordan and Lebanon and even Yemen whose dependency rates are 61.8, 64.7, 47.3% and 76.7 respectively.

3- Labor force participation

Labor force participation rate in Iraq ranks considerably below the regional average yet still higher than that of Syria, Yemen and Jordan which are estimated to be 41.5%, 39.6% and 40%, respectively. Iraq’s labor force participation rate has stabilized at around 46%, which is seven percentage points below the Arab states average. As seen in figure 4, the participation rate has slightly increased from a trough of 41.8% in 2000 to around 46.5% in 2017. Most of the growth in the labour force participation rate was due to the increase in female participation rates which grew between 2000 and 2017 from 10% to 18.7%, almost closing the gap between Iraq and the Arab world’s average participation rate.

Even though the Iraqi population had witnessed a substantial increase (by around 69%, between 2000 and 2017), labor force participation among youth appears to have witnessed a decrease from a peak of 34% in 2000 to around 30% in 2017. As mentioned previously, migration and displacement of youth as a result of political instability played a key role in decreasing the youth economic participation especially among men. Female’s youth participation rate more than doubled in Iraq between 2000 and 2017, yet youth male’s participation dropped from 59% to 52%. If we compare the aggregate averages with youth averages in figure 4, one can deduce that most of the labour force participation growth is due to females and older age cohorts (above 15-24 age share).

Figure 4. Labor force participation in 2000 and 2017



Source: World Development Indicators.

4. Employment and Unemployment

As we all know, Iraq's involvement in two wars during the past decade altered most resources toward military operations leaving a heavy toll on the Iraqis economy in general and the labour market in specific. Furthermore, the imposed blockade exacerbated Iraq's labor market challenges even more, contributing to employment stagnation. Figure 5 shows that the employment rate in Iraq witnessed a 4.5% increase from 2000 to 2017 coupled with a shy reduction in unemployment. This disparity is due to an uneven increase in the labor force relative to jobs created. Youth employment stagnated between 2000 and 2017 due to the drop in male employment and increase in female employment among the 15-24 age bracket. However, looking at figure 6 female unemployment appears to be more drastic than that of males due to the increase in female participation rate coupled with a decrease in male's participation. Furthermore, having a significantly high level of youth unemployment can be also ascribed to female youth higher participation that is confined with limited decent opportunities. Despite the security challenges that emerged after 2003 youth unemployment dropping from a peak of 45% in 2004 to approximately 17% in 2010 and then stabilize at 16.7% in 2017(Figure 6).

Figure 5. Employment to population ratio

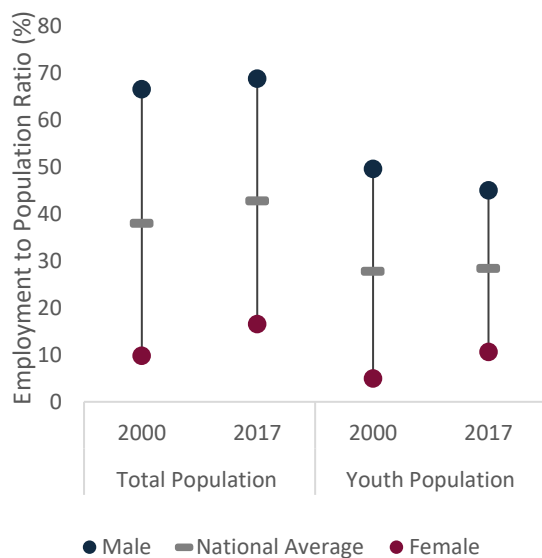
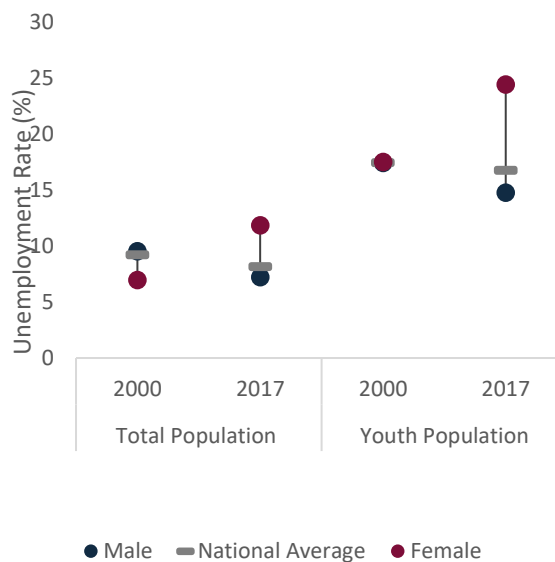


Figure 6. Unemployment to population ratio



Source: World Development indicators.

5. Child labor

According to the ILO, child labor is defined as kids between the age of 5-11 years and 12 - 14 years that are involved in any routinely conducted one hour and 14 hours of economic activity, respectively. The Bureau of International Labor Affairs cites that Iraq made a slight improvement in its child labor with 5.3% of Iraqi children between the ages of 5 and 14 were engaged in child labor while being out of school (Table 2). The table below also shows that 75% of the Iraqi children are enrolled in school without being engaged in any form of child labor, compared to 4.2% simultaneously enrolled in school and engaged in any form of child labor. It is worth mentioning that the government of Iraq attempted to combat the recruitment of children in armed groups, by inspecting the age segments of participants and soldiers in government affiliated armed groups.

