



Republic of Iraq
Ministry of Planning



High Committee for Poverty
Reduction Strategy



World bank



United Nations

Strategy for

the Reduction

of Poverty

in Iraq

2018-2022



Empower the poor
to become productive
individuals, economically
and socially integrated
into the society

Executive Summary
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Strategy for the Reduction of Poverty in Iraq 2018-2022

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Since 2010, a year when the first Poverty Reduction Strategy (PRS) was launched, Iraq has experienced a turbulent period, politically, economically and in terms of security. These adverse developments negatively affected the implementation of the Strategy and imposed new challenges over and above the existing ones. Despite dwindling resources and difficult security conditions, the High Committee for Poverty Reduction and the Executive Directorate continued to implement the Strategy and managed to achieve some results, even if less than planned. We are now embarking on the new, second Poverty Reduction Strategy to deal with the new reality and challenges. We hope conditions for success will be there, to contribute to a successful implementation of the activities and to achieving the goals, improving the situation of the poor and enabling them to live life with dignity.

The implementation of the first PRS only commenced in 2012, due to a delay in forming the government, and the need to build the institutional structure for the Strategy. During 2012-15, 48 out of 87 activities envisaged by the strategy were carried out, involving 199 projects. During 2012-16, expenditure on the strategy amounted to IQD 1.6 trillion (about \$1.4 billion). Expenditures were negatively affected by the financial crisis, dropping in 2016 to about a quarter of the 2012 level. The deterioration of the security situation in ISIS-occupied governorates led to a halt in the implementation of projects in these areas since 2014.

Implementation encountered more obstacles—financial, administrative, legal and other. The emergence of new evidence led to changes in the poverty reduction directions that required a change in priorities and selection of additional activities not already included in the Strategy. Moreover, the course of events and the persistent political and security challenges led to an increase in poverty, with new categories and geographical areas in need of support. The new Strategy now benefits from the lessons learned from the implementation of the first Strategy.

Chapter 1—Why a New Strategy?—takes these lessons as the take-off point towards a new Strategy. It presents a diagnosis of current challenges, some of which are continued while others are new.

CONTINUED CHALLENGES

The first PRS aimed to address four major challenges: (i) security and stability, (ii) good governance, (iii) fair distribution and diversification of incomes under market economy, and (iv) mitigating the negative impacts of economic reforms on the poor.

As the new Strategy for 2018-22 is being finalized these challenges remain outstanding, some of them apparently having much deeper economic and social dimensions than previously assumed. The unfaltering commitment to addressing these challenges should continue. Effective policies and measures are prerequisites for achieving the goals of the Strategy. Continued threats against Iraqi people are a concern, as is violence and terrorist bombings which have disastrous impact on civilians.

In Iraq, the challenge of ensuring fair distribution and diversification of income sources is a key prerequisite for poverty reduction. Iraq is heavily dependent on oil revenues, with years of high oil prices having further deepened this dependence. The drop of oil prices from a high of about \$110 per barrel in 2012-13 to about

\$40 per barrel in 2015-16 exposed the downsides of heavy reliance on oil. The challenge for the Ministry of Finance is to ensure adequate financial resources amid rising budget deficits.

As a result of macroeconomic shocks due to ISIS occupation and the decline of oil prices, growth rate dropped to almost zero in 2014—some 9 percentage points less than what had been expected.

The various reform efforts—in the areas of public sector, restructuring public corporations, supporting the private sector and attracting foreign investment—were hampered, and did not result in any significant economic adjustment. Despite efforts to bring good governance, establish an institutional state, enhance public administration and combat corruption, Iraq is still facing serious problems in these areas. The absence of good governance, the spread of administrative and financial corruption, weak accountability and transparency, and other negative phenomena have resulted in low efficiency and effectiveness of the government apparatus and poor quality of public services.

NEW CHALLENGES

New challenges emerged in addition to the ones mentioned above, especially in 2014 when ISIS occupied three governorates causing the largest wave of displacement in Iraq's history.

According to the International Organization for Migration in Iraq, the total number of IDPs (displaced after January 2014) was 3.3 million. In addition, 2.2 million previously-displaced persons returned to their territories. World Bank simulations show that the poverty rate among displaced persons rose by 15 percentage points, from 23 percent to 38 percent—this is almost twice the rate for the rest of the population. In other words, there are four poor people among every 10 displaced people.

Moreover, the cost of the war on terrorism resulted in the crowding out of priorities related to development, reconstruction and social spending. For example, the federal budget law for 2017 included about \$5 billion for military spending, and around \$19 billion on security and defense—together 22.6 percent of the total public expenditure, compared with 9.3 percent on education and 3.8 percent on health.

Chapter 2—Analysis of Poverty in Iraq—presents available poverty data, and current trend indicators.

