

Policy Implications: Learning from the Past to Build a Better Future

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More than in most countries, poverty and deprivation in Iraq are symptomatic of its daunting legacy of violence and fragility, of a skewed economy heavily dependent on oil and on public intervention, and of decades of lost development. Addressing the twin goals in this context and with continuing violence will require a concerted and multi-sectoral approach, combining short-term and medium-term efforts.

Establishing and maintaining peace and security across the nation is a pre-requisite for sustained and healthy economic growth. Moreover, Iraq will need to strengthen the natural links between growth and welfare through better management of oil resources, non-oil diversification of the economy, bridging spatial inequities, private sector development and implementing a well-designed and comprehensive safety net system. An economic growth process that creates employment and increases earnings, while maintaining incentives for labor participation and investments in education, is the least costly path to poverty reduction and inclusion. At the same time, Iraq faces a large deficit in infrastructure, services and human capital, which will need to be redressed. Moreover, targeted interventions are called for, to address long-standing inequities across space and groups.

In identifying areas for policy action, a few key principles are critical to keep in mind:

- Peace, security and economic growth are foundational pre-requisites for development, without

which welfare gains will be difficult to realize and sustain;

- Sequencing will be very important to secure gains from reform, and supply and demand side constraints will need to be relaxed simultaneously: for instance, investing in education access and quality will not bear fruit absent adequate productive employment opportunities that generate appropriate returns on the labor market;
- Taking advantage of spillovers and complementarities, such as spatially targeted public works programs to generate employment and increase incomes which also have the potential to redress the infrastructure deficit and build skills for future jobs;
- Finally, while there is clear scope for urgent action, other efforts are also needed that will require a medium to long term horizon.

A comprehensive policy framework for enhancing the welfare of Iraq's citizens will require a three-pronged approach:

- Establishing and maintaining peace and security is a fundamental pre-requisite.
- Maintaining economic growth, managing oil revenues, promoting the diversification of the economy in favor of non-oil and private sector led activities. While these will bear fruit in the medium and long terms, the seeds must be sown now.
- Implementing an effective and comprehensive system of safety nets to address the multiple deprivations and vulnerabilities of the population, while

redressing the human capital deficit and spatial inequities.

The analysis presented in this report thus far points to the myriad and deep-rooted challenges to poverty reduction and broad-based prosperity in Iraq. More than in most countries, poverty and deprivation in Iraq are symptomatic of its daunting legacy of violence and fragility, of a skewed economy heavily dependent on oil and on public intervention, and of decades of lost development. Addressing the twin goals in this context and with continuing violence will require a concerted and multi-sectoral approach, combining short-term and medium-term efforts.

Policy Imperatives

Establishing and maintaining peace and security across the nation is a pre-requisite for sustained and healthy economic growth. Moreover, Iraq will need to strengthen the natural links between growth and welfare through better management of oil resources, diversified development of the economy, enabling the private sector and implementing a well-designed and comprehensive safety net system. An economic growth process that creates employment and increases earnings, while maintaining incentives for labor participation and investments in education, is the least costly path to poverty reduction and inclusion. At the same time, Iraq faces a large deficit in infrastructure, services and human capital, which will need to be redressed. Moreover, targeted interventions are called for, to address long-standing inequities across space and groups.