Table 2. Statistics on children’s work and education

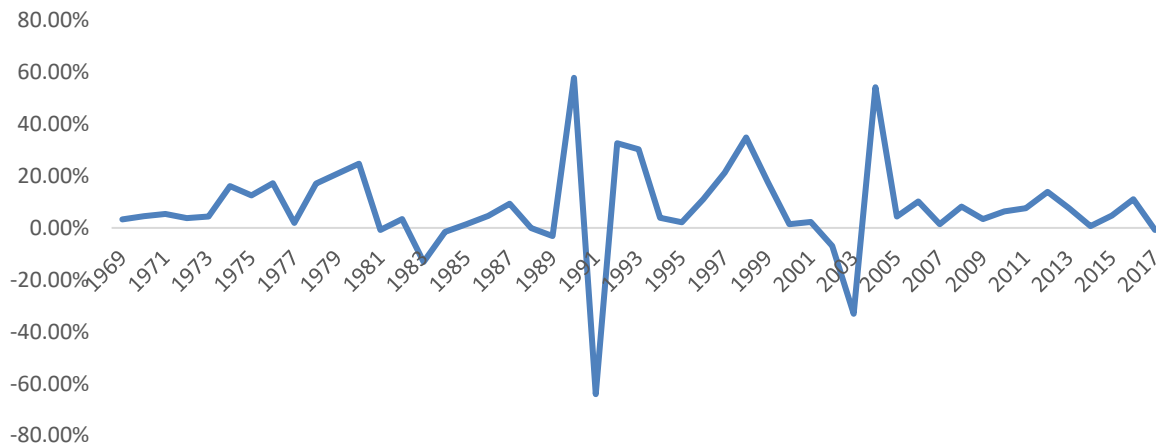
Children	Age	Percent
Working (% and population)	5 to 14	5.3 (454,330)
Attending school (%)	5 to 14	75
Combining Work and School (%)	7 to 14	4.2
Primary Completion Rate (%)		66.7

Source: UNICEF <https://www.unicef.org/>

6. Output growth and productivity

Despite the significant improvements in GDP per capita during the last decade, Iraq’s income per capita has almost stagnating since 2013 at around \$5400 in constant US dollars. Iraq also Human Development Index (HDI) estimated at 0.649 ranking 121th globally with no significant improvement from its 1990’s levels. Overall, in the past 4 decades economic fluctuation in Iraq have been fueled by drastic changes in oil prices and high political instability impacting the business cycle significantly. The impact of political instability is obvious in Figure 7 that plots Iraq’s GDP growth for the period 1969-2017. One can see that in 1991, GDP growth experienced a negative growth of approximately 60% as a result of the first Gulf War. A similar and relatively less drastic plummet in 2003, caused the Iraqi economy to shrink by 33.1% coinciding with 2003 war and a 10% plummet in 1983 coinciding with the Iraq-Iran war. Political instability in Iraq pushed governments to swap resources meant for development with large military expenditures at the cost of productive activities.

Figure 7. Iraq's GDP growth 1969-2017



Source: World Development Indicators.

Besides political instability, oil dependency played a major role in determining economic growth in Iraq since oil revenues make up for more than 90 percent of government revenues. Given this background, any sudden drop in oil prices, similar to the one in 2014, will negatively impact the business cycle significantly. Looking at the 2014 oil prices drop, oil barrels witnessed a plummet from a peak of \$115 per barrel to around \$59 per barrel. This also coincided with the rise of the Islamic state that controlled swathes of rich oil Iraqi territories, stripping off the government from its oil revenues and exacerbating the budget deficit.

Even though Iraq's average GDP growth rate rests at 7.67%, yet unemployment rates are still significantly high impacted by the following reasons: First, and as mentioned earlier, the working age population 15-65 is increasing significantly. Second, the oil sector—the main contributor to economic growth; is capital intensive with limited employability potential. Third, the lack of economic diversification with limited formal private sector growth limits the opportunities for school graduates. To assess the impact of economic growth on unemployment we look at Iraq's Okun's. According to Abdulla (2012)³, there is a weak correlation(-0.34) between unemployment and growth rate in Iraq. In this regard, Okun's law asserts that actual GDP should grow as rapid as the potential GDP, to prevent any soar in unemployment.

Analyzing the World Bank Enterprise Survey for Iraq, output growth was not contributing to employment creation in private sector as can be seen in Table 3. We observe that the employment-output elasticity was negative in manufacturing (-0.27) and Services (-0.15). These statistics raised several questions about the implications of such negative figures on

³ Abdulla, P. D. A. K. (2012). The Relationship between Economic Growth and Unemployment in Iraq. *Iraqi Journal For Economic Sciences*, (32), 192-204.

the efficiency of labor market in Iraq. Factors related to the rigidity of labor regulations, poorly educated workforce, weak vocational training policy, and the substitution of labor with capital in production contributed to these results.

Table 3. Employment-output elasticity in private sector, 2011

Total	-0.22
Manufacturing	-0.27
Services	-0.15

Sources: World Bank Enterprise Survey, Iraq (2011).