HIGH POVERTY RATES

Poverty rate was expected to decline from 19 percent in 2012 to 15 percent in 2014, but instead the rate increased to about 23 percent, according to estimates. Poverty rate increased in the Kurdistan region from 3.5 percent to 12.5 percent because of the large wave of displacement. In governorates under ISIS occupation, poverty rate doubled to 41.2 percent. Even though the impact was limited in the rest of Iraq, poverty increased in all governorates, especially in the South where the rate remains stubbornly high, at more than 30 percent, due to the economic crisis. Per capita consumption expenditures declined by 40 percent in the occupied governorates, compared with a 15 percent decline in the rest of Iraq. Consequently, the progress against poverty during 2007-12, in itself very limited, has been reversed due to turbulent political, economic and security conditions. These numbers show the magnitude of the impacts of what is known as the “double crisis”, and reveal just how fragile the economy is due to its dependence on oil revenues, on one hand, and its exposure, on the other hand, to domestic and international political conflicts.

Poverty reduction is a long process and poverty characteristics are only changing slowly. Poverty is geographically concentrated in certain areas where it is deeply rooted and has become chronic. It is associated with low levels of per-capita income and consumption, with low educational attainments, with living in rural areas and working in agriculture, with large families and low participation of women in economic activity, and

with hazards and threats against human safety and security. These factors are entwined causally in a vicious cycle that, if not broken, will continue to reproduce poverty.

The phenomenon of child poverty is a point in the case. Poverty reduction during 2007-12 did not result in the reduction of poverty among children under 18 years old. In 2012, children accounted for 48 percent of the population and 23 percent of these children were poor (i.e. one in every four). About 34 percent of children in rural communities are poor compared with 17 percent in urban areas. Regionally, the prevalence of child poverty is 5 percent in Kurdistan and 50 percent in the southern governorates of Muthana, Qadisiyah, Maysan, and Thi-Qar.

Post double crisis circumstances do not help mitigate poverty. The Iraqi economy needs an integrated package of consistent policies that would pave the way to sustainable economic growth. In particular, the current environment is not conducive to private-sector-led growth and development. The goal of these policies would be to enhance the poverty elasticity of economic growth. This requires improving the supply side of the economy and promoting economic diversification.

SITUATING THE NEW STRATEGY FOR POVERTY REDUCTION, 2018-22

The time of preparation and implementation of this Poverty Reduction Strategy coincides with the government aspiration to achieve Sustainable Development Goals, through the Iraq Vision 2030 and the new National Development Plan (NDP) for 2018-22. The NDP considers poverty reduction to be a fundamental theme and objective, along with good governance, private sector development, financial sector reform and other sectoral priorities. All these constitute a package of reforms to the supply side that is a prerequisite of this Strategy. The package provides a framework for policies to guide the economy and to improve its structure, with a view to achieving broad-based economic growth.

In this context, this Strategy focuses on specific and discreet activities which are priority to certain poor areas and groups, while the macroeconomic framework and fundamental structural reforms are addressed in the NDP. This Strategy and the NDP are thus complementary, including in terms of vision and objectives.

The vision presented in Chapter 3—Building the Strategy—lays out a program to advance poverty reduction.

The Strategy adopts the 2030 Sustainable Development Goals as a general framework. Within that, the PRS has a goal of reducing poverty by at least 25 percent, by 2022.

The Strategy formulates a plan to contribute to improving standards of living, protection against risks and hazards, and to achieve economic empowerment needed to turn the poor into productive individuals who are economically and socially integrated, rather than being dependent on their communities or charity of others.

As mentioned above, links with other plans and institutions will enhance the role of the Strategy in addressing poverty. Particularly, this Strategy and the Iraq Vision 2030 share the common pillars of:

- Creating opportunities for generating sustainable income;
- Empowerment and building human capital;
- Establishment of an effective social safety net.

Based on these, several strategic directions were developed, using the Logical Framework approach. Namely, the Strategy adopts six outcomes/pillars that represent the key dimensions of poverty: (1) sustainable income for the poor from work; (2) improved health status of the poor; (3) improved education for the poor; (4) suitable housing and environment responsive to challenges; (5) effective social protection; and (6) emergency

response activities. Achieving these outcomes require efforts to help the poor overcome their poverty by way of building human capital and improving other aspects of the environment for the poor.¹

The Strategy plans to achieve these outcomes by implementing a group of activities for each outcome/pillar. Considering the lessons learned from the first strategy, the 2013 poverty mapping exercise and the need to responses to new challenges, the Strategy preparation team identified key priorities and devised a matrix of several activities for each outcome. The team agreed upon 32 activities—a realistic number that can be implemented given existing administrative and financial capacity and outstanding challenges. Namely:

- The Income outcome includes activities that focus on increasing labor productivity, creating job opportunities and earning sustainable income by men and women;
- The Health outcome focuses on access of the poor to health services, maternity care, and the provision of safe drinking water;
- The Education outcome focuses on the provision of education, literacy and vocational training, school nutrition, and access of girls to education in poor and rural areas;
- The Housing and Environment outcome prioritizes the problem of slums, provision of affordable housing for the poor, and facilitating the use of solar energy;
- The Social Protection outcome focuses on improving the targeting for the existing programs and reforming the social protection system, especially the Public Distribution System (ration card system) and the social safety net;
- The Responses to Emergency outcome pays particular attention to the displaced people and the returnees. This outcome provides the Strategy with flexibility and resilience needed in order to adjust, accommodate and respond to changing situations, conflict and post-conflict. New needs shall be identified and it is expected that such needs will change with the transition to stability and reconstruction.