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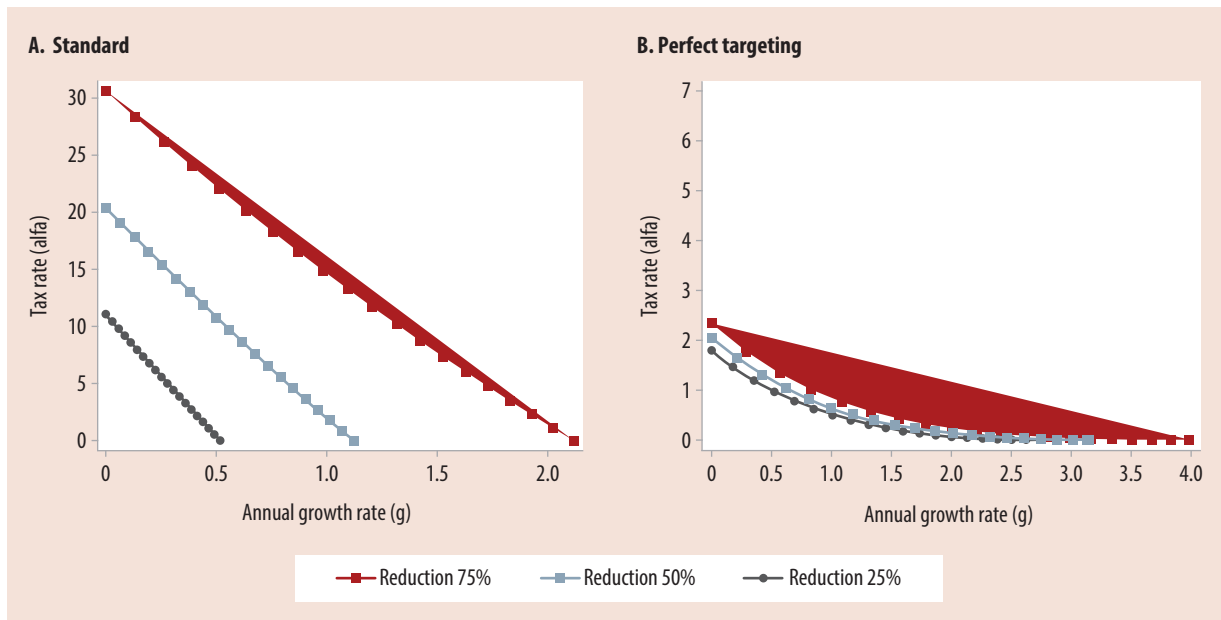
- Taking advantage of spillovers and complementarities, such as spatially targeted public works programs to generate employment and increase incomes which also have the potential to redress the infrastructure deficit and build skills for future jobs;
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The current strategy towards poverty reduction depends overwhelmingly on public intervention, either through the creation of jobs in the public sector, or through the distribution of transfers, primarily universal food subsidies. This former approach is neither creating adequate jobs, nor promoting private sector development, and is in fact posing significant disincentives to labor force participation. The Public Distribution System remains the only safety net that adequately covers the poor, and while it does provide a base level of food security, childhood malnutrition remains a concern, and the PDS is inadequate to address the multiple deprivations in human capital and labor market opportunities faced by the less well-off segments of the Iraqi population. If the status quo—the current relationship between, growth, redistribution and poverty reduction—remains unchanged, it will take a sustained and significant effort in terms of growth and/or redistribution to achieve meaningful poverty reduction in the medium term.

Growth, Redistribution and Poverty Reduction

In order to understand the relationship between consumption growth, redistribution and poverty reduction, we undertake a micro-simulation exercise that illustrates the combinations of redistribution-neutral consumption growth and redistribution needed to attain certain hypothetical poverty-reduction targets. The roads leading to sustainable poverty reduction can be varied. For the purposes of this

FIGURE 199: Isopoverty Curves



Source: Authors' calculations, IHSES 2012.

exercise, we simplify the issue by thinking of poverty reduction as the result of either neutral per capita income (or consumption) growth, or redistributive policies, or a combination of both. Of course, reality is much more complex: there might be no policy instrument that increases productivity proportionally for all the population, while redistributive policies may take a significant toll on efficiency, and hence on incomes. However, it is still illustrative to know what the effort is needed in terms of neutral consumption growth and simple non-distortionary redistributive policies to attain a certain poverty target. This information is useful at least to have an idea of the 'distance' of the country from the poverty target in terms of consumption growth and redistribution.⁶⁶

In Figure 199, we present three *isopoverty* curves, combinations of distribution-neutral growth rates of consumption and simple redistributive policies, corresponding to the goals of reducing poverty 25, 50 and 75 percent from the current levels over the next eighteen years. In all cases, we take the official poverty line in Iraq, and we use household per capita consumption as the individual well-being measure. The vertical axis measures the consumption tax rate

(α), while the horizontal axis measures the annual consumption growth rate between 2012 and 2030 (g). Each point in the *isopoverty* curve corresponds to a combination of redistribution policy with a tax rate α and neutral growth at rate g needed to reduce poverty (25, 50 or 75 percent) from 2012 to 2030.⁶⁷

The curves in Figure 199 panel B are relatively 'flatter' than those of panel A, implying that the

⁶⁶ See Annex for details on the methodology.

