



ECONOMIC RELIEF, RECOVERY, AND RESILIENCE ASSESSMENT FOR SOUTHERN IRAQ

FINAL REPORT

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Executive Summary

Background

The twin crises resulting from Covid-19 and the subsequent collapse of oil prices exacerbated the Iraqi economy's structural problems – mainly the inflated public sector and the lack of jobs in the private sector. Iraq's over-reliance on oil, which is mostly used to fund the payroll of public sector jobs rather than invested into the country's infrastructure, has made it vulnerable to external shocks and put it on an unsustainable path. Nowhere is this more evident than the south, which has seen increasing social unrest due to the lack of job opportunities and deteriorating public services. Due to the humanitarian crisis resulting from the ISIS insurgency in 2014 and its aftermath, most of the international community's funding to humanitarian and development efforts has been dedicated to the north of Iraq whereas the south has seen insufficient efforts towards poverty alleviation and vulnerability reduction. Against this backdrop, the Cash Consortium for Iraq (CCI) and the International Labour Organization (ILO) commissioned this study to assess the different dimensions of socio-economic vulnerability in the south and provide a solid basis for designing interventions related to vulnerability reduction and economic development in the area.

Methodology

To achieve a holistic assessment, CCI clustered the south of Iraq into five different areas based on geographic and economic considerations. Accordingly, one governorate from each of those five areas was selected for the primary research – Al-Basrah, Al-Muthanna, Kerbala, Maysan and Thi Qar. The primary research comprised of three main components: a household survey (N = 960), enterprise survey (N = 101) and 22 in-depth interviews. The household survey was based on population-weighted random sampling using mapping techniques. As for the enterprise survey, Altai Consulting relied on purposive sampling taking into consideration various factors such as business size, sector and geographic location. Regarding the in-depth interviews, chambers of commerce, governors, investment commissions, and INGOs were among the stakeholders interviewed for this study.

Findings

There is a high level of socio-economic vulnerability among households in the south. More than four-fifths of the population are eligible for Multi Purpose Cash Assistance (MPCA), as per the humanitarian cash assistance vulnerability model. Maysan, in particular, is the most vulnerable governorate. The fact that most of the working age population is unskilled and do not have regular jobs contributes to the south being the most vulnerable region in Iraq. The widespread vulnerability in the south is also indicated by the low level consumption of protein-rich food where, for instance, milk is consumed for only two days per week by the lowest income stratum who constitute around 20% of the population. However, food consumption varies between income groups where the number of days when the highest income group consume milk is twice that of the lowest income group, which is an indicator of consumption inequality in the south. In terms of wealth inequality, ownership of cars is restricted to those earning more than USD 600 per month (i.e., around 40% of the population).

To cope with their vulnerability, around a third of households buy food on credit, which partially contributes to half of households being in debt. Overall, households have a higher propensity to borrow than to save, and around a quarter of households are forced to delve into their savings to spend on essential goods. In line with the vulnerability levels, Maysan is the governorate with the highest reliance on negative coping mechanisms.

The most striking challenge facing households in the south is the low level of educational attainment where around half of the population have no formal education. There are slight disparities along gender and urban–rural dimensions. Educational attainment is higher in urban areas and females are more likely to have no formal education whatsoever and less likely to attend universities compared to their male counterparts.

As for enterprises, most are informal and limited in terms of their competitiveness. Enterprises are able to operate informally in the south given that most have been established for more than five years and around 50% are not registered with any public authority. Additionally, most enterprises sell final goods and services and are business-to-consumer firms that sell within their own governorates as opposed to exporting to other governorates or outside Iraq. This indicates that most enterprises in the South do not compete with ones from other governorates or outside Iraq largely due to the low value-for-money of their products.

In terms of their financial standing, supplies – which are mostly imported – constitute around 80% of enterprises' cost structure. Around 70% of enterprises import more than two-thirds of their supplies, mostly from Turkey. Given the effects of Covid-19 and the collapse in oil prices, enterprises registered a slightly negative profit margin in 2020. However, the expectations for the near future are rather optimistic, as around half of enterprises plan on hiring more employees and two-thirds expect their revenue to increase by more than 5%.

Enterprises struggle to access credit that could be used to expand their reach or diversify their products. The vast majority of enterprises have not obtained credit, with only 8% of enterprises having previously taken out loans. Those who did obtained them from friends/family living inside of Iraq, banks, and microfinance institutions. The most common obstacle facing those who wish to take out loans relate to the high cost of fees (60%) and lack of trust in lending institutions (13%). In Addition, Enterprises report that lack of access to loans is an important barrier to the growth of their businesses. Constrained access to and use of financial products denies enterprises the opportunity to expand their reach and diversify their products.

The workforce in the south is dominated by young males who mostly lack a post-secondary education. However, less than 10% of workers have no formal education in contrast to 50% of the general population, which points to the low employability of residents of the south. Additionally, around 80% of enterprises would not hire female employees, with the likely reason being related to perceived lack of competence rather than cultural biases.

The public sector is the main employer in the south, where around 40% of households rely on government jobs as a primary source of income. Daily labor is the second most common major source of income indicating that around 30% of households rely on irregular work. The absence of educational attainment means that around a quarter of working age residents do not have a job, with lack of employment more pronounced among females than males.

Regarding their approach to management, enterprises are not invested in training their employees and prefer short-term over long-term business strategies. Most enterprises are not willing to pay for the training of their staff, as less than 10% of enterprises have previously enrolled their staff in formal training courses. In terms of business strategy, those that require research and

development, capital investment and business development are less favored compared to the more easily attainable goal of improving customer service.

As for public services, household satisfaction levels are mostly below neutral. Security services are the only authorities with a slightly better than neutral level of satisfaction. Enterprises and key development actors pointed out that the current state of electricity, water, vocational and pre-tertiary education, and financial services have a poor impact on development.

Overall, levels of trust are low in the south. More particularly, local and central government officials have the lowest levels of trust, whereas police and teachers are the only institutions with levels of trust slightly above neutral. In spite of the low levels of trust, communal differences – whether along economic or political lines – are not a major driver behind social tensions or conflict.

Programme Recommendations

General development level

- **Encourage community saving schemes specifically designed for daily workers.** Such schemes would allow daily workers, who constitute around 30% of the labor force in the south, to access micro-loans to help with their consumption and livelihood needs.
- **Support the capacity building of microfinance institutions.** The majority of households and enterprises borrow from informal sources and very few take out loans. Assisting microfinance institutions – through training their staff, for example – would help make formal credit institutions more accessible to residents in the south and, ultimately, help enable economic growth for enterprises.

Household level

- **Provide cash assistance for basic needs and consumption support.** There is a high level of socio-economic vulnerability evidenced across the south, with over 80% eligible for some level of humanitarian cash assistance. Given resource constraints, eligibility thresholds may need to be refined to direct assistance to the most vulnerable.
- **Implement a conditional cash transfer program to increase educational attainment.** With half of the south's residents without any level of formal education, a cash transfer contingent on attendance/enrollment would incentivize households to enroll and keep their children at school.
- **Offer financial literacy programs to inform households' financial decision-making.** Such programs would help half of households who are currently indebted to avoid getting trapped in debt.
- **Carry out a market-based vocational training program tailored to females and promising subsectors that employ females.** Lower educational attainment is more common among females, hence providing vocational training in promising subsectors – such as agro-processing – would incentivize females to pursue education.

Enterprise level

- **Partner with chambers of commerce to provide business training modules that focus on both short-term and long-term business strategies.** Enterprises focus on short-term business strategies and, as such, providing them with access to training on long-term business strategies would help shift their strategic orientation towards more sustainable approaches.
- **Connect enterprises in the south with their counterparts in Baghdad and Erbil.** Through providing them with access to commercial fairs or forums, enterprises would be supported to reach out to potential customers beyond their own governorate.
- **Compensate agro-processing enterprises that invest in their employees' training.** This would incentivize enterprises to train their employees, as most businesses are currently not willing to pay and do not enroll their workers in formal training modules.
- **Connect enterprises with opportunities to take out loans to grow their business.** Enterprises in the south rarely use credit to grow, expand and enhance their businesses. Only 8% of enterprises had previously taken out a loan. Enterprises cited cost and trust as reasons why they could not access credit, and that their inability to access credit constitutes a barrier to growth. The CCI and ILO should connect and support enterprises with opportunities to obtain and use credit in order to improve their competitiveness.

Advocacy level

- **Encourage the expansion of educational facilities and the professional development of teachers.** The education sector – specifically at the primary and secondary level – is in dire need of support, especially given the overcrowding at schools and the fact that half of the population do not have any level of formal education.
- **Promote market-based vocational training initiatives and the modernization of vocational training curricula.** Doing so would encourage enrollment in vocational training centers, which less than 5% of the population are engaged in.
- **Advocate for increased financial inclusion of enterprises and households.** By enhancing engagement with and accessibility of loans, enterprises would have more opportunity to grow their business and increase their competitiveness. Improving households' financial management and their access to saving and credit mechanisms would help them to smooth consumption and make human capital investments.

1. CONTEXT OF THE SOUTH OF IRAQ

Since the end of the war on the Islamic State (IS), Iraq has only experienced one year (2019) of positive year-on-year economic growth. Both 2017 and 2018 saw the Iraqi economy shrink and in 2020 the coupled effect of the Covid-19 crisis and the collapse in oil prices led to a recession¹. Aside from external shocks that have rocked Iraq (ISIS insurgency, Covid-19 pandemic), its economy suffers from long-term structural issues such as over-dependency on oil and an inflated public sector. As of 2019, oil constituted 96% of Iraq's exports, and 43% of its GDP². Additionally, most of the government's revenue (92%) is generated from oil and is mostly dedicated to bankrolling Iraq's over-inflated public sector wages rather than investing in Iraq's soft and hard infrastructure³. This, along with the dominance of state-owned enterprises, has halted the development of Iraq's private sector, limited job creation, and made Iraq less resilient in response to external shocks.

The south of Iraq is even more dependent on the oil industry compared to the rest of Iraq. Oil production constitutes 90% and 50% of the GDP of Al-Basrah and Maysan governorates, respectively, which are the governorates with the highest oil reserves⁴. However, the oil industry is highly capital-intensive and is very limited in terms of job creation – at the national level, while the oil sector accounts for 65% of Iraq's GDP, it currently employs only 1% of the total labor force⁵.

As for the agricultural sector, which is the opposite of the oil sector in that its share in employment is higher than its contribution to GDP, its contribution to Iraq's national income has been decreasing since the turn of the century where it has declined from 9% in 2002 to 5% in 2019⁶. The trends in dates cultivation, which is common in the south, are an indicator of the general trends in the agricultural sector overall – date production has been continuously dropping for around 70 years, where the number of palm trees dropped from 14 million in 1952 to two million in 2015⁷. The potential of the agricultural sector in the south is considerably far from being fully exploited; for instance, only 18% of arable land is used for agriculture in the governorate of Maysan⁸.

A key factor contributing to the decline of agriculture in the south is environmental degradation and climate change. Decreasing rainfall, higher temperatures and upstream dams in Turkey and Iran have decreased the water flows at the Tigris-Euphrates basin, where Al-Basrah, Thi Qar, and Maysan are located and water flow is the most constrained⁹. This phenomenon impacts access to water, which is

¹ World Bank, Iraq Economic Monitor – Protecting Vulnerable Iraqis in the Time of a Pandemic, Fall 2020.