Many international and local parties, governmental and nongovernmental, work for the benefit of the displaced people. Given the difficulties of conducting surveys to identify their conditions and implement targeting amid the large number of those who returned to the liberated territories (2.2 million have already returned to governorates that were occupied by ISIS) focus will be on those who return to districts classified as poor according to the poverty map. Poverty and the magnitude of destruction in these areas will be used for targeting.

FINANCING THE STRATEGY

Lower oil prices and the government's IMF-sponsored economic adjustment program act as a constraint on public investment as a tool for poverty reduction. Therefore, to reconstruct the liberated areas which become poorer due to ISIS occupation, the Strategy plans to also recourse to international sources of financing and to support from the Fund for Reconstruction.

The Strategy preparation team devoted much attention to the issue of financing, identifying potential financiers, and calculating the costs of each activity. Regarding domestic financing, resources will come from annual allocations of the general investment and current budgets—this was also the case with the first PRS. The new Strategy also aims to take advantage of the ongoing trend towards decentralization in order to improve the efficiency of implementation and local community's ownership of Strategy's activities. Accordingly, a share of the annual budget allocation was added to the Regional Development Program (RDP) and Petrodollar Allocation Program. However, going forward, this will require annual coordination with the

¹ The concept of environment also includes political, security, economic, and social environment, and the living conditions in general—here, improvements in governance would be necessary, which is what NDP 2018-22 will try to achieve.

Ministry of Finance and the Parliament to have these amounts included in the budget law. Regarding international finance, activities of the Strategy were presented to international organizations and other donors. Given international support to reconstruction it is hoped that external financing can be secured.

Chapter 4—Institutional Mechanisms for the Implementation of the Strategy—recommends amendments to the current structure and working mechanism of the Strategy.

At the onset of the first Strategy, the Executive Directorate of the PRS faced several institutional setup challenges, including, inter alia, the role of the High Committee as well as the existing laws and regulations that hampered the execution of strategic activities and achievement of the stated goals. This document proposes amendments to the current setup that would enable the Executive Directorate to effectively respond to changing implementation circumstances. Specifically, in the light of the ongoing decentralization, the Executive Directorate should be able to review assigned tasks, reconsider representation in the PRS committees, enhance the representation of the Kurdistan region, and invigorate the committee members in their task of coordinating with agencies they represent. Finally, the Executive Directorate requires capacity building, needs to develop a system of monitoring, control, follow-up and evaluation, as should ensure participation of nongovernmental organizations (NGOs) and the civil society in these tasks.

The implementation challenges described above motivated the design of alternative or supplementary mechanisms that would be more flexible and resilient, and better able to attract local and international grants. To that end, work is being undertaken in parallel to establish the Social Fund for Development as a direct national tool for achieving the Strategy's goals. The Fund, expected to start operation in 2018, is being established with technical assistance from partners and a government loan of \$50 million for the first year. Fund activities will include financial and non-financial services, and community infrastructure projects. The Fund shall also be a vehicle to engage development partners, and attract international loans and grants from foreign and international donors.

FACTORS FOR SUCCESS

Challenges continue to emerge, yet there are also success factors in place that should enable the Strategy to achieve its objectives. These include:

- Political will and government's commitment to poverty reduction;
- Decentralization of public service delivery that should encourage local governments to better identify, and be more responsive to, the needs of the poor;
- Technical and financial support from international partners—such as World Bank or UNDP—to the reform process, to fighting corruption in development programs, and to enhancing the efficiency of public administration, including improving government spending mechanisms. This should lead to better policies, improvements in government performance and to a diversification of fiscal revenue sources. International support to reconstruction efforts is also auspicious.
- Progress in the fields of social work and the enhanced capacities of civil society organizations should lead to more support from NGOs to the PRS and its implementation;
- Finally, the implementation of the first PRS and the preparation of the current Strategy had led to much greater awareness of poverty issues. This is true for all levels, including the general public, the Parliament, the media, the federal government, the government of the Kurdistan region and local governments.

The task of preparing of the Strategy has been undertaken by the team comprising the Chairman, members of the Permanent Technical Committee (PTC), independent experts, officials of the federal government and the

government of the Kurdistan region, and other experts invited to Strategy's workshops. Participation of UNDP, UNICEF and WFP enriched the discussion on the issues of gender, environment, child poverty, food security, education, health and income. Remarks and contributions from these institutions were invaluable in the preparation of this Strategy. The Strategy document also benefited from the feedback by the review teams at the World Bank and UN agencies. Their comments not only enriched the Strategy, but should also hopefully result in more support and buy-in at the national and international level. Finally, we would like to commend the teams from the World Bank who provided technical and financial support in conducting surveys, data analysis, and who seconded experts. This work would not have been possible without their efforts and contributions.



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