⁶⁷ The position of an *isopoverty* curve shows how easy or difficult is for Iraq to meet the poverty-reduction target: the closer to the origin an *isopoverty* curve lies, the less consumption growth and income transfers are required to reach the target. The *isopoverty* curves are negatively sloped, indicating that it is possible to substitute or trade off consumption growth for income redistribution, and convex, indicating that the marginal rate of substitution between consumption growth and consumption redistribution is decreasing. The horizontal intercept indicates how much consumption growth the country needs in order to meet the poverty target with no additional consumption redistribution. The vertical intercept informs how much consumption redistribution the country needs in order to achieve the poverty target with no growth in consumption.

poverty-reduction impact of even a small transfer program is equivalent to that of many percentage points in accumulated consumption growth. For instance, an annual growth rate of almost 4 per cent between 2012 and 2030 is equal, in terms of poverty reduction, to an income transfer to poor people of more than two percentage points of the non-poor individuals' consumption (under the perfect scheme). In general, the curves are flatter for targeted transfer policies than for a simple redistributive policy, as the latter imply a greater fiscal effort to achieve the poverty-reduction goal.

Columns (i) and (ii) of Table 47 show the intercepts of the *isopoverity* curves with the horizontal and vertical axis for every kind of transfer program. Halving poverty through a simple redistributive linear policy demands an incremental tax rate of 20 percent of everyone's consumption and then distributing the revenues equally across the population, or alternatively an annual rate of consumption growth of 1.12 percent. On the other hand, if Iraq were able to implement a perfectly targeted system of transfers, the fiscal effort to halve poverty would be a much smaller by taxing 2 percent of non-poor's consumption.

Column (iii) shows the amount of consumption transferred from non-poor individuals to poor individuals as a percentage of the country's total consumption,

TABLE 47: Trading Off Consumption Growth and Redistribution for Poverty Reduction

	X axis ($\alpha = 0$)	Y axis ($g = 0$)	Cost ($g = 0$) (% of national consumption)
Standard			
25	0.52	11.09	
50	1.12	20.38	
75	2.12	30.63	
Targeted Transfer			
25	2.74	1.79	1.63
50	3.15	2.05	1.86
75	3.99	2.34	2.13

assuming no growth in consumption ($g=0$). For instance, in order to halve poverty, Iraq would need to transfer almost 2 per cent of non-poor individuals' total consumption to the poor people under the targeted scheme, if consumption were not to grow between 2012 and 2030. The same poverty-reducing effect could be achieved with no income redistribution along with an average annual consumption growth rate of 3 per cent between 2012 and 2030.

Although the effort required through consumption growth seems relatively small, over the last five years, consumption growth among the bottom 40 percent of the distribution has hovered around 1 percent, and has been below 2 percent for the population as a whole. This has occurred despite significant rates of GDP growth, on average, 7 percent per annum between 2008 and 2012. In other words, if nothing else were to change, and Iraq wanted to halve poverty by 2030, an average annual rate of GDP growth of roughly 7 percent would have to be maintained over the next 15 years, which is a challenge for any country. If a more ambitious target were conceived, GDP would have to grow even faster. The fundamental challenge is that the relationship between GDP growth and consumption growth is weak; and strengthening the relationship between the two, which will require a change in the composition and drivers of growth, will translate into larger gains in terms of poverty reduction for the same rate of GDP growth.

Strengthening the Relationship between Growth and Welfare

The foundational pre-requisite to economic growth and how and whether it translates into shared prosperity and poverty reduction is the establishment and maintenance of peace and security. That being said, an inclusive and broad-based development process can mitigate the risks of recurring violence, and vice versa, the deterioration of socio-economic conditions can severely test a fragile peace. The governorate of Nineveh, which had witnessed significant sectarian violence since 2003, and where poverty

headcount rates have increased by 11 percentage points between 2007 and 2012, is now reeling under an insurgency, and half a million people have fled the conflict there.