² World Bank, Iraq Economic Monitor – Protecting Vulnerable Iraqis in the Time of a Pandemic, Fall 2020.

³ World Bank, Iraq Economic Monitor – Protecting Vulnerable Iraqis in the Time of a Pandemic, Fall 2020.

⁴ https://new.ladp-iraq.eu/c/1b_pds/docs/Basra_PDS_2018-2022_en.pdf ; https://new.ladp-iraq.eu/c/1b_pds/docs/Missan_PDS_2018-2022_en.pdf

⁵ http://www.uniraq.com/index.php?option=com_k2&view=item&layout=item&id=941&Itemid=472&lang=en

⁶ <http://www.fao.org/family-farming/detail/en/c/293345/>;
<http://documents1.worldbank.org/curated/en/848371571505101026/pdf/Iraq-Economic-Monitor-Fall-2019-Turning-the-Corner-Sustaining-Growth-and-Creating-Opportunities-for-Iraq-s-Youth.pdf>

⁷ https://new.ladp-iraq.eu/c/1b_pds/docs/Basra_PDS_2018-2022_en.pdf

⁸ https://new.ladp-iraq.eu/c/1b_pds/docs/Missan_PDS_2018-2022_en.pdf

⁹ <https://www.internal-displacement.org/sites/default/files/publications/documents/202002-iraq-slow-onset-report.pdf>

critical for crop cultivation. Another major issue is salinity and the contamination of water from upstream sources of pollution. The situation is particularly critical in Al-Basrah, where seawater intrusion has decreased the quality of freshwater sources. Polluted and salty water is unsuitable for agriculture and has driven many rural residents whose livelihoods are based on agriculture to abandon their homes and move to other rural towns or cities. In some villages, most notably in Thi Qar, up to half the homes have been abandoned¹⁰. All in all, water shortages are estimated to have displaced around 15,000 individuals in Al-Basrah, Thi Qar and Maysan as of January 2019¹¹. High food subsidies by the Iraqi government, which have distorted the market and disincentivized private sector investment in the sector, and the deteriorating institutional capacity of public agencies responsible for technical and advisory services such as the Ministry of Agriculture and the Ministry of Water Resources, are also important factors behind the decline of agriculture in Iraq¹².

Lack of jobs and the deterioration in public services delivery have fueled social tensions in the south since 2015. During the period between November 2017 and April 2018, the number of protests in the south averaged between 12 to 14 per month and by June, there was at least one protest per day, with a focus on clean water, employment, infrastructure development and adequate electricity¹³.

The deteriorating living conditions in the south and the resulting increase in social tensions have driven INGOs to intervene and promote economic development and reduce vulnerability in the region. As part of its European Union (EU)-funded Local Area Development Programme (LADP), UNDP has implemented projects in the south to promote economic development through cultural and environmental heritage programs in Al-Basrah, Thi Qar and Maysan. Another EU-funded project is the FAO project on the “Restoration and strengthening the resilience of agri-food systems in Southern Iraq”, which supports individual farmers and targets specific agricultural value chains, such as tomatoes and dates. USAID has supported the growth of micro, small, and medium-size enterprises (MSMEs) through its *Tahfeez* program (particularly the Business Competitiveness and Job Creation Initiative component) which supports the creation of local business networks, offers business incubation services, and provides in-kind grants to businesses. Additionally, IOM is offering grants to enterprises as part of its Enterprise Development Fund and is providing training to unemployed individuals in partnership with MoLSA through its Individual Livelihood Assistance program. Furthermore, and in partnership with chambers of commerce and industry and Iraqi Businessmen Union, GIZ has a unit specifically devoted to supporting MSMEs through enhancing their access to banks and promoting their digitization. GIZ also has a unit dedicated to youth capacity development where participants are given the opportunity to access TVET, on-job training and apprenticeship opportunities.

¹⁰ <https://www.internal-displacement.org/sites/default/files/publications/documents/202002-iraq-slow-onset-report.pdf>

¹¹ <https://www.internal-displacement.org/sites/default/files/publications/documents/202002-iraq-slow-onset-report.pdf>

¹² <http://documents1.worldbank.org/curated/en/848371571505101026/pdf/Iraq-Economic-Monitor-Fall-2019-Turning-the-Corner-Sustaining-Growth-and-Creating-Opportunities-for-Iraq-s-Youth.pdf>

¹³ <https://theglobalobservatory.org/2018/07/protests-southern-iraq-intensify-is-instability-to-follow/>

2. METHODOLOGY

2.1. OBJECTIVES

This report was commissioned by the Cash Consortium for Iraq (CCI) – which is comprised of DRC, IRC, Mercy Corps, NRC and Oxfam – and the International Labour Organization (ILO) with funding from the European Union (EU). The CCI was formed in 2015 to coordinate MPCA (Multi-Purpose Cash Assistance) and livelihood efforts in response to the humanitarian crisis resulting from the ISIS insurgency in the north of Iraq. As of 2020, CCI had delivered USD 160 million worth of relief support to 90,000 households in Iraq (estimated at 540,000 individuals) and now has an active presence in Anbar, Diyala, Erbil, Kirkuk, Ninewa, Salah al-Din and Sulaymaniyah. As for the ILO, it opened its first Iraqi country coordination office in March 2020 and has been implementing a project to improve labor governance, inspection and overall working conditions in Iraq since 2019. The present study serves a twofold objective:

- **Objective I:** Provide an evidence base on the various levels and characteristics of socio-economic vulnerability in southern Iraq.
- **Objective II:** Provide a solid basis for program design for interventions aimed at economic development and vulnerability reduction in the south of Iraq.

2.2. DESK REVIEW

The desk review conducted by CCI informed Altai Consulting's approach to this study. Based on CCI's desk review, the south was divided into five zones along geographic and economic lines.

Figure 1. Different zones of the south of Iraq¹⁴



Due to budget and timeline limitations, one governorate from each zone was selected for research for this study with the five governorates being: Al-Basrah, Al-Muthanna, Kerbala, Maysan and Thi Qar.

Prior to conducting fieldwork, the Altai team expanded on the desk review conducted by CCI to inform both its data collection tool design and refine its analytical framework.

Figure 2. Key literature reviewed during the inception phase

Report	Author	Year
Basra Fact Finding Mission	NRC	2018
Market Assessment Report Basra City	NRC	2019
Provincial Development Strategy Basra Governorate	UNDP	2017
Provincial Development Strategy Missan Governorate	UNDP	2018
Multiple Indicator Cluster Briefing	UNICEF	2018
Iraq Economic Monitor – Turning the Corner Sustaining Growth and Creating Opportunities for Iraq's Youth	World Bank	2019
Iraq Economic Monitor – Protecting Vulnerable Iraqis in the Time of a Pandemic: The Case for Urgent Stimulus and Economic Reforms	World Bank	2020

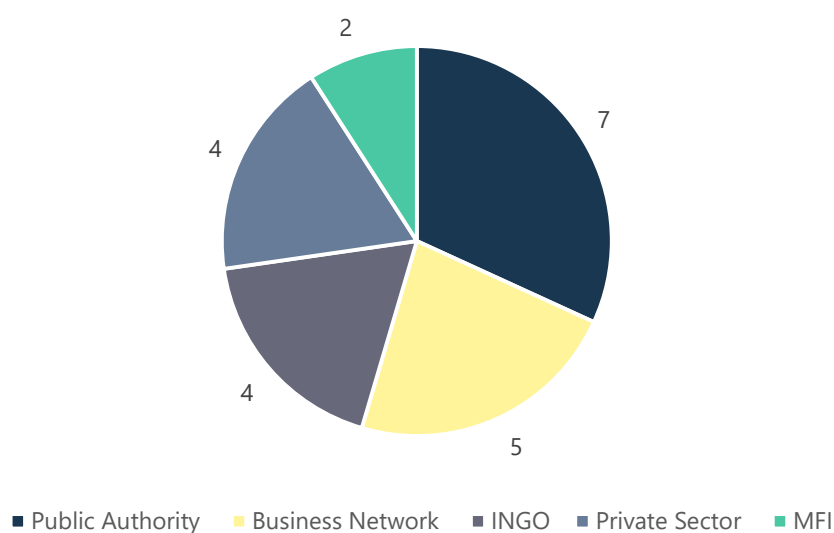
¹⁴ The map was adapted from the Methodology note shared by CCI.

The secondary review combined analysis of reports and data shared by CCI members during the inception phase, as well as a thorough literature review. The key findings of this research were delivered in the inception report submitted in January 2021.

2.3. QUALITATIVE RESEARCH

The qualitative part of the research for the *Economic Assessment of the South of Iraq* was realized using key-informant interviews (KIIs). Twenty-two in-depth interviews were conducted with key stakeholders shaping economic development in the south, including INGOs, chambers of commerce and industry, investment commissions, and governor offices¹⁵. Interviews were also conducted with four enterprises from the private sector: two from the tourism and travel industry, one from the date-processing industry, and one from the dairy-processing industry. The subsectors were selected upon consultation with public stakeholders, INGOs, and business networks. The purpose of the KIIs was to gain an in-depth perspective on economic and socio-economic challenges from development actors and to generate insights useful in interpreting quantitative data generated from the household and enterprise surveys. The key informants were chosen due to their roles and expertise in development in the south so that their analyses and opinions are grounded in their professional experience in the field of development.

Figure 3. Distribution of KIIs



¹⁵ Refer to Annex 8.1 for the full list of KIIs.

The interviewee sample was determined in line with Altai's network of local consultants and CCI's shared contacts. The interviews followed a semi-structured methodology, with both stakeholder-specific questions and other general questions that were asked to all stakeholders¹⁶. Due to travel restrictions, the KIIs were conducted remotely with a few interviews simultaneously done in-person by the local consultant and remotely by the project manager.

Moreover, information gathered from the KIIs bolstered Altai's identification of high-growth and job-creating sectors in the region. The latter informed and guided the company sampling criteria for the enterprise survey.

2.4. QUANTITATIVE RESEARCH

The quantitative research for the study was twofold and comprised of an enterprise and a household survey covering the five selected governorates in the south.

2.4.1. ENTERPRISE SURVEY

The enterprises survey sample was selected using the purposive sampling method. The factors that were taken into consideration when selecting the sample included business size, sector and business location. The final sample encompassed 101 enterprises and provided an equal number of respondents in each of the five governorates. The ratio of center enterprises (i.e., enterprises from the governorate's center) to periphery enterprises (i.e., enterprises from towns) was around 60:40 – this ration was adopted given that non-agricultural economic activity (which is the focus of this study) is often centralized in the governorate's main city.

¹⁶ Refer to Annex 8.2 for the KII questionnaire.