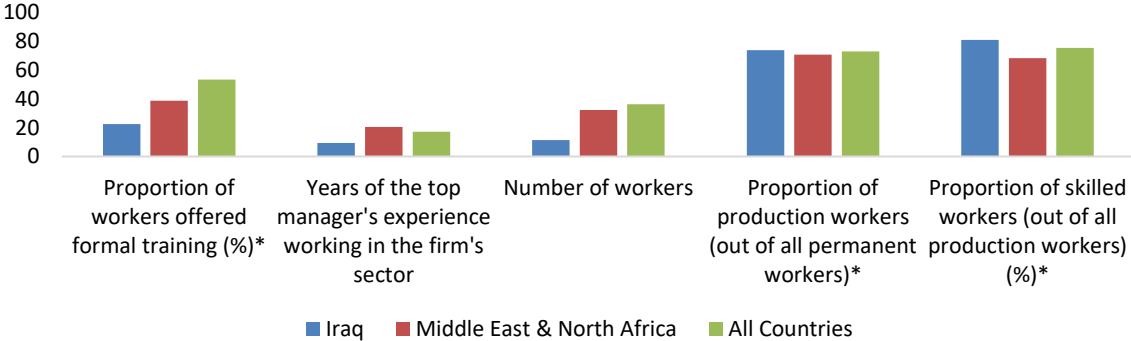
7. Workforce composition of the formal private sector

In this section we move into the composition of formal private sector workforce using the World Bank Enterprise Survey dataset. This survey features similar questions for all firms across all countries. It includes information on a large number of factors that shape the business environment and employment outcomes in a given country. These factors include: firm performance, investment climate constraints, exporting activities, sources of finance, innovation, firm employment, worker skills training, skill availability and education levels. Firms are distributed across the following sector of activities: chemicals and pharmaceuticals, electronics, food, garments, leather, metals and machinery, nonmetallic and plastic materials, textiles, wood and furniture, and other manufacturing, wholesale and retail and other services. The dataset used in this report is for Iraq (2011) and it covers 756 firms located in the 19 governorates. One would question the relevance of analyzing this seven-year-old survey for. In the absence of new survey waves, it is an inevitable limitation to use older surveys. However, scholars agreed that the region including Iraq went through major political changes that produced economic stagnation coupled with minor transformation in formal private sector activities.

In Figure 8 we present employees characteristics at the firm level in Iraq. We observe that offering formal training appears to be notably lower compared to the average of other MENA countries included in the survey and beyond. Furthermore, years of top managers’ experience is significantly lower than other countries, signifying many other ramifications by either nepotism of promoting these managers and/or lack of well-experienced managers at the top managerial positions. The average number of workers per firm in the private sector is substantially lower among Iraqi firms than those of other countries due to limited employment in the non-resource private sector and heavily relying on the informal sector.

The proportion of skilled and production workers in Iraq appear to be relatively settling at normal levels, compared with other countries.⁴

Figure 8. Employee’s composition in private firms, 2011

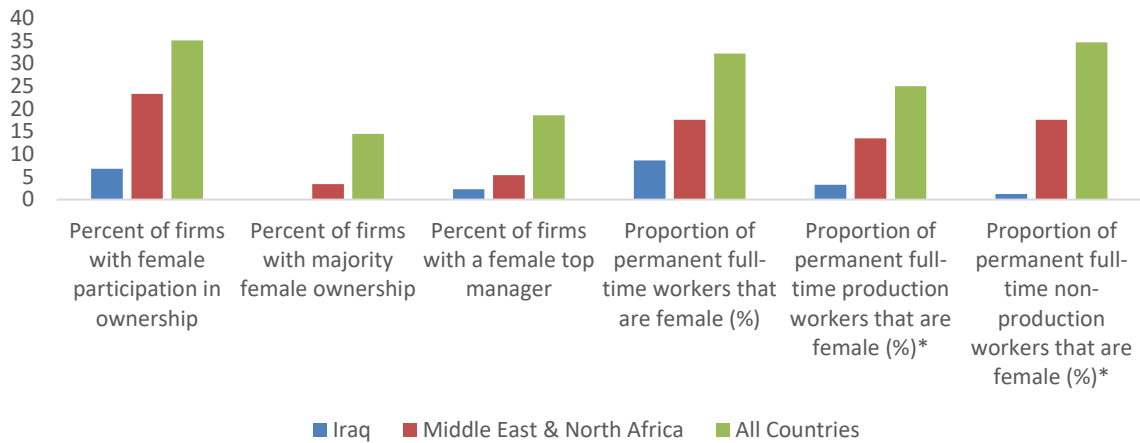


Sources: World Bank Enterprise Survey, Iraq (2011).

Examining female workforce composition in the Iraqi formal private sector (figure 9), we notice that females are weakly represented in firms’ ownership. Females in Iraq also rarely hold top managerial positions, signifying to either discrimination, social oppression against females’ active participation, or due to the mismatch of skills since the choice of female’s educational attainment is implicit. Furthermore, the proportion of Iraqi females in full-time employment and production facilities appear to be significantly lower than those of other MENA countries and other regions. These results join the statistics on female employment and female labor force participation reported in the previous section confirming a deep inequality against women in the labor market. This urges for policy intervention aiming at enhancing the presence of women in the labor market, but more importantly in managerial position and well - paying jobs.