A comprehensive policy framework for enhancing the welfare of Iraq's citizens will require a three-pronged approach:

1. Establishing and maintaining peace and security is a fundamental pre-requisite
2. Maintaining economic growth, managing oil revenues, promoting the diversification of the economy in favor of non-oil and private sector led activities. While these will bear fruit in the medium and long terms, the seeds must be sown now.
3. Implementing an effective and comprehensive system of safety nets to address the multiple deprivations and vulnerabilities of the population, while redressing the human capital deficit.

Economic Growth, Oil Management and Diversification

Over and above the restoration of peace and security, the achievement of significant and sustained welfare gains will be predicated on economic growth and the diversification of the economy away from oil. In Iraq, as in many other developing countries, the heavy reliance on oil for growth, exports and government revenues also occurs within the context of a narrow and non-inclusive power structure that privileges 'short-term private enrichment over longer-term collective welfare enhancement'.⁶⁸ As a World Bank (2012) report highlights, the translation of natural resource rents into development gains will require credible intertemporal commitment on the part of government to both extractive companies and its citizens, as well as a more inclusive process of decision making and public accountability so that resource rents are allocated towards investments in service delivery and public good provision.

A first key step is greater oil revenue transparency, and in 2008, the Government of Iraq indeed committed

to publish all revenues from the oil sector under the Extractive Industries Transparency Initiative (EITI). Further, the 2012 Iraq Country Economic Memorandum and Public Expenditure Review recommend the creation of a sovereign "parking fund" and a fiscal stabilization fund to minimize the impact of oil revenue volatility on expenditure policy; improving the strategic orientation of public expenditure and enhancing the links between macro-fiscal policies and resource allocation; reorienting spending towards capital investment, and increasing the efficiency of current capital expenditure.

Moreover, while Iraq's major challenges are medium term, government response has been primarily short-term, pushing for a rapid expansion of oil production, without an accompanying vision for diversification of the economy. To address the multiple development challenges facing the country, an expansion in job creation led by a diversified private sector will be essential, which in turn requires a favorable investment climate, the availability of finance on competitive terms, and flexible labor market mechanisms and institutions.

While Iraq does have some of the key elements for a diversified economy—varied geography and climate, natural agglomeration centers, and a fairly large domestic market—these prospects have been eroded over time. That being said, there are opportunities for an expanded role of the private sector in construction, banking, industry and tourism, if the appropriate enabling environment is made available. Agriculture, which has long been neglected, will require significant investments in infrastructure, technology and extension services, but has the potential to protect rural livelihoods and stimulate the local economy. In time, these investments can lay the foundation for future competitiveness. Finally, the linkages between the oil sector and manufacturing can be strengthened, by encouraging, for instance, private producers of light manufacturing or less sophisticated industrial machinery used in the oil industry.

⁶⁸ Rents to Riches? The Political Economy of Natural-Resource Led Development. World Bank 2012.

It will be imperative for the public sector not to crowd out the private sector in being able to compete for talent and business. Rather, the key challenge for government is to put its significant revenues to efficient use, making critical investments in health, education, infrastructure and regional development, and in creating a well-targeted and comprehensive system of safety nets for the poor and vulnerable (World Bank, 2012, Iraq PER).

In the latter context, direct distribution of resource rents to citizens has sometimes been advocated, which require the presence of mechanisms to identify beneficiaries and guarantee payment procedures. For instance, Mongolia's Motherland Gift Fund pays dividends from its mining revenues to its citizens, while Alaska's Permanent Fund distributes USD 1 billion annually to its 600,000 citizens. These types of Direct Dividend Payments (DDP) are being increasingly advocated because improvements in technology have made large scale transfers increasingly feasible, because these are potentially more effective at enhancing welfare and less distortionary than other types of transfers, and because they could strengthen the citizen-state relationship when coupled with taxation.⁶⁹ However, given the current social contract where the state is seen as the sole provider of jobs and subsidies, these types of transfers may further weaken the relationship between the Iraqi state and its citizens. Moreover, the success of these types of dividend distributions will depend on the capacity of local markets and the local economy to translate the cash influx into improved welfare as opposed to a purely inflationary effect.