Figure 4. Enterprise survey sample distribution

Governorate	Location	Agribusiness & agro-processing	Building & construction	Manufacturing industry	Hotels & restaurants	Trade (wholesale & retail)	Transport	Other	Total
Al-Basrah	Center	3	2	0	2	2	3	1	13
Al-Basrah	Periphery	2	1	3	0	1	0	0	7
Al-Basrah	Total	5	3	3	2	3	3	1	20
Al-Muthanna	Center	2	1	4	2	4	1		14
Al-Muthanna	Periphery	2	0	2	0	2	0		6
Al-Muthanna	Total	4	1	6	2	6	1		20
Kerbala	Center	0	2	2	4	3	0		11
Kerbala	Periphery	1	0	1	2	4	1		9
Kerbala	Total	1	2	3	6	7	1		20
Maysan	Center	2	5	3	1	1	2	2	16
Maysan	Periphery	1	0	3	1	0	0	0	5
Maysan	Total	3	5	6	2	1	2	2	21
Thi Qar	Center	3	1	4	2	0	2	1	13
Thi Qar	Periphery	3	0	2	1	1	0	0	7
Thi Qar	Total	6	1	6	3	1	2	1	20
Total	Center	10	11	13	11	10	8	4	67
Total	Periphery	9	1	11	4	8	1	0	34
Total	Total	19	12	24	15	18	9	4	101

Given that most of the businesses in Iraq are small and medium enterprises (SMEs), the sample included 89 SMEs and 12 large enterprises¹⁷. The sectoral distribution of the sample was based on other studies indicating the contribution of the sectors in terms of employment and growth¹⁸. Additionally, specific sectors, which were pointed out during the inception phase as being of interest for future programming such as the agro-processing sector, were over-represented in the sample. Deciding on the specific distribution within each governorate was informed by the expertise of Altai's local consultants.

The enterprise questionnaire consisted of close-ended questions to facilitate the data collection and streamline the data analysis. It was tested during a pilot-phase with five enterprises to make sure that the questions were comprehensible, and the answer lists comprehensive, and was later implemented over the phone, rather than face-to-face, due to Covid-19 travel restrictions.

¹⁷ Large enterprises are defined as those with 30 employees or more whereas SMEs are enterprises with between one and 30 employees.

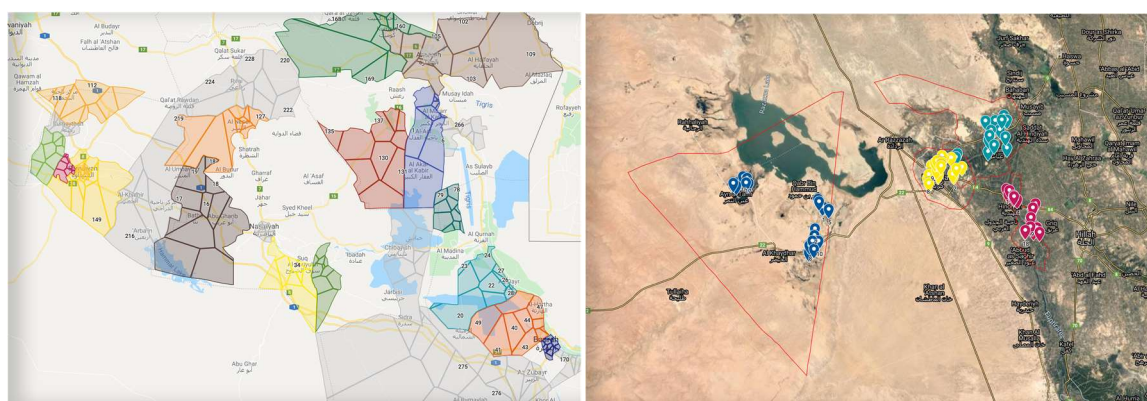
¹⁸ https://www.worldbank.org/content/dam/Worldbank/document/MNA/Iraq_unfulfilled_promise_report_chap6.pdf; Enterprises in the "Other" category are those that do not strictly fall under any of the listed categories and whose activities fall under more than one of the listed sectors.

2.4.2. HOUSEHOLD SURVEY

The household survey was designed following a random sampling method to cover four types of zones in each of the five governorates, including each governorate center (*markez muhafaza*), a district center (*markez qadaa*), and two rural locations selected by using a population-weighted random procedure. In order to maximize representativeness, Altai selected:

- First, subdistricts inside these four types of zones, by using random formulas weighed by the population (CSO data).
- Second, by using satellite maps with a layer of the built areas¹⁹, these subdistricts were divided into polygons (enumeration areas), then some of these enumeration areas were selected (randomly, proportional to density) and finally a number of GPS points were selected (also randomly, proportional to density). Enumerators were instructed to conduct the interviews in the closest house they could find to each of these GPS points, and the actual distance was controlled by comparison with the GPS point of the interview.

Figure 5. Enumeration areas and random GPS points



Although the initial target was set to 900 responses, the final sample encompassed 960 respondents. Some subdistricts, such as Markaz Ain Al-Tamur, were more industrial than residential so it was not possible to reach the target while other areas, such as Al-Sowair, were not clearly defined and some residents identified as living in the neighboring Samawa City rather than Al-Sowair.

Figure 6. Distribution of sample by subdistricts

Governorate	Subdistrict	Number of respondents	% of target respondents
Al-Basrah	Al-Hartha	48	96%
Al-Basrah	Al-Basrah	52	104%
Al-Basrah	Al-Dair	48	96%

¹⁹ High-resolution built-up presence probability layer from Sentinel-2 images (GHS-BUILT-S2 R2020A) and high-resolution population layer from WorldPop 2020.

Al-Basrah	Markaz Zubair	Al-	49	98%
Al-Muthanna	Al-Majd		49	98%
Al-Muthanna	Markaz Rumaitha	Al-	50	100%
Al-Muthanna	Al-Sowair		30	60%
Al-Muthanna	Samawa city		62	124%
Kerbala	Markaz Ain Al-Tamur		42	84%
Kerbala	Al-Jadwal Ghrabi	Al-	44	88%
Kerbala	Kerbela		54	108%
Kerbala	Al-Hassainya		50	100%
Maysan	Amara city		55	110%
Maysan	Kumait		46	92%
Maysan	Al-Salam		46	92%
Maysan	Markaz Saleh	Qalat	45	90%
Thi Qar	Markaz Rifai	Al-	48	96%
Thi Qar	Al-Battha'a		46	92%
Thi Qar	Al-Nasiriya		49	98%
Thi Qar	Al-Fadhliya		47	94%

The questionnaire underwent a first phase of piloting, before being accordingly corrected. Data collection was conducted in partnership with YouGov.

2.5. CHALLENGES AND LIMITATIONS

Throughout the research phases, the Altai team was faced with various challenges related to the lack of databases, the mismatch in databases of the public authorities and GIS maps, and travel restrictions related to Covid-19. Altai managed to overcome them by developing innovative random sampling methods using maps, mobilizing its local consultants and resorting to remote interviewing (such as phone interviews).

Regarding the enterprise survey, Altai compensated for the lack of enterprise database with phone numbers, size, location, sector and other relevant information, by relying on local consultants and data collection partners to compile contact details. Additionally, Altai's local consultants proved critical in securing access to hard-to-reach stakeholders for conducting KIIs, especially public actors, and managed to gain their trust to answer the questions by showcasing the importance of their contribution to the study and, ultimately, of the study to their own work.

Because of the measures taken to deal with the sampling challenges, there are some shortcomings in the data. For the enterprise survey, the data is not representative and was cautiously interpreted with insights from the household survey and the KIIs. Additionally, the size of the enterprise survey sample was not adequate to allow for an analysis that would identify sectoral trends. As for the household survey, and given the sample size and time limitations, only five governorates were selected out of a possible nine. Given the nuances and differences between governorates, the data was carefully interpreted to clarify when certain trends were more likely to apply to the south as a whole and when other trends were more specific to each governorate or subdistrict.

3. HOUSEHOLD VULNERABILITY

3.1. HOUSEHOLDS DESCRIPTION

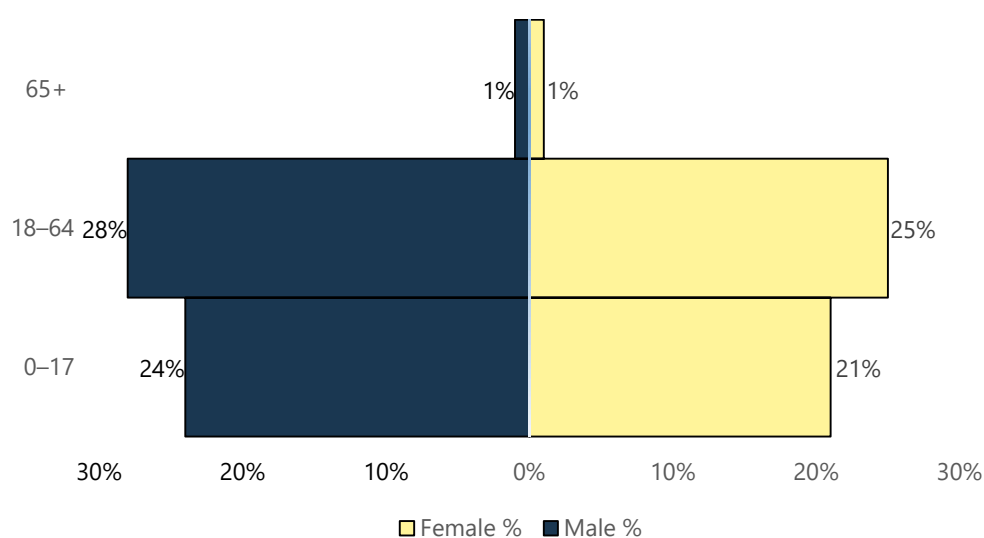
The average household size is slightly higher in rural compared to urban areas, with the overall household comprising of seven individuals on average:

Figure 7. Distribution of households by size in urban areas (N = 960)



The subdistricts with the highest and lowest number of individuals per household are Al-Salam (Maysan governorate) and Kerbala (Kerbala governorate), respectively. The majority of households are led by males where only around 10% of households are female led, with no significant discrepancies between governorates.

Figure 8. Age distribution (N = 6,765)

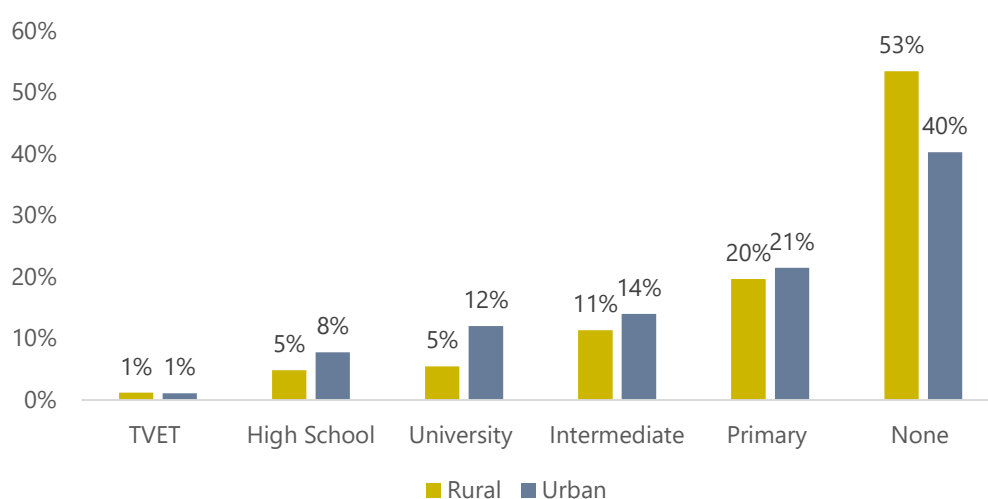


The age pyramid in the south has a wide base where more than 40% of the population is below 17. The age distribution is more or less the same between urban and rural areas. In terms of health, around 8% of the population have permanent illnesses and 2% have disabilities. The age distribution in the south is not different to that of Iraq in general where the percentage of children below 15 has decreased from around 50% in 1979 to around 40% in 2019 whereas the percentage of adults between 15 and 64 has increased from around 49% in 1979 to around 59% in 2019²⁰.