⁴ According to the World Bank’s Enterprise Survey, production workers are those that are engaged in fabricating, processing, assembling, inspecting, receiving, storing, handling, packing, warehousing, shipping (but not delivering), maintenance, repair, product development, auxiliary production for plant’s own use (e.g., power plant), recordkeeping, and other services closely associated with these production operations. In this context, the non-production workers are those that are not engaged in these production activities. They cover management, administration, and sales employees. Skilled production workers are those that they have some special knowledge or (usually acquired) ability in their work. A skilled worker may have attended a college, university or technical school. Or, a skilled worker may have learned his skills on the job.

Figure 9. Female workforce composition in private firms, 2011



Sources: World Bank Enterprise Survey, Iraq (2011).

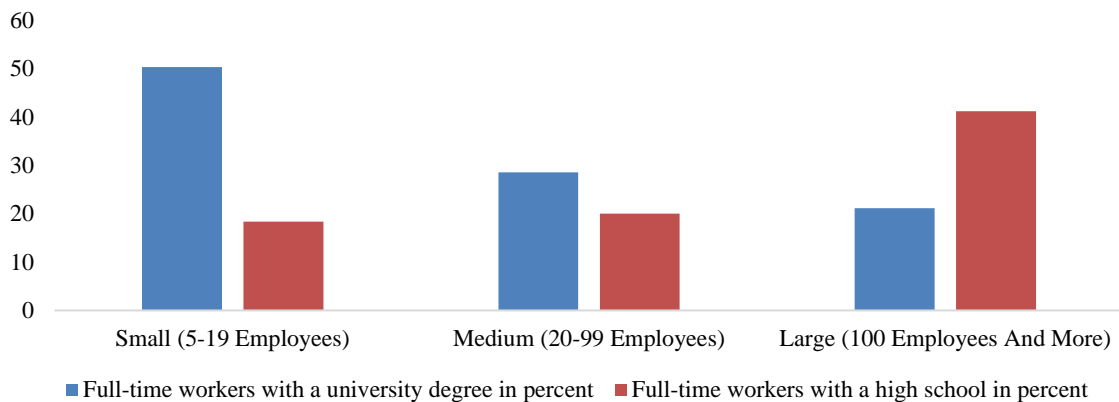
8. Labor Market Constraints

Three major issues were identified to restraint the creation of jobs in Iraq: the rigidity of labor market regulations, the lack of diversification and the lack of suitable labor skills (poorly educated workers) (Drzeniek-Hanouz and Dusek, 2013).⁵ In examining the level of education among Iraqi employees in Figure 11, we observe that the supply of people who have a university degree is more into small and medium sized firms. Indeed, unlike large firms with more than 100 employees, small and medium sized firms have larger share of university graduates. In addition, data shows a large disparity of full-time workers with a high school across sectors as can be seen in Figure 12. Indeed, they show that manufacture of basic metals, garments, and paper products have the lowest percentages compared to the construction sector. These observations may suggest that large firms in Iraq are more likely to create jobs that attract workers with high school diploma. Furthermore, the concentration of educational institutions in big cities appears to be widening regional disparities in this regard. Having limited access to good quality education especially in rural areas can result in generational inequality and produce a cycle of marginalization (Dibeh et al., 2016)⁶.

⁵ Drzeniek-Hanouz, M., & Dusek, M. (2013). The Arab World Competitiveness Report 2013. In The World Economic Forum and The European Bank for Reconstruction and Development, Geneva and London.

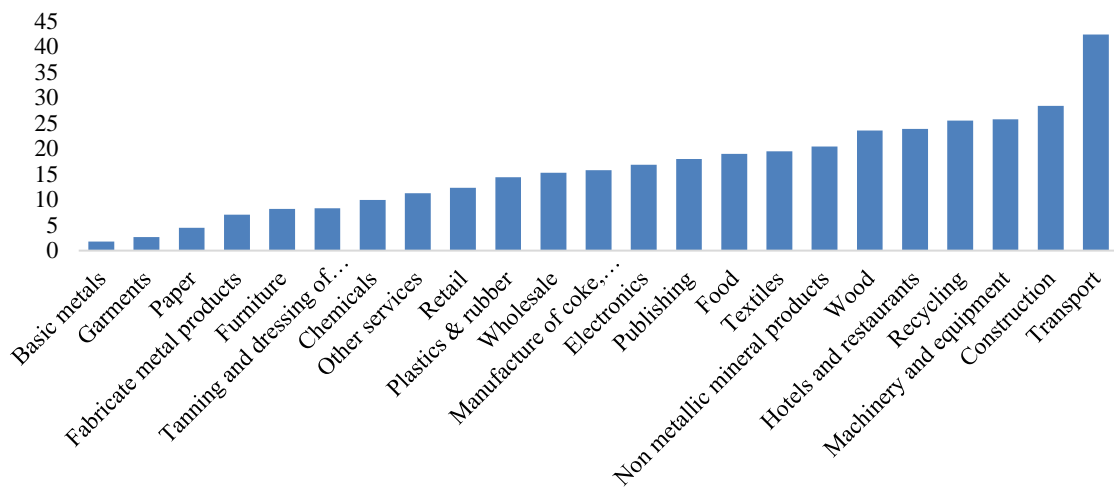
⁶ Dibeh, G., Fakhri, A., & Marrouh, W. (2016). The Poor and Marginalized in Lebanon: Labor Market Challenges and Policy Implications. SAHWA Policy Paper, 1.

Figure 11. Level of education of full-time employees by firm size, 2011



Sources: World Bank Enterprise Survey, Iraq (2011).