Private Sector Led Job Creation

The creation of a large and diversified set of jobs remains one of the fundamental development challenges for Iraq. Across the world, poverty reduction is most often driven by an expansion in employment and increases in labor earnings; and the private sector is usually the primary engine of job creation. The fundamental constraint to private sector growth in many parts of the country is the environment of insecurity and instability; which combines

with concerns about corruption and the lack of a level playing field to hinder investment and growth.

Barriers to firm entry and competition derive, as in many other countries in the region, from regulatory barriers and discriminatory implementation and enforcement of rules and regulations. These also create opportunities for corruption and rent-seeking. The 2012 Investment Climate assessment recommends the clarification and simplification of existing rules, the strengthening of transparency in public procurement, and enhancing the accountability of public institutions that deal with the private sector to promote rules over discretion in the implementation of policies and regulation.

Iraq's large informal sector also poses an important challenge. Streamlining registration and licensing procedures will reduce the regulatory burden of entry into the formal sector; as will a reform of the tax and regulatory regime to assure ease of entry and compliance for small firms. Moreover, expanding the access to finance and business support services will enable informal firms to compete in the formal economy. In the end, firms choose to formalize based on a rational comparison of costs and benefits; and the formal economy can grow when these benefits outweigh the costs.

Private sector growth has also been impeded by the lack of power and transport infrastructure; limited access to land and financing, and the absence of a skilled labor force. There is a strong potential role for the private sector to play in partnership with the public sector to enhance infrastructure quality and access, but this will require reforms of the regulatory environment to attract adequate investment. Similarly, financial sector reforms will be needed to expand access to competitive financing for private businesses. Easing the regulations governing land and facilitating registration and the use of property as collateral will also be important.

⁶⁹ Devarajan et al, The Case for Direct Transfers of Resource Revenues in Africa, Centre for Global Development, Working Paper 333, July 2012.

Agglomeration economies in Iraq are on the one hand being stymied by the insecure local environment in many parts of the country, and on the other, by the uneven implementation of regulations and the severe infrastructure deficit. In part a consequence of insecurity and violence, individuals in Iraq seem to find it difficult to move across the country to earn the appropriate returns on their characteristics. Rather, the inability to migrate in search of remunerative work, implies that otherwise equally capable individuals earn significantly less because of where they live.

Strengthening the education and vocational training system in partnership with the private sector and curricula reform to better reflect the technical skills sought by the private sector will be important in bridging the skills gap. As it stands now, the pay, hours and benefits premium earned by public sector employees relative to those who work in the private sector inhibits the ability of the latter to attract and retain talent. In the short term, a combination of tax incentives, wage credits and on the job skills training and internship programs can encourage the private sector to expand hiring; but in the medium term, there is no substitute for easing firm entry and exit, promoting competition, guaranteeing a level playing field and putting in place the enabling infrastructure for growth.

The overarching context for private sector development is fragility and conflict. Manifestations of this in terms of spatial fragmentation of the country and infrastructure deficiencies have already been highlighted. It is important therefore to tap knowledge gained from private sector development projects in other FCS. Given Iraq's vast oil and gas endowment, the "resource corridor" approach holds particular promise, especially as lessons emerge from a resource corridor approach in Afghanistan. The key idea is to use a set of complementary investments by international and domestic private investors and the government to manage natural resource development in a way that generates spillover activities. Of course, parallel interventions are necessary to maintain security and promote an inclusive mode of

natural resource development. Iraq has strong potential for this approach as there are large resource endowments adjacent to high poverty governorates. In addition, the country is historically aligned along its rivers, while oil and gas fields are more dispersed vis-à-vis the major population centers (Baghdad and Mosul). A resource corridor approach can focus on mapping the oil and gas value chain into the demographic and geographic structure of Iraq in a way that allows the domestic private sector to leverage large scale investments by international companies and the government into downstream entrepreneurship and job opportunities. The resource corridor approach will also help Iraq capitalize on activity spillovers from key trade routes, though of course the full benefits of land trade can only be realized when historically important routes to Syria and the Gulf are reopened. Where political risk is impeding investment, guarantees may be an effective way to induce potentially transformative investments from the private sector.