3.2. EDUCATIONAL ATTAINMENT

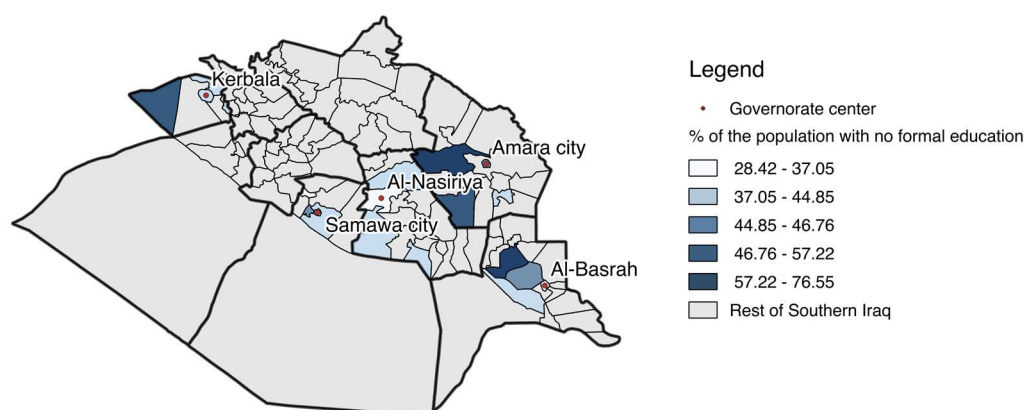
On average, around half of the population do not have any level of formal education, with significant urban–rural differences.

Figure 9. Distribution of urban and rural individuals by educational attainment



²⁰ <https://data.worldbank.org/indicator/SP.POP.1564.TO.ZS?locations=IQ>

Figure 10. Percentage of those with no formal education per household by subdistrict



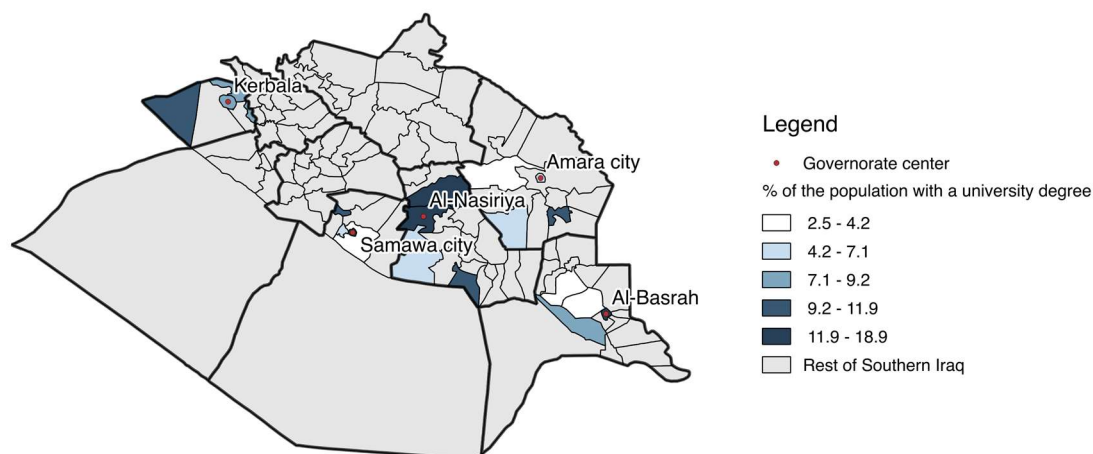
Low educational attainment is more pronounced in rural compared to urban areas: Al-Dair (Al-Basrah governorate) and Kumait (Maysan governorate) are the subdistricts with the highest percentage of the population with no formal education at all (77% and 68%, respectively). However, low educational attainment should not be confused with high illiteracy rates, as national figures indicate that 86% of those above 15 are literate²¹.

“For one of my personal business ventures, I could not find a skilled electrician on the market, so I had to enroll one of my workers in a training course to acquire those skills.”

Thi Qar Chamber of Commerce

²¹ <https://data.worldbank.org/indicator/SE.ADT.LITR.ZS?locations=IQ>

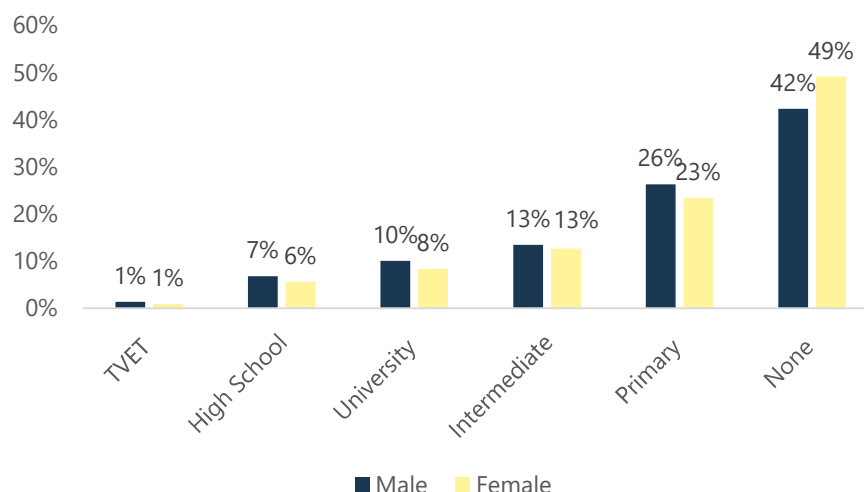
Figure 11. Percentage of university students per household by subdistrict



For instance, Al-Nasiriya and Al-Basrah are the subdistricts with the highest percentage of university students (19% and 16%, respectively). In terms of governorates, Thi Qar is the governorate with the highest percentage of university students (13%) and lowest percentage of those without any formal education (39%), whereas Maysan is the governorate with the lowest percentage (6%) of university students and highest percentage of those with no formal education (55%).

In terms of gender disparities, females are more likely to lack any form of formal education compared to males.

Figure 12. Distribution of males and females by educational attainment (N = 6,765)



The lack of formal education is partially due to the low number of schools relative to population size²². It is common in the south to have triple-class shifts at any given school whereby students only have three to four hours of teaching per day²³. Despite the low level of educational attainment in the south,

²² Various KILs.

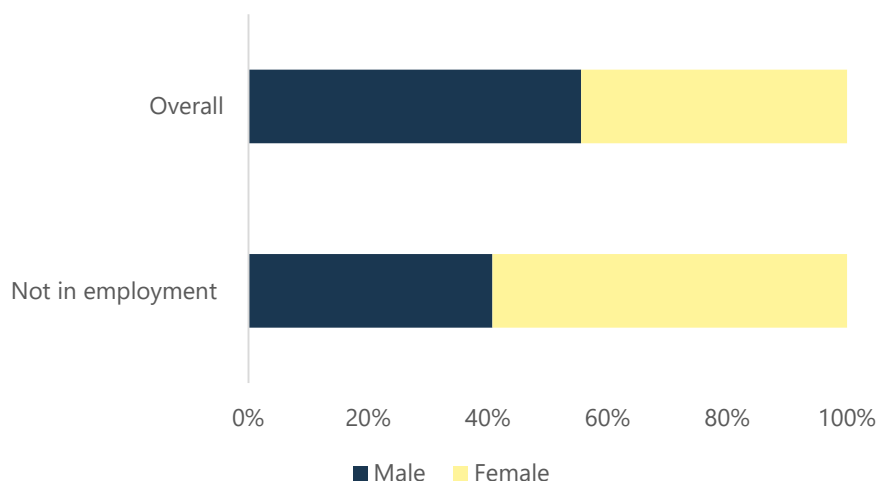
²³ Interview with Chamber of Commerce in Nasireyah and Chamber of Commerce in Maysan.

the central and local governments have not dedicated adequate public investment to fill in the massive gap in the supply of schools.

3.3. UNEMPLOYMENT LEVELS

Around a quarter of the working age population is not in employment, with men considerably more likely to be employed compared to women²⁴.

Figure 13. Gender distribution of those who are not employed (N = 493)

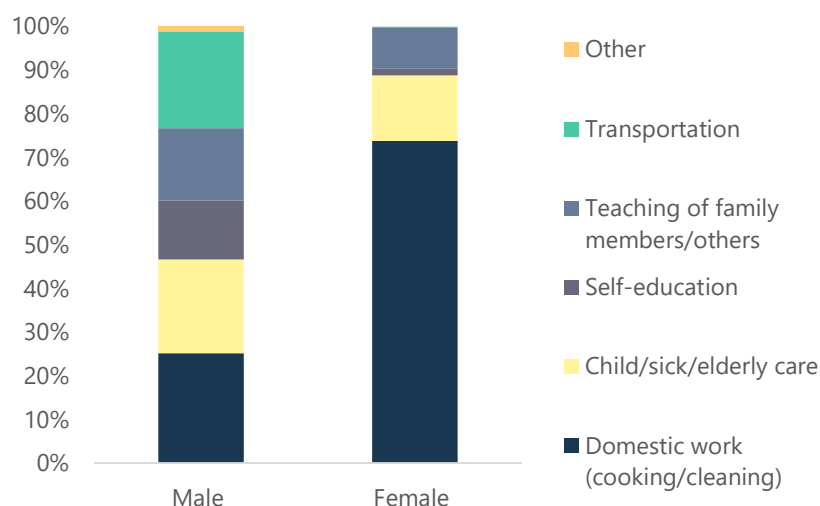


While females constitute around 45% of the total population, they constitute around 60% of the working age stratum not in employment. The reasons behind lack of employment differ significantly between

²⁴ The percentage of females who are not in employment is calculated by dividing the number of females who are of working age and not in employment by the total number of individuals who are not in employment.

men and women. Whereas most men are not working due to lack of adequate employment opportunities, most women are not in work because of being occupied at home.