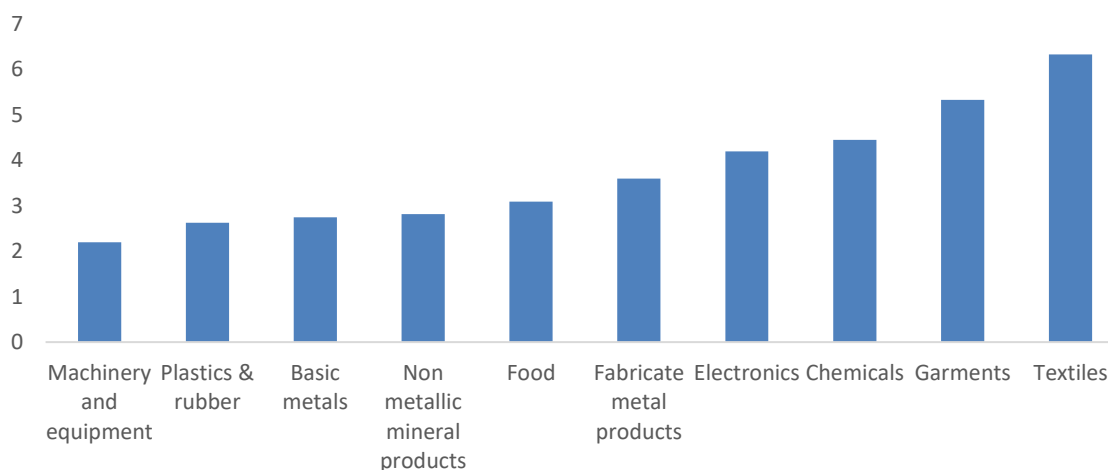
Figure 12: Full-time workers with a high school in percent by sector, 2011



Source: Enterprise Survey website: <http://www.enterprisesurveys.org/data/exploreeconomies/2011/iraq>

Having poor educational schemes heavily exacerbates employment disparities between different genders as well. Looking into the average number of years of education for women (Figure 10), we can see that females working in the textile industry appear to have acquired on average of approximately 6 years of university education and three years in the food industry. However, those trapped into the manufacture of machinery and equipment have the lowest years of education.

Figure 10. Average number of years of education of females in percent, 2011



Sources: World Bank Enterprise Survey, Iraq (2011).

Moving into the provision of job training programs for permanent full-time employees, we observe that a large percentage of employees do not receive a training in the private sector in Iraq, resulting potentially in human capital deterioration and a reduction in labor productivity. We find that only 5.9% of full-time manufacturing workers have been formally trained, compared with only 13.2% in the service sector (Table 5). These low percentages reflect the inevitable need to address this issue by providing incentives to firms in order to help them offer more job trainings. Such policies could have long-run positive implications on productivity where workers will be able to innovate more and cope with new technologies that might be introduced.

Table 5. Formal training for full-time employees in private sector in percent, 2011

Sector	Formal training for full-time employees in private sector in percent
Manufacturing	5.9
Services	13.2

Sources: World Bank Enterprise Survey, Iraq (2011).

Looking at Table 6, we can notice that female managers have an average experience of 11.2 years in the service sector, compared to 10.6 years for male managers. Also, we can observe that female managers have an average of 14.3 years of experience in the manufacturing sector, compared to 13.1 years for males. These observations indicate that females are accumulating more labor market experience in managerial positions than males, even though the percentage of females in top management is the lowest in Iraq compared to other MENA countries as shown previously. The variations across sectors might suggest that females are

trapped more in manufacturing sector that offer usually less benefits compared to the services sector. In addition, this variation between the experience of male and female managers may reflect discrimination against females in regards to managerial promoting.

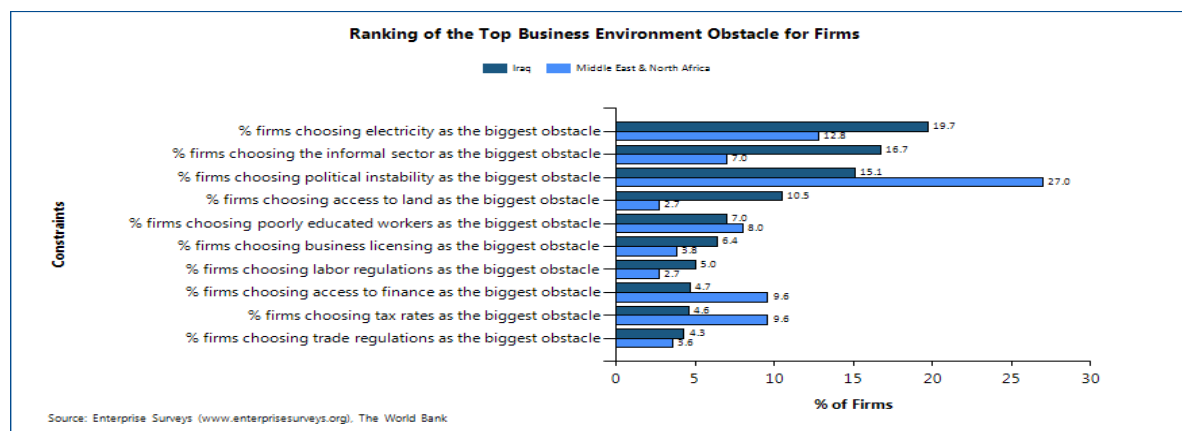
Table 6. Length of managers' experience in years in private sector, 2011

Sector	
Female	
Services	11.2
Manufacturing	14.3
Male	
Services	10.6
Manufacturing	13.1

Sources: World Bank Enterprise Survey, Iraq (2011).