Enhancing Inclusion and Social Protection

Intergovernmental Fiscal Relations

The spatial variations in poverty outcomes points to the impact of the relationship between layers of government in Iraq. As noted in Chapter 1, the current model is asymmetric devolution: a unitary state with one semi-autonomous region. Governorates not in a region are mostly managed by and accountable to, the central government. Iraq has been moving in the direction of greater decentralization, but the powers for governorates envisaged in a 2013 law have not been actualized. The spatial differentials are a warning sign that simply giving more powers to governorates will not necessarily be equalizing. These differentials (especially those related to service delivery) seem associated with variation in capacity at the governorate level, e.g. for the historically weak and disempowered governorates in southern Iraq. On the other hand, the central government also lacks the instruments to play an equalizing role. While the PDS is an

effective national subsistence program, there is no analogous instrument capable of targeting common outcomes in terms of service delivery or transfers. Iraq does not have a tax and transfer system of the depth needed to protect the poor, nor has it been able to address capacity deficiencies at the front-line service level.

Although prospects for implementation of the 2013 provincial powers law are uncertain, there are a number of tracks along which the layers of government could be strengthened and coordination between them improved. First, “bottom-up” accountability can be improved by providing citizens with more relevant information about budget flows from allocation to facility level, so that they can have a better understanding of the relationship between funding and needs. Second, “top-down” accountability can be strengthened by a joint commitment from the central government, governorates, and governorate councils to address the most glaring gaps on social and public services; this should include a consensus on targets and budgets needed to achieve them. Third, the central government should revamp its current capacity-building efforts to make them more operational, for example by linking capacity building directly to spending activities or the development of targets; too often, capacity building has taken the form of training or workshops delinked from day-to-day tasks. Finally, existing initiatives to provide more funding to the governorates should be reassessed for consistency with spending capacity. There is a clear risk in the current “petrodollar” distribution to the governorates (US \$1 per barrel produced in a governorate, with a proposed increase to US\$5) that funding will outstrip capacity to spend. It would be preferable to agree a set of spending assignments for all governorates based on capacity and need, and then have funding follow these assignments. At a later stage, revenue assignments could be reconsidered when the fiscal system is better developed. As expenditure and revenue assignments should be aligned with accountability mechanisms, the assignments can be designed in conjunction with the implementation of the provincial powers law.

Redressing the Human Capital Deficit

As a consequence of decades of violence and instability, Iraq has suffered from a significant depletion of its human capital stock, and with it, the loss of cadres of skilled teachers, academics and medical professionals. Moreover, the deterioration and destruction of education infrastructure, the financial constraints faced by many households, the lack of interest in education expressed by many, and the limited returns on the labor market have meant many Iraqi children do not go beyond primary schooling. This represents a significant erosion of Iraq’s once promising human capital endowment. The health sector has not fared much better: institutional arrangements were directly affected by the sanctions regime, and the system, overwhelmed by the ensuing violence, remains in crisis. Despite universal food distribution, a third of children belonging to poor families are born stunted. Other aspects of service delivery remain hampered, with less than half the population covered by garbage collection and sewage services, and very few rural households.

Significant investments are needed to invest in health, education and service infrastructure to guarantee a basic level of access for all Iraqi citizens, and these need to be staffed by qualified personnel. The expressed lack of interest of many children in continuing their education is worrying and suggests that education quality may have deteriorated, that curriculum may need to be revised to be relevant to the needs of today, and that investments are needed in teacher training and improved teaching methods.

A more nuanced approach will need to be put in place to ensure girls enroll in school and stay in school. Over and above understandable concerns about safety, the oft-cited ‘social reasons’ to not go to school or to drop out suggest that norms about the value of educating girls and concerns about their honor and reputation play a role in limiting girls’ education. Simply building a school will not ensure that girls go to school: there may be a need in addition for gender-sensitive design of the schooling system including developing a cadre of qualified female teachers, separate toilets for girls and boys, and

where necessary, the provision of safe and reliable transportation. Absent an adequate cadre of trained female teachers, the skills of local educated woman could be developed to serve as supplementary teachers. For instance, the Community Support Program (CSP) in rural Balochistan in Pakistan relaxed the educational requirement for teachers in government schools to ensure an adequate supply of female teachers. These teachers were given additional training to help bridge the gap, and as a result, the program raised girls' enrolment rates (Kim, Alderman and Orazem, 1998 and World Bank 2005).