Figure 14. Contribution of unemployed to the household (N Male = 116; N Female = 242), Multiple Response Groups

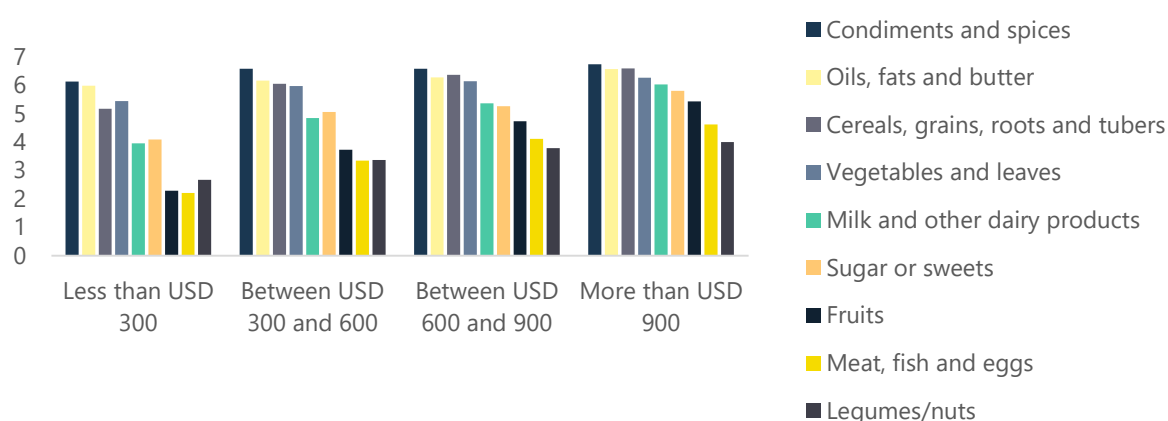


There is a clear and distinct difference in the household contribution of those who are not employed along gender lines: whereas males are almost equally likely to contribute through transportation, child/sick/elderly care, and domestic work, 80% of women do so through domestic work.

3.4. FOOD SECURITY & POSSESSIONS

The diet in the south is dominated by oils, fats and cereals, which are almost consumed on a daily basis. Expectedly, food consumption – across all food categories – increases in line with income levels.

Figure 15. Variation in food consumption (number of days per week) per income group (N = 960)

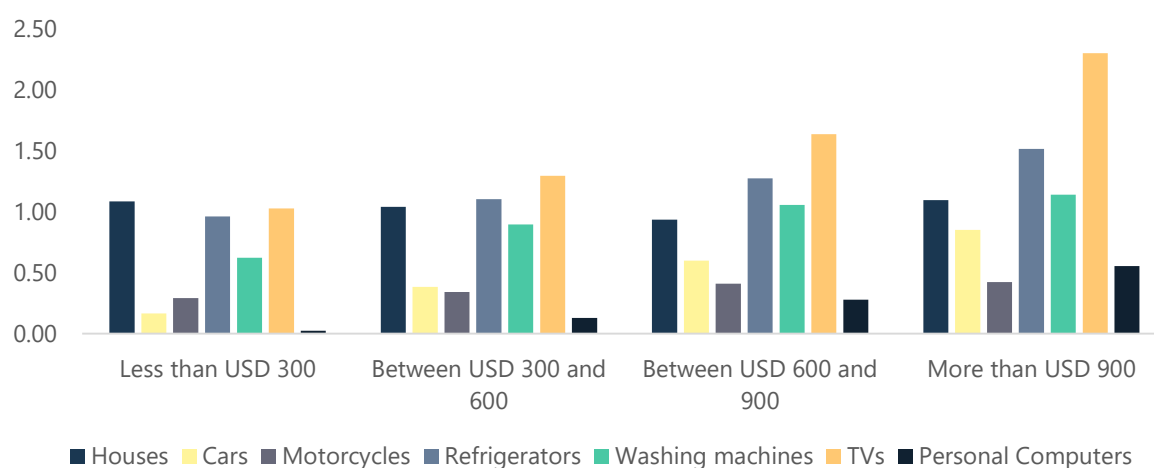


One indicator of inequality is the disparity in terms of food consumption between different income groups. Differences between income groups are particularly stark for protein-rich food consumption, which is important for growth and development. The number of days per week where milk is consumed

among the highest household income group (more than USD 900 per month²⁵) is double that of the lowest household income group (less than USD 300 per month). Consumption of fruits, sugar and sweets, and legumes and nuts also varies by income level, as those who are in the higher income group consume these foods more than those with limited income. In terms of the food consumption score (FCS), which sums up the number of days consumed for each food category, Al-Basrah scores the highest at 50 while Kerbala and Al-Muthanna score the lowest at 42.

Another indicator of inequality between income groups is the disparity in asset ownership. For instance, whereas those who earn more than USD 600 are most likely to own at least one car, those who earn less than USD 600 (and who constitute the majority) most likely do not. Similarly, only those who earn above 900 USD are likely to own a personal computer. Lower income groups do not have alternative means to cars for transportation – households below USD 600 are more likely to not own a motorcycle than to own one. In terms of geographic disparity, households in Al-Salam (Maysan governorate) and Al-Nasireyah (Thi Qar governorate) own at least two houses on average.

Figure 16. Variation of possessions owned per income group



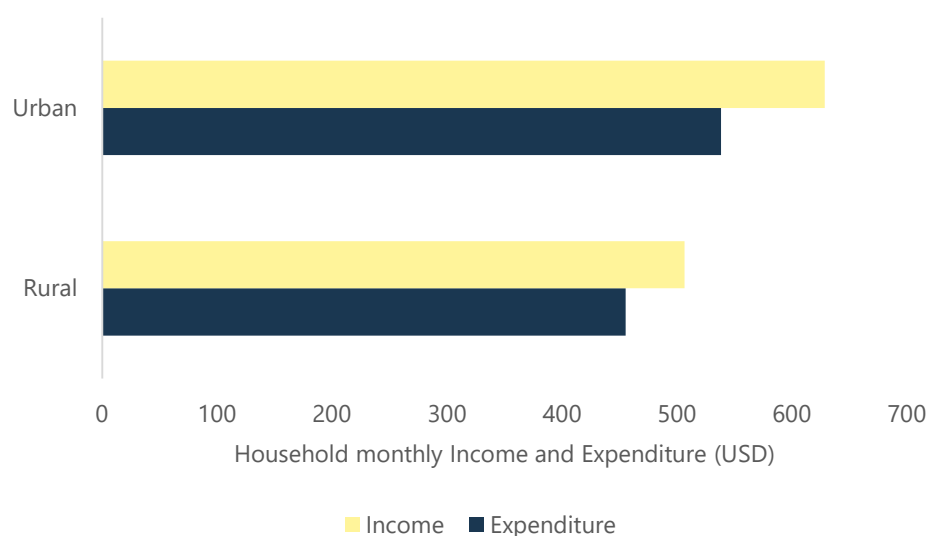
Interestingly, the outstanding majority across all income groups (86%) of the total population own a house, which indicates that homeownership is highly valued and widespread in the south of Iraq and preferred over renting. Young individuals or couples who do not have the means to build or buy their own house choose to stay with their parents and expand their house rather than rent.

3.5. HOUSEHOLD INCOME AND EXPENDITURE

The monthly income in urban areas is substantially higher than in rural areas – the monthly income per urban individual is 40% higher than that of a rural individual.

²⁵ All references to USD in this report were calculated based on 1 USD = 1460 IQD exchange rate at the time of writing.

Figure 17. Urban and rural household income and expenditure (USD) (N = 960)

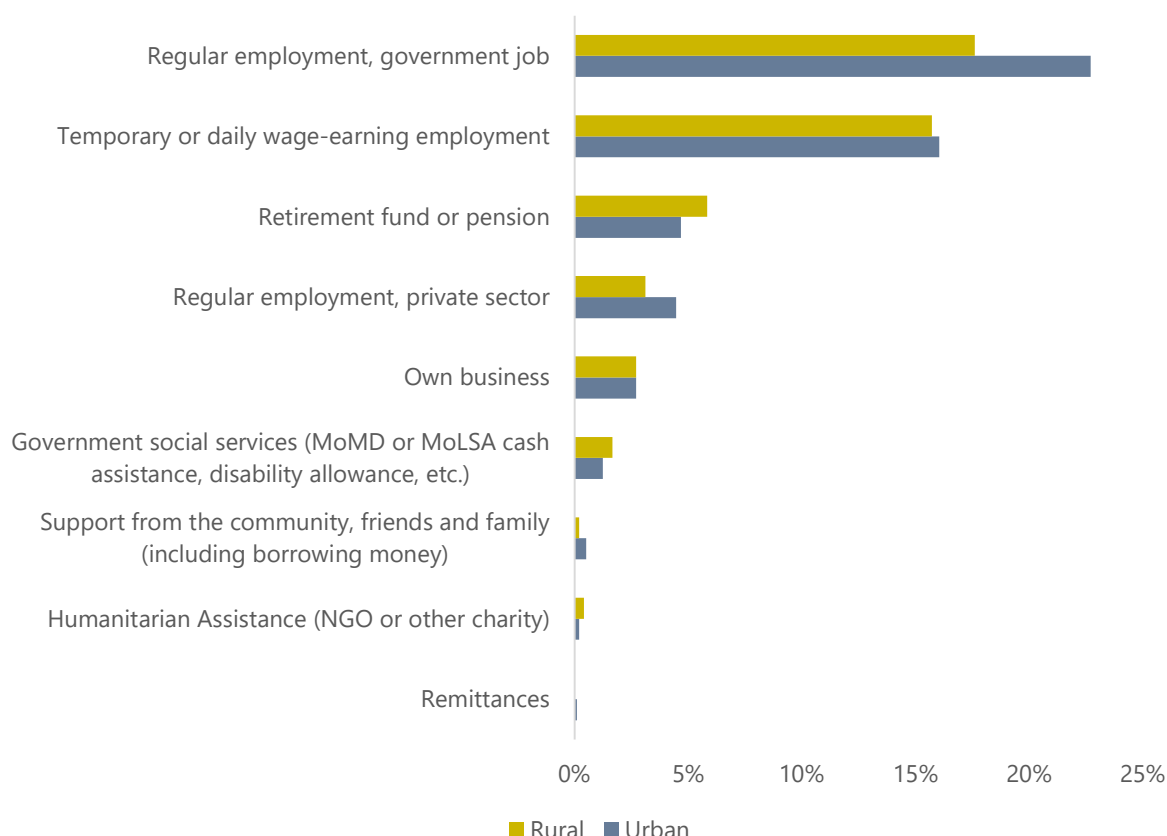


Additionally, the monthly savings amount of an urban household is 75% higher than that of rural households. This means the disparity between urban and rural households is projected to widen in the future.

In terms of expenditure, the largest chunk of a households' expenses is on food which accounts for 44–51% (depending on whether they rent or not) of their total expenditure.