Iraq's economic and infrastructure issues negatively impact the suitable environment for firms to grow in different sectors. Looking at Figure 13, we find that 19.7% of Iraqi firms find electricity as the biggest obstacle, compared to 12.8 in other MENA countries. Having a significant informal sector also burdens businesses in Iraq. In fact, 16.7% of surveyed Iraqi firms choose the informal sector as the biggest obstacle, compared to 7% of other MENA countries. Also, 27% of Iraqi firms perceive political instability as the biggest constraint to the private sector, compared with 10.5% in other MENA countries. The data shows that 5% of firms report that labor regulations is a major problem compared to 2.7% in the MENA region.

Figure 13. Business constraints facing private firms, 2011



Source: Enterprise Survey website: <http://www.enterprisesurveys.org/data/exploreeconomies/2011/iraq>

9. Rigid labor regulations

In Table 7, we find that employment regulations appear to be one of the central challenges of the Iraqi labor market. We observe that 27.5% of small firms consider labor market regulations as a major hurdle in Iraq, compared to 11.7% in the MENA region, and 10.1% in the rest of countries. Only 3% of medium sized businesses in Iraq consider labor regulations a major constraint, compared to 10.4% in other MENA countries. However, 97.5% of large firms perceive labor regulations as a major constraint, compared with 18.5% in the MENA region. These figures suggest that large firms are facing severe impediments related to firing and hiring policies and other labor related regulations. Thus, labor regulations need to be urgently addressed with fundamental reforms and taking appropriate measurements, ensuring that the private sector in Iraq is capable of functioning properly.

Within the same context, we notice that 16.5% of exporter firms in Iraq reported that labor regulations are major business constraints compared 10.7% and 11.1% in the MENA countries and all countries, respectively. We observe that non-exporter firms in Iraq suffer more from the rigidity of labor regulations where 26.2% of them identify labor regulations as a major constraint versus 11.5% in the MENA region and 10.8% in all countries. Interestingly, data shows that firms in the service sector are facing more labor problems related to the rigidity of labor regulations than those in the manufacturing sector. A more interesting story can be observed when comparing the manufacturing sector's statistics in Iraq with MENA countries' average and the average of other countries. Specifically, we observe that 12.7% of the manufacturing firms in Iraq identify labor regulations as a major constraint to developing their business compared to 19.5% in the MENA countries and 14.7% in the rest of countries. Policy-makers in Iraq are encouraged to intervene in multiple ways here. First, public policy should focus on improving export competitiveness which would enhance economic outcomes (such as higher growth, low inflation, and low unemployment) in the long-run. Second, public policy is encouraged to invest more in infrastructure to improve sectors' productivity in all sectors, particularly that of the manufacturing.

Table 7. Labor regulations facing private firms by size, export activity and sector, 2011

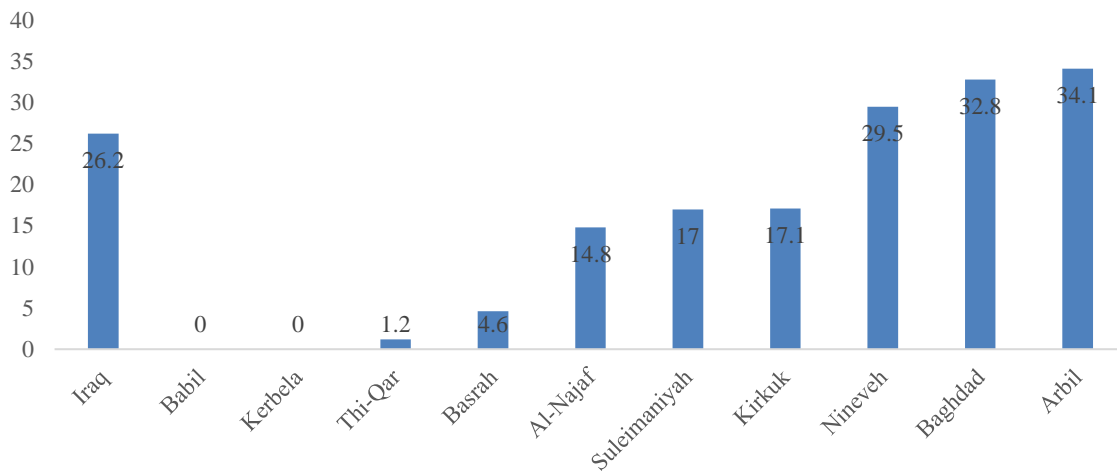
Indicator	Iraq	MENA countries	All Countries
Firms identifying labor regulations as a major constraint (%), total	26.2	11.8	10.9
<i>Firm size</i>			
Small (5-19)	27.5	11.7	10.1
Medium (20-99)	3.0	10.4	11.9
Large (100+)	97.2	18.5	14.4
<i>Export</i>			
Direct exports are 10% or more of sales	16.5	10.7	11.1
Non-exporter	26.2	11.8	10.8
<i>Sector</i>			
Manufacturing	12.7	19.5	14.7
Services	20.2	14.2	9.7

Sources: World Bank Enterprise Survey, Iraq (2011).