The fact that many children, especially boys, do not attend school or drop out because of inadequate financial resources or to find work to help their families, suggests that there may be a role for financial incentives conditional on school attendance, and on completing different levels of education. Similarly, targeted interventions may also be needed to keep girls in school and overcome norms that place little value on girls' education. A range of conditional cash transfer (CCT) programs have been found to have had significant and, in some cases, large effects on school enrollment and attendance; and to some extent, increases in the use of preventive health services.

Mexico's Oportunidades program, for instance, was effective in ensuring more children transitioned from primary to secondary school in rural areas, and also appears to have positive spillovers, with school enrollments increasing even among ineligible children.⁷⁰ Moreover, these types of CCT programs may disproportionately benefit poorer households, who begin with lower educational attainment, face significant financial constraints, and potentially higher returns to schooling at the margin. Several studies find this to be the case. In Cambodia, a program that gave scholarships to girls between the last year of primary school and the first year of secondary school (the Japan Fund for Poverty Reduction) increased enrollment by approximately 50 percentage points for girls from less well-off families, compared with 15 percentage points for girls in the richest families (Filmer and Schady, 2008).⁷¹

In terms of the impact of CCTs on improving child health outcomes the evidence is mixed: they reduced the incidence of low child height for age or stunting only in some countries and only among some populations. Nicaragua's Red de Protección Social, which increased by about 0.17 points the height-for-age Z score for children younger than 5 years of age; and Colombia's Familias en Acción, which improved the Z scores of treated children younger than 2 years of age by 0.16 points, implying a 7-percentage point reduction in the probability of stunting are two examples of success (Maluccio and Flores, 2005 and Attanasio et al., 2005). Other evaluations of programs in Honduras, Ecuador and Nicaragua find no effects (Macours, Schady, and Vakis, 2008, Hoddinnott, 2008 and Paxson and Schady, 2008).

Finally, some CCT programs that have successfully incentivized girls to stay in school have also either explicitly conditioned benefits on girls remaining unmarried or have led to lower rates of early marriage. In 1994, Bangladesh introduced the Female Stipend Program (FSP), a conditional cash transfer program that gives a monthly stipend to female secondary school students contingent on maintaining a minimum attendance rate and test score, and remaining unmarried. Over the next ten years, girls' enrollment in secondary schools almost quadrupled, enabling Bangladesh to achieve gender parity in education. The Zomba Cash Transfer program in Malawi, which offers cash transfers conditional on girls attending school is another good example. The evaluation found that adolescent girls who were not in school at the beginning of the program, and were

⁷⁰ Bobonis and Finan (2008) argue that the increase was a result of peer effects—barely ineligible children in Oportunidades communities were more likely to enroll because their eligible peers were in school.

⁷¹ In Mexico, Behrman, Sengupta, and Todd (2005) argue that Oportunidades program effects are largest for children with the lowest propensities to enroll in school at baseline. Finally, Oosterbeek, Ponce, and Schady (2008) show that the BDH program in Ecuador had a significant effect on enrollment for children around the 20th percentile of the proxy means, but no effect among children around the 40th percentile.

offered conditional cash transfers, were 40 percent less likely to marry after one year than girls in the control group which did not receive the transfers. This indicates that in this setting, schooling did have a protective effect for girls who are at higher risk of early marriage. These links between extending girls' education and lower rates of early marriage may also imply that girls, when they get married, are better able to care for themselves and their children. Given the positive correlation between early motherhood and adverse child malnutrition outcomes in Iraq, this may have spillover effects on the next generation.

However, investing in human development will only reap dividends in the medium term when it is accompanied by the generation of a large and diversified set of productive job opportunities that rewards these investments in the labor market. The current policy of absorbing less educated workers into the public sector and the expansion of jobs in the security sector have stalled the returns to education at primary level, and therefore, the incentives to invest in further schooling.

Public Works and Spatially Targeted Programs

The Public Distribution System is currently the only safety net covering the poor, and therefore, has been politically very difficult to reform. This is in large part due to the absence of any other viable system of social protection, which has made large parts of the population very dependent on food rations, and resistant to reform. Meanwhile, the continuing instability and insecurity in the country have made it difficult to put in place alternative means of securing livelihoods, either through public intervention or through the revival of local economic activity. As a result, without putting other programs in place, any one-shot reform to the PDS including targeting, will have adverse consequences on welfare, and will be hard to implement.