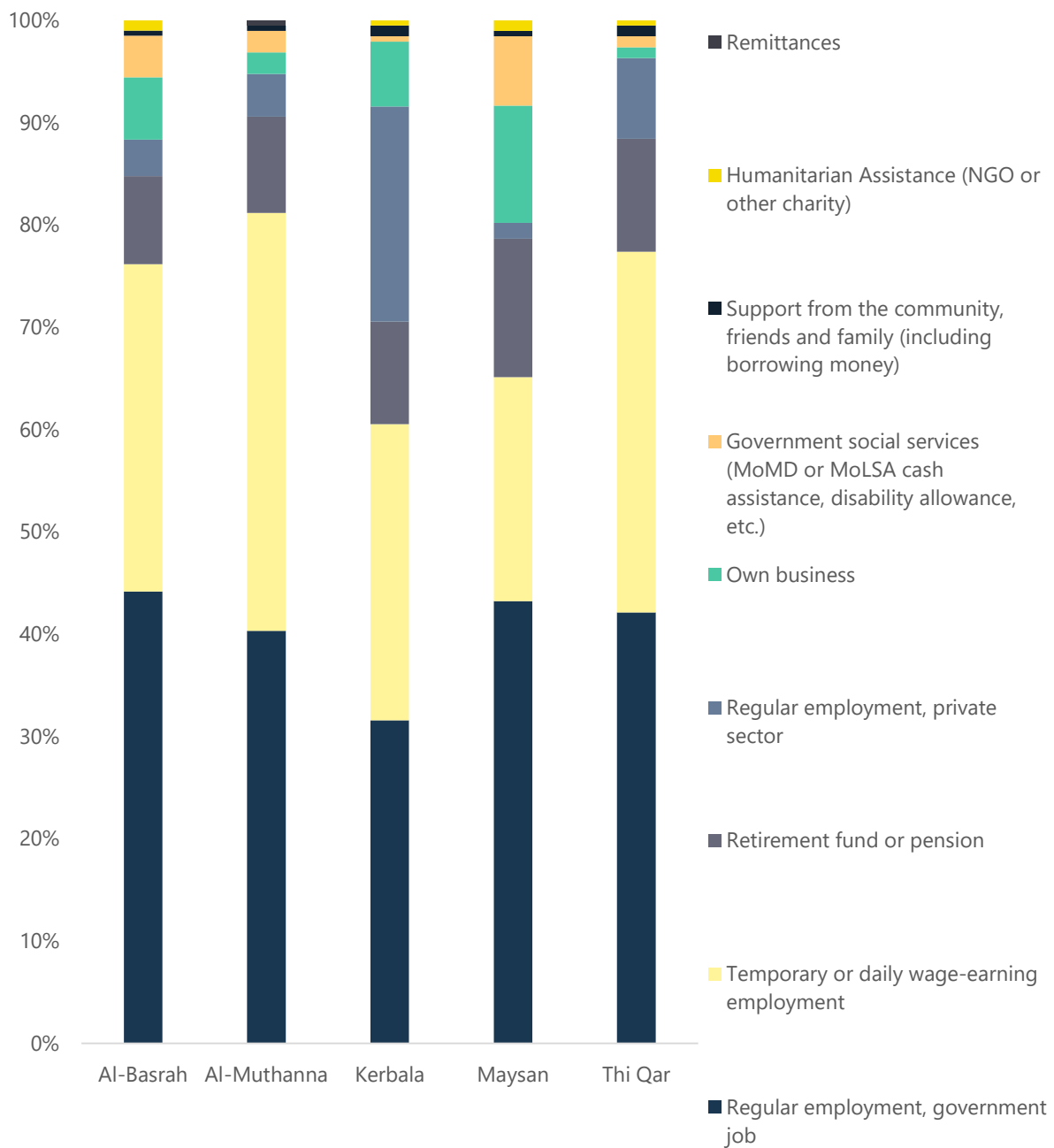
Around 43% of the population rely on the government as their primary source of income (from regular employment or, to a far lesser degree, pensions). In both rural and urban areas, government employment (40% of households) is the most common primary source of income, however, government employment is slightly more common in urban areas compared to rural ones. Although around half of households rely on the private sector as their primary source of income, only 8% rely primarily on regular employment in the private sector: the majority of private sector laborers are daily workers.

Figure 18. Distribution of households' primary source of income per area type (N = 960)



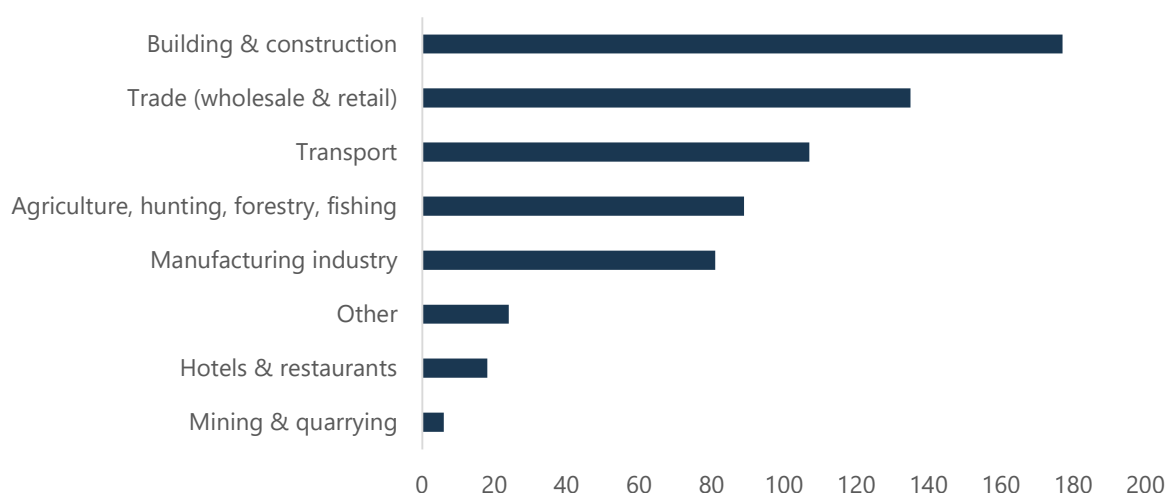
In terms of income and expenditure disparities between governorates, Al-Muthanna and Kerbala stand out. In the former, daily work is more common compared to other governorates whereas regular employment in the private sector is more frequent in the latter. Al-Muthanna's peripheral location (closed border with Saudi Arabia), nomadic culture and lack of public investment and Kerbala's role as a hub for religious tourism (travel agencies, hotels, etc.) are partially behind the relatively high incidence of daily labor in the former and regular employment in the latter. There is also a substantial income disparity between households that rely on a government job as a primary source of income and those that rely on daily labor – whereas the former earn on average USD 770 per month, the latter make less than half of that value at around USD 370 per month.

Figure 19. Distribution of households' primary source of income per governorate (N = 960)



For those who rely on the private sector as a primary source of income, building and construction is the most common activity in both urban and rural areas.

Figure 20. Current sectors of work for individuals working in the private sector (N = 593), Multiple response groups



As expected, the agricultural sector is more common in rural areas compared to urban ones while the opposite applies for trade (wholesale and retail).

3.6. VULNERABILITY

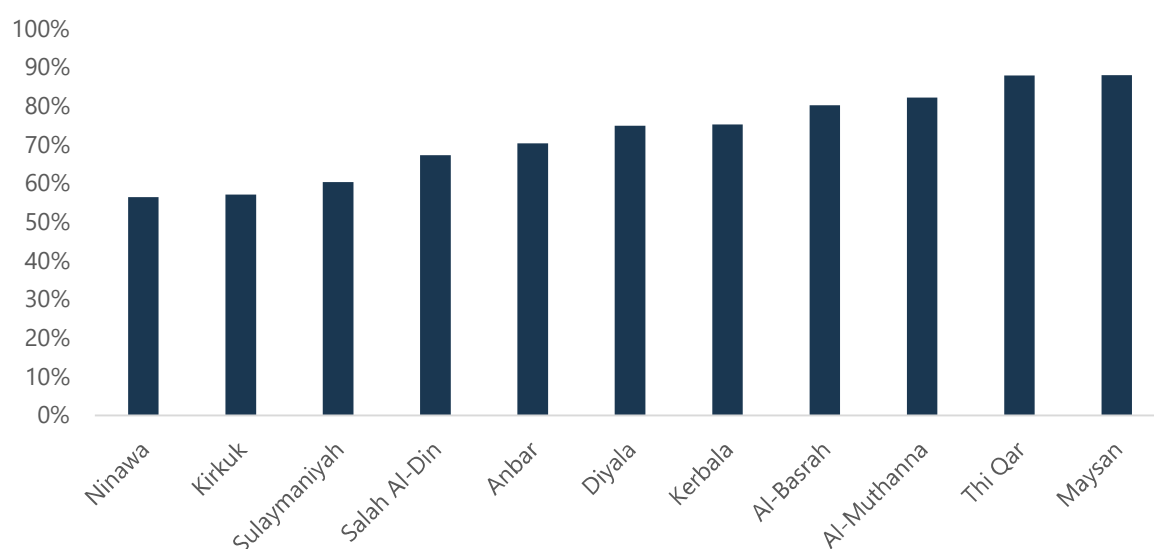
In terms of vulnerability, the south in general seems more vulnerable than other regions in Iraq²⁶. Based on the CCI vulnerability score²⁷, where predicted per capita monthly expenditure is used as a proxy for vulnerability scoring variables, including household size, employment rate, food consumption, source of income, and the type of shelter, the most vulnerable governorate in the south is Maysan whereas the least vulnerable governorate is Kerbala. This finding is compatible with the fact that Maysan has the lowest levels of educational attainment whereas Kerbala has the highest percentage of regular labor (whether private or public sector). According to the vulnerability model, 83% of the population would be eligible for Multi Purpose Cash Assistance. The results are in line with other recent studies which state that the south has the highest percentage of vulnerable individuals (around 30%) in Iraq²⁸.

²⁶ CCI Vulnerability Scoring Model Brief – September 2019

²⁷ The Socio-Economic Vulnerability Assessment Tool (SEVAT): <https://reliefweb.int/report/iraq/vulnerability-assessment-and-targeting-review-2019-multipurpose-cash-assistance-iraq>

²⁸ World Bank, Iraq Economic Monitor – Protecting Vulnerable Iraqis in the Time of a Pandemic, Fall 2020; Kerbala is included in the “Center” cluster of governorates rather than the “South” cluster in the World Bank report.

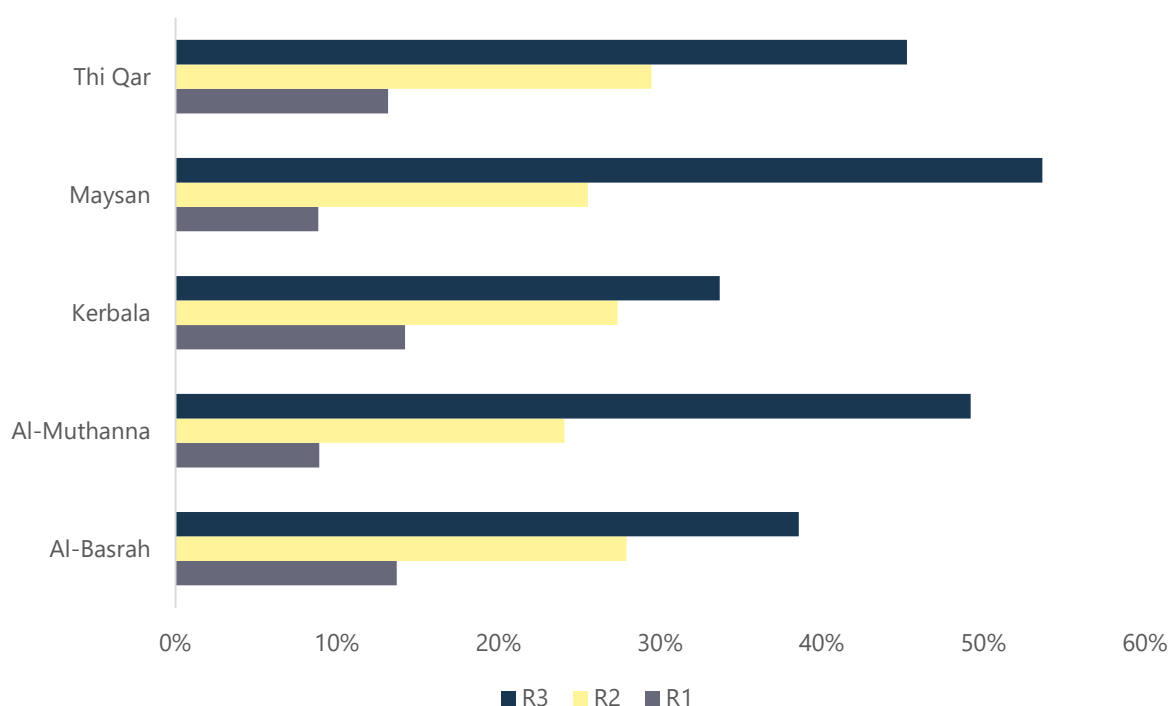
Figure 21. Percentage of eligible individuals per governorate²⁹



In addition, the predicted monthly consumption is less than IQD 92,000 (USD 63) for around 71% of the population. Those whose expected consumption is below IQD 70,000 per month (R3) constitute the largest proportion of the population (44%), followed by those whose expected consumption is between IQD 72,000 and 92,000 (R2) (27%). Those whose predicted consumption is between IQD 92,000 and 110,000 (R1) constitute 12% of the population. Overall, the percentage of eligible individuals, i.e., those whose predicted consumption is less than IQD 110,000 (USD 75) per month, in the south is higher than other parts of Iraq.