The impact of rigid labor regulations on regional disparity appears to be large in Iraq as can be shown in Figure 14. We observe that Arbil leading with 34.1% of firms considering labor regulations as a fundamental challenge to the business development, compared with 32.8% of firms in Baghdad, 29.5% of firms in Nineveh, 17.1% of firms in Kirkuk and 17% of firms in Suleimaniyah, compared to the national average which is around 26%. Labor regulations reform should be uniquely tailored to each province in order to encourage sectoral diversification and employment growth (Fakih and Ghazalian, 2015b)⁷. This is an import policy design to account for regional disparities between different sectors (Table A5 in the appendix shows the distribution of sectors across provinces).

⁷ Fakih, A., & Ghazalian, P. L. (2015). What factors influence firm perceptions of labour market constraints to growth in the MENA region?. *International Journal of Manpower*, 36(8), 1181-1206.

Figure 14. Labor regulations constraints as an obstacle in private firms by province, 2011



Sources: World Bank Enterprise Survey, Iraq (2011).

10. Firms perception of worker's education

Skill mismatch appears to be also a fundamental challenge in the Iraqi labor market. We observe that 35.4% of small firms consider uneducated labor as a major hurdle, compared to 19.8% in the MENA region and 19.5% in all countries in Table 8. We notice that 26.3% of medium sized businesses in Iraq consider sufficiently educated workers a major constraint, compared to 19.6% in other MENA countries. When looking into the percentage of firms facing a skill mismatch problem by export activities, we find that exporters in Iraq are less likely to identify a shortage in skilled workers compared to the average of MENA countries and the average of all countries. However, we notice that 34.4% of non-exporters identify skill mismatch as a major constraint compared to 16.8% in the MENA region. Interestingly, firms that identify skill mismatch as a major constraint to improve business environment offer less trainings. We observe that 26.7% of these firms offer a formal training compared to 73.3% when they do report a skill mismatch problem.

Table 8. Skill-mismatch problem facing private firms by size, export activity and sector, 2011

Indicator	Iraq	MENA countries	All Countries
Firms identifying skill mismatch as a major constraint (%), total	34.2	20.3	20.9
<i>Firm size</i>			
Small (5-19)	35.4	19.8	19.5
Medium (20-99)	26.3	19.6	22.9
Large (100+)	1.5	26.2	25.1
<i>Export</i>			
Direct exports are 10% or more of sales	8.3	16.8	21.6
Non-exporter	34.4	20.3	20.7
<i>Sector</i>			
Manufacturing	24.0	29.4	21.7
Services	29.0	24.9	20.1

Sources: World Bank Enterprise Survey, Iraq (2011).

11. Informality in the private sector

According to International Labor Organization (ILO), informal employment is when “employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to labor legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severances of pay, paid annual or sick leave, etc.)”. Those working in the shadow economy tend to work more hours, get paid less and do not usually contribute to social security. Driven by high unemployment rate in Iraq, many Iraqi have sought employment in the informal sector, after desperately failing to seek employment in neither the public nor the private sector. Those who are usually forced to go this path, end up being deprived of social security benefits. In fact, in 2012, 66.9% of workers in Iraq did not have access to social security benefits for various reasons, one of which was working in the informal sector. Furthermore, the informal sector in Iraqi is far from being regulated. Part-timers, many of whom work in the shadow economy, constitute 29% of the Iraqi labor force.

The informal sector in Iraq is spread out evenly between different sectors, such as manufacturing, construction, transport, social services, and public administration. The

shadow economy rather plays a complementary role to activities conducted by both the public and the private sectors through providing intermediary and finished goods and services. In examining the informality in the Iraqi private firms, we address three issues by comparing Iraq's level to other countries in the MENA region and beyond. First, we observe that firms competing against unregistered or informal firms is 49.3% exceeding that of other MENA countries (which is 39.6%). Second, the number of year's firm operated without formal registration appears to be around 0.9 which is higher than other MENA and non-MENA countries that recorded a level of 0.7 years. Third, the row of firms identifying practices of competitors in the informal sector as a major constraint is large. More specifically, 46.1% of surveyed Iraqi firms suffer from competing with informal operators, compared with 27.7% in other MENA countries and 28.3% in non-MENA countries. These findings reinforce the implications of the informality in Iraq's economy. Policy-makers are encouraged to intervene in this particular aspect of the economy due to the high cost of informality on the economy.

Table 9. Informality in Iraqi private sector, 2011

Indicator	Iraq	MENA countries	All Countries
% of firms competing against unregistered or informal firms	49.3	39.6	54.3
% of firms formally registered when they started operations in the country	62.4	87.0	88.7
Number of years firm operated without formal registration	0.9	0.7	0.7
% of firms identifying practices of competitors in the informal sector as a major constraint	46.1	27.7	28.3

Sources: World Bank Enterprise Survey, Iraq (2011).

12. Main Policy Challenges

- **Economic diversification:** The lack of economic diversification with limited formal private sector growth limits the opportunities for school graduates keeping the young females among the most vulnerable. Sectoral policies to enhance private sector development for employment creation is limited.
- **Female employment:** Implementing publicly funded programs that promote female's employment and active engagement in a variety of sectors and managerial positions. Utilizing affirmative action to combat discrimination against females' promotions especially in managerial promotions in which our data has shown that female managers take one to two years of experience more than their male counterparts. Females are found mainly in the manufacturing sector albeit this sector is offering less benefits than other sectors.