Therefore, there is need for a phased implementation of a comprehensive safety net system which includes a variety of programs to address different dimensions of deprivation. These must include

interventions to bridge the gap in human capital and to ensure equitable access to basic services. Moreover, some parts of the country have suffered from decades of neglect, and spatially targeted poverty reduction programs will be essential to address welfare and vulnerability. All of these must be in place before a reform of the PDS is considered.

A nationwide public works program, with spatially differentiated components has the potential to provide employment and incomes in the immediate term, to rebuild local infrastructure and service delivery and skills for future employment. Certain key design and implementation elements are critical for success. First, the wage must be set appropriately, low enough that the wage that does not crowd out the private sector, and effectively self-targets those who need supplementary income the most. While in rural areas, the focus of the program could be to rebuild and restore local infrastructure, in urban areas, physical labor works could be supplemented by basic service delivery. Public works may include the creation, maintenance, or reconstruction of existing infrastructures, like roads, schools, health posts, sanitation improvements; environmental and agricultural projects such as, irrigation, soil conservation and watershed development; cleaning roads and other public facilities; and social services including day care, food preparation and so on.

In general, the high rate of joblessness in Iraq, especially among the youth, and the lack of visible improvements in day to day life despite massive revenues from oil, has the potential to further marginalize segments of Iraqi society. In other post-conflict and fragile contexts, programs have deliberately targeted young at-risk groups to limit the risks of their reverting to violence. The Government of Liberia, in collaboration with an NGO, Action on Armed Violence and the United Nations successfully helped ex-combatants move into full-time farm work by offering them training, start-up capital and counselling. Men who participated in the program were more likely to spend more time farming, and less time in illegal activities; however, the combination of capital and training was critical to generate

impact.⁷² An evaluation of Uganda's Youth Opportunities Program, which offered cash transfers to groups of youth to increase employment and reduce conflict, generated a shift from agricultural work towards skilled trades and strong increases in income.⁷³

In Iraq as well, similar programs could be designed to specifically target young men who have the highest rates of joblessness, and should prepare them for future employment in formal labor markets. As part of the program, young people may be encouraged or required to complete training in vocational or professional skills or apprentice and intern with businesses. Women must also be integrated into improving local service delivery, and offered training as supplementary teachers and basic health service providers. The program will have to be simple and transparent in design to enable easy roll-out and monitoring in a low-capacity context. It should not provide permanent employment but rather the option of temporary work when needed. An effective monitoring system, perhaps linked to the proposed transition to 'smart cards' for PDS entitlements, will be essential in this regard.

In areas where poverty rates are very high, especially in rural parts of the South, universal programs would have enormous benefits. The poverty map exercise that is underway will help identify pockets of severe poverty where spatially targeted programs can be implemented. Given the higher prevalence

of malnutrition and the greater dependence on the PDS as a source of calories in these parts of the country, nutritional supplements and enhancing the nutritional content of food rations, may be considered as well.

The Government of Iraq is considering a transition to 'smart cards' linked to biometric identification to deliver PDS entitlements. If well-conceived and implemented, the series of programs proposed above which involve a combination of investments in infrastructure and service delivery and individually or spatially targeted cash transfers conditional on health, education or work, could be integrated into a unified delivery system based on a universal registry. This will be fundamental to track beneficiaries, ensure the systems of delivery are working, and prevent corruption and leakages. However, this will not guarantee that benefits accrue to those who need it most; this remains a critical design challenge.

⁷² Can Employment Reduce Lawlessness and Rebellion? A Field Experiment with High-Risk Youth in a Fragile State," May 2014, Christopher Blattman (Columbia University) and Jeannie Annan (International Rescue Committee).

⁷³ Blattman, Christopher and Fiala, Nathan and Martinez, Sebastian, Generating Skilled Self-Employment in Developing Countries: Experimental Evidence from Uganda (November 14, 2013). *Quarterly Journal of Economics*, Forthcoming. Available at SSRN: <http://ssrn.com/abstract=2268552> or <http://dx.doi.org/10.2139/ssrn.2268552>.