²⁹ Based on household survey results and data shared by CCI.

Figure 22. Distribution of R1, R2, and R3 populations in each governorate

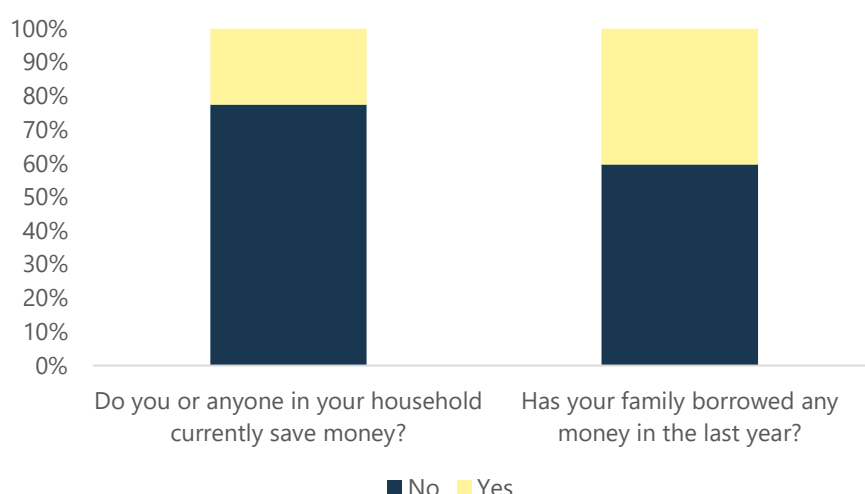


Among governorates in the south, Maysan is the governorate with the highest percentage of eligible individuals (among R3 and overall) whereas Kerbala and Al-Basrah are the governorates with the lowest percentage of eligible residents.

3.7. FINANCIAL BEHAVIOR

Households' propensity to borrow is higher than their propensity to save – whereas around 40% of households declare having borrowed in the last year, only 23% of respondents report to be currently saving money.

Figure 23. Percentage of households who save and borrow money (N = 960)



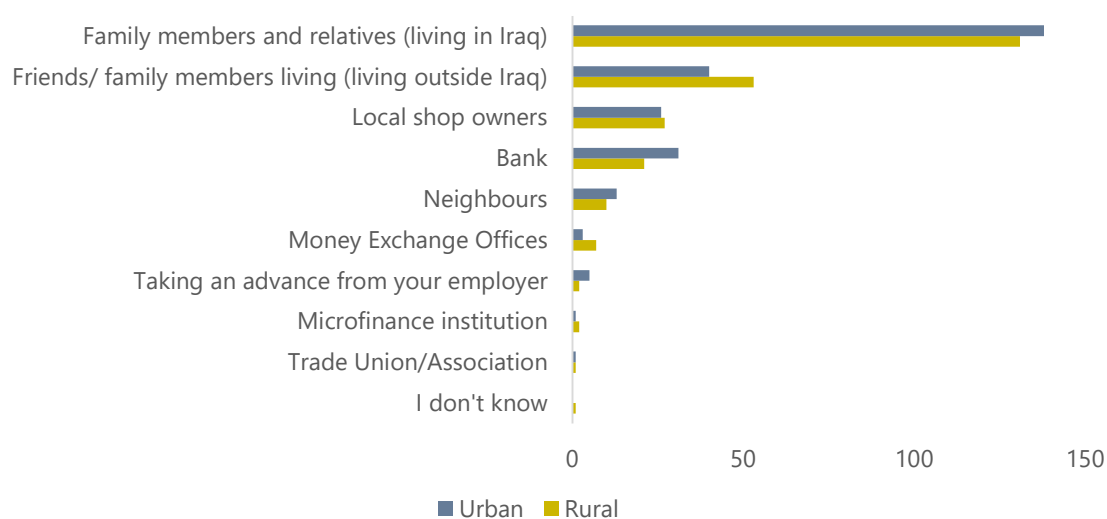
This pushes households into continuous indebtedness (55% of households are currently indebted). Households who are indebted hold around USD 2,470 in debt. In comparison, the percentage of households who are indebted in the north (79%) is higher than that in the south, however, the average debt per household in the south (USD 2,840) is similar to that in the north³⁰.

In general, respondents have a stronger propensity to borrow money through personal connections (e.g., family, friends, shop owners, neighbors) than from organizations (e.g., banks, money exchange offices, trade unions, microfinance institutions). Urban households are more likely to borrow from banks whereas rural ones are more likely to borrow from friends/family members living outside Iraq.

³⁰<https://reliefweb.int/sites/reliefweb.int/files/resources/1571817152.Household%20Debt%20in%20Iraq%20-%20Borrowing%20in%20a%20Time%20of%20Crisis.pdf>

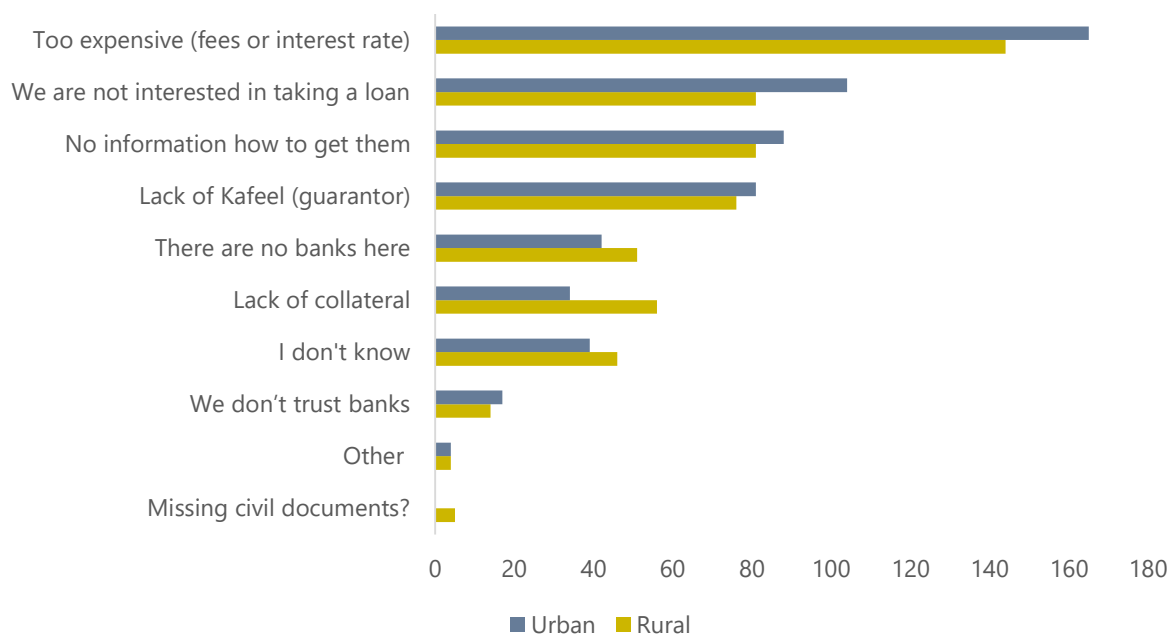
The sample for this research consisted of households eligible for humanitarian cash assistance in the Ninewa governorate and may not be representative of all populations in the Northern governorates. The proportion across all populations in Northern governorates is likely lower than that of the study sample.

Figure 24. Money borrowing sources (N = 960), Multiple Response Groups



A majority of respondents (86%) have not been able to obtain a loan from a formal bank. The most common reason for not being able to access loans is the high cost of fees/interest rate in both rural and urban areas.

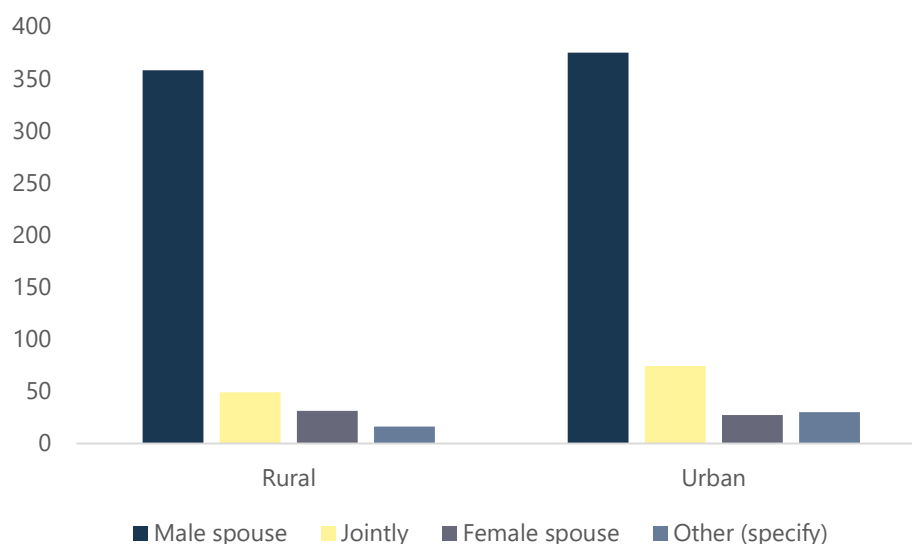
Figure 25. Reasons for households not to get a loan from a bank (N = 822), Multiple Response Groups



However, there are disparities between urban and rural areas in terms of other barriers to accessing loans. Rural residents are considerably more barred from accessing loans due to lack of required

collateral whereas a sizable percentage of urban residents are not interested in taking out a loan altogether³¹.