- **Labor regulations:** Facilitating the process of hiring workers as an attempt to curb the widespread formal employment, aiming at reforming labor regulations. Labor regulations need to be modified by taking appropriate measures that will offset business constraints in order to make the private sector in Iraq operates properly.
- **Job Training:** Applying training schemes and vocational training for Iraqi workers, attempting to bridge the training gap of Iraqi workers in both the manufacturing and service sectors. Consideration should be given to possibility of using a dual vocational training system where employees attend classes at a vocational school and at the same time obtain on-the-job training at his/her place of employment. This mixture of theory and preparation gives employees an opportunity to be up to base with the modern technology.
- Implementing labor educating programs in the private sector to decrease unemployment, decrease skill mismatch, increase labor productivity and increase human capital. A blended learning approach can be valuable where part of the program can be delivered over a number of months which includes mandatory involvement in a number of workshops, a given number of essential training days and some tutorials sessions. This gives flexibility, so a larger number of workers can participate in the proposed educating programs
- **Export firms:** Encouraging policies aiming at enhancing the export activities of firms as shown that exporters are more likely to overcome labor regulations and skill mismatch problem. Promoting non-oil exports, an attempt of creating other sources of employment and national income.
- **Informality:** Create more formal jobs as the percent of firms formally registered is the lowest compared to other countries in the region. Imposing laws that encourage firms to operate formally. There is a necessity for an official intervention to solve this particular issue regarding the country's economy due to its tremendous cost on the economical state resulting from forgone tax payments and corruption that informality creates.
- **Child labor:** Fending off child labor by taking robust government measures and take appropriate punitive actions if needed. Government intervention to prohibit children engagement in armed groups should be considered as a very important element to reduce employment of children.

Appendix

Table A1: Statistics on firm size in Iraq, 2011

	Number of firms	Percent
Small (<20 employees)	592	78.31
Medium (20-99 employees)	157	20.77
Large (100 employees and over)	7	0.93
Total	756	

Sources: World Bank Enterprise Survey, Iraq (2011).

Table A2: Statistics on basic firm characteristics, 2011

Indicator	Iraq	MENA countries	All Countries
Age of the establishment (years)	10.5	18.8	16.5
Proportion of private domestic ownership in a firm (%)	98.7	95.1	87.6
Percent of firms with at least 10% of foreign ownership	0.2	5.7	11.7
Percent of firms with at least 10% of government/state ownership	0	0.3	0.9
Percent of firms with legal status of Sole Proprietorship	94.1	49.5	40.1
Percent of firms with an internationally-recognized quality certification	4.2	13.5	15.9
Percent of firms with an annual financial statement reviewed by external auditors	32.6	59.2	48.4

Sources: World Bank Enterprise Survey.

Table A3: Statistics on export activities, 2011

Indicator	Iraq	MENA countries	All Countries
Days to clear direct exports through customs	11.8	6.4	7.4
Percent of firms exporting directly or indirectly (at least 10% of sales)	0.8	21.2	15.8
Percent of firms exporting directly (at least 10% of sales)	0.6	16.4	11.1
Proportion of total sales that are exported directly (%)	0.4	8.4	5.8
Days to clear imports from customs	23.6	10.0	11.8
Percent of firms using material inputs and/or supplies of foreign origin	41.6	62.5	61.4
Proportion of total inputs that are of foreign origin (%)	23.5	42.4	37.0
Percent of firms identifying customs and trade regulations as a major constraint	23.4	21.1	18.0

Sources: World Bank Enterprise Survey.

Table A4: Distribution of private firms across sector and province in Iraq, 2011

Sector		Province										Total
		Arbil	Babylon	Baghdad	Basra	Dhi Qar	Karbala	Kirkuk	Najaf	Nineveh	Sulaymani	
Chemicals, Plastics...	N	8	1	23	0	0	0	5	0	7	17	61
	%	11.76	1.32	15.03	0	0	0	6.58	0	7.69	14.66	8.07
Food	N	9	17	46	21	9	15	14	6	19	9	165
	%	13.24	22.37	30.07	41.18	25.71	33.33	18.42	13.33	20.88	7.76	21.83
Non-Metallic Minera...	N	10	21	11	0	8	13	19	12	28	16	138
	%	14.71	27.63	7.19	0	22.86	28.89	25	26.67	30.77	13.79	18.25
Other Manufacturing	N	4	13	40	3	3	4	13	2	15	14	111
	%	5.88	17.11	26.14	5.88	8.57	8.89	17.11	4.44	16.48	12.07	14.68
Services	N	20	15	25	19	14	13	20	20	15	37	198
	%	29.41	19.74	16.34	37.25	40	28.89	26.32	44.44	16.48	31.9	26.19
Wholesale and Retail	N	17	9	8	8	1	0	5	5	7	23	83
	%	25	11.84	5.23	15.69	2.86	0	6.58	11.11	7.69	19.83	10.98

Total	N	68	76	153	51	35	45	76	45	91	116	756
	%	100	100	100	100	100	100	100	100	100	100	100

Sources: World Bank Enterprise Survey.