Figure 26. Households' arrangement in terms of financial managerial and decisional responsibilities (N = 960)



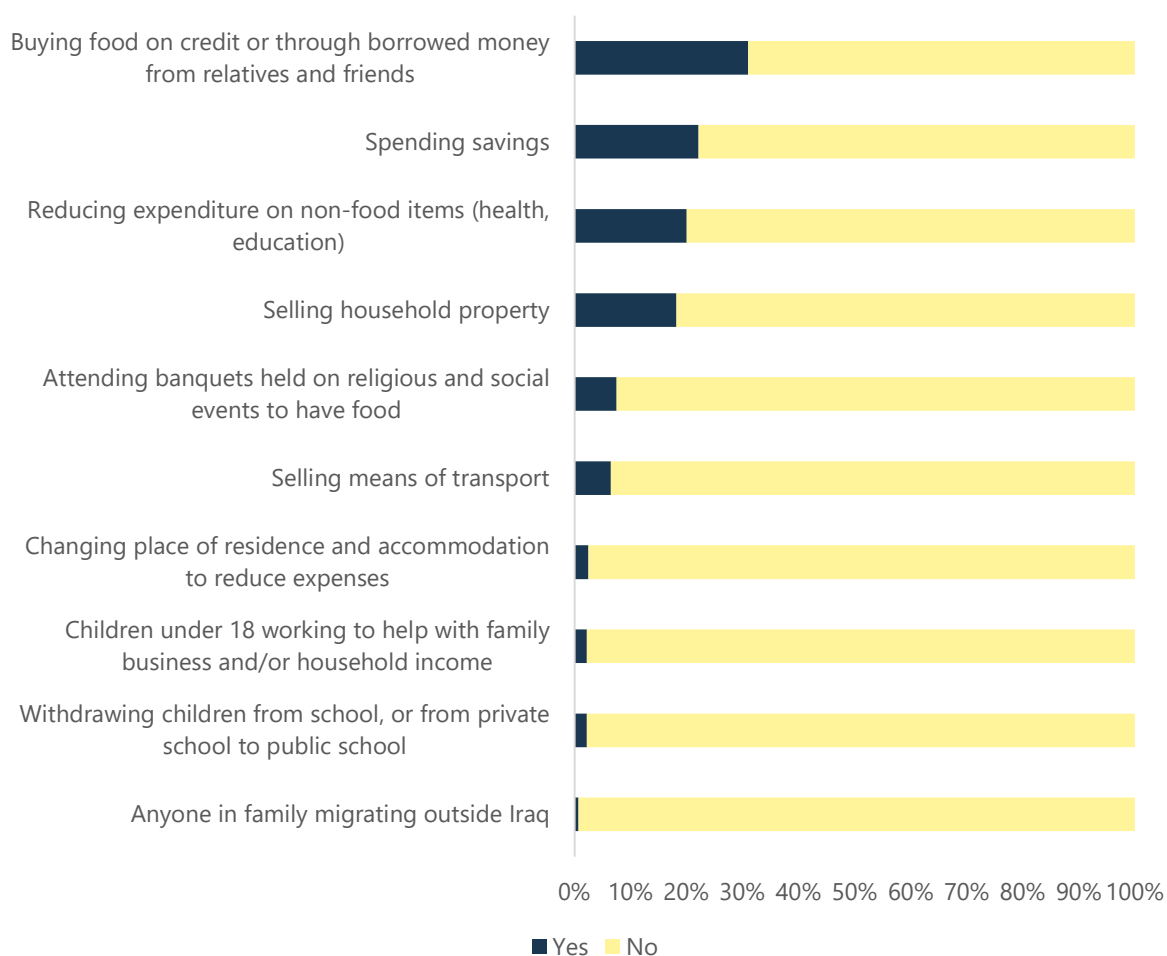
Male spouses are the primary financial decision-makers in both urban and rural households, who are mostly headed by male individuals. However, joint financial management (between female and male spouse) is slightly more common in urban compared to rural areas. This is partially due to the fact that female adults in urban areas are slightly more likely to be employed compared to those in rural ones.

3.8. COPING STRATEGIES

The most commonly relied-on coping strategy is buying food on credit (around 30% of the total population) followed by spending savings (around 25%). Additionally, reducing expenditure on essential services is also a common coping mechanism, which is worrying since it can have a multiplier effect and a long-term impact on the employability and wellbeing of individuals across generations.

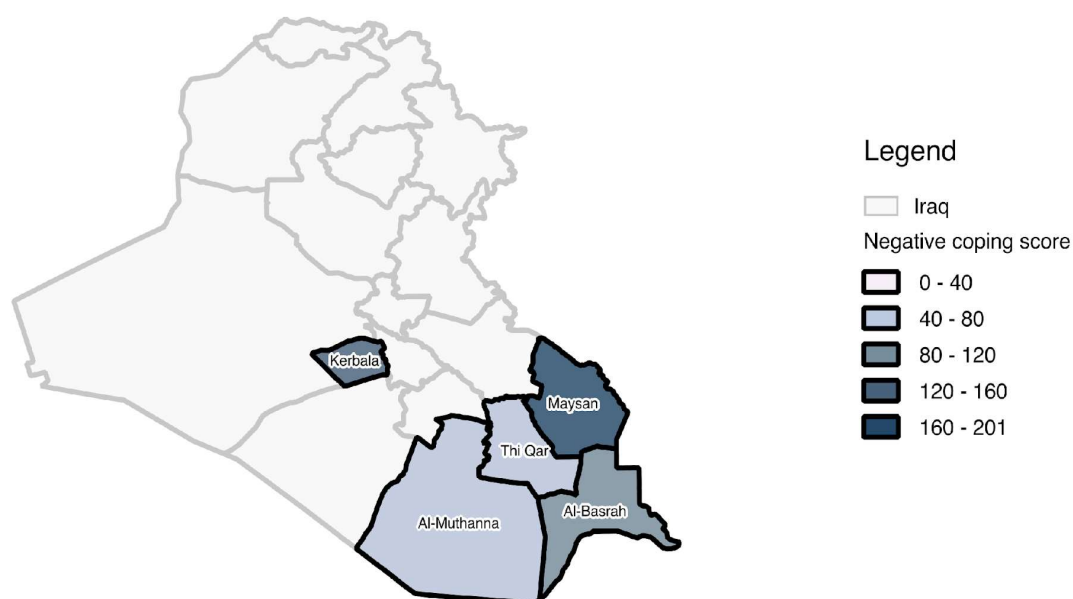
³¹ To qualify for a loan, applicants have to own collateral valued at 200% the value of the loan.

Figure 27. Percentage of households resorting to coping strategies (N = 960)



The reliance on coping mechanisms is not uniform across all governorates. More specifically, reliance on negative coping mechanisms is the most common in Maysan (also the governorate with the highest vulnerability score) where, for instance, around 50% of the population resort to buying food on credit.

Figure 28. Map of negative coping score per governorate



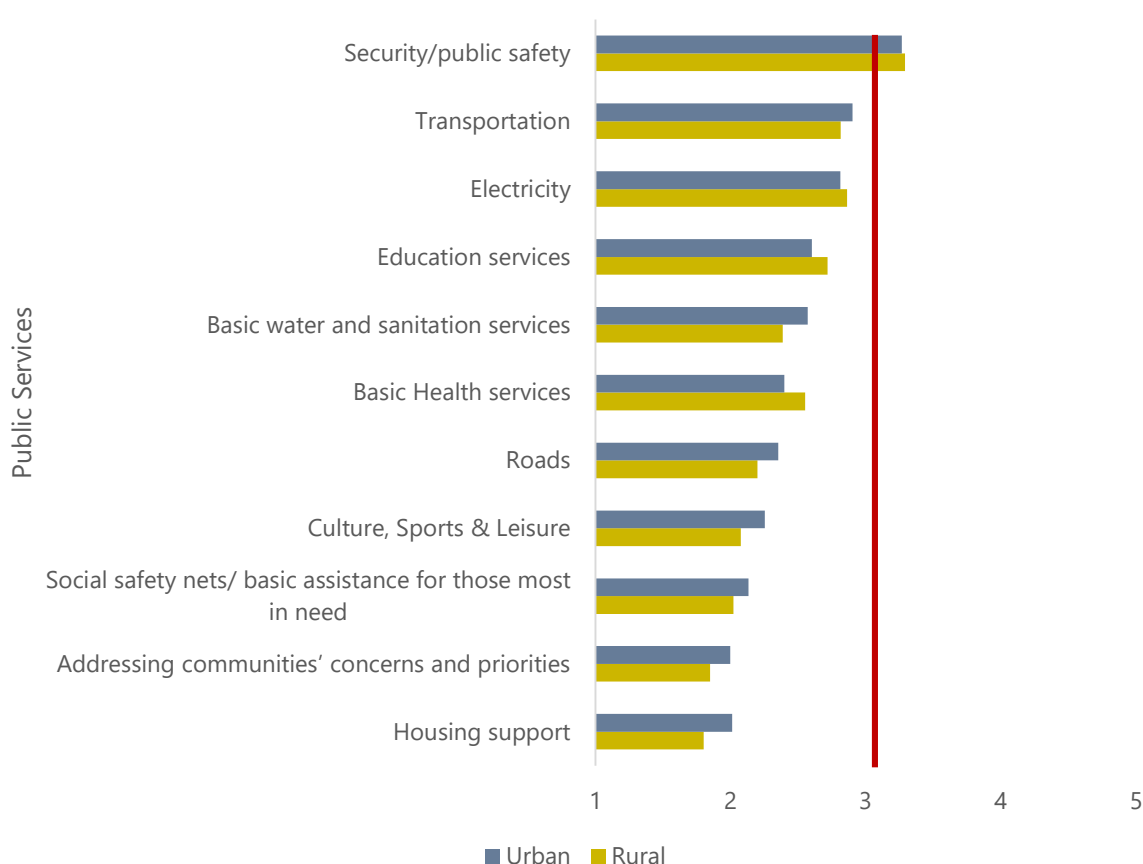
Other governorates, on the other hand, have similar levels of adopting coping mechanisms, with the exception of Kerbala, where households are more likely to rely on spending their savings as the primary coping mechanism. Possible explanations for the low percentage of households relying on withdrawing children from school or child labor is due to the social stigma associated with such coping mechanisms or because most children go to public schools which are tuition-free. Therefore, it is not uncommon for households to underreport the reliance on such coping mechanisms.

4. PERCEPTIONS OF SERVICES, LEVELS OF TRUST, AND SOCIAL COHESION

4.1. SOFT AND HARD INFRASTRUCTURE

Levels of satisfaction with public services are low. Security is the only public service with an average satisfaction slightly above neutral, which indeed seems logical in a region of Iraq that has been relatively safer than the rest over the past years, while it has low development and service indicators as documented by this report and other studies.

Figure 29. Public services satisfaction levels (1 = very small extent, 5 = very great extent) (N = 960)³²



There are some disparities between governorates in terms of public services satisfaction. For instance, satisfaction with electricity is slightly above neutral in Al-Basrah and in Maysan. Maysan is also the only governorate where satisfaction with water and sanitation services is slightly above neutral. Kerbala, on the other hand, is the only governorate where residents are satisfied with security services to a great

³² The red line represents a neutral response.

extent – in fact, Kerbala has witnessed considerably less civil unrest than other southern regions since 2019. As for Al-Basrah, electricity provision has increased after the federal government increased the supply of electricity to the governorate in response to the civil unrest during the summer of 2018³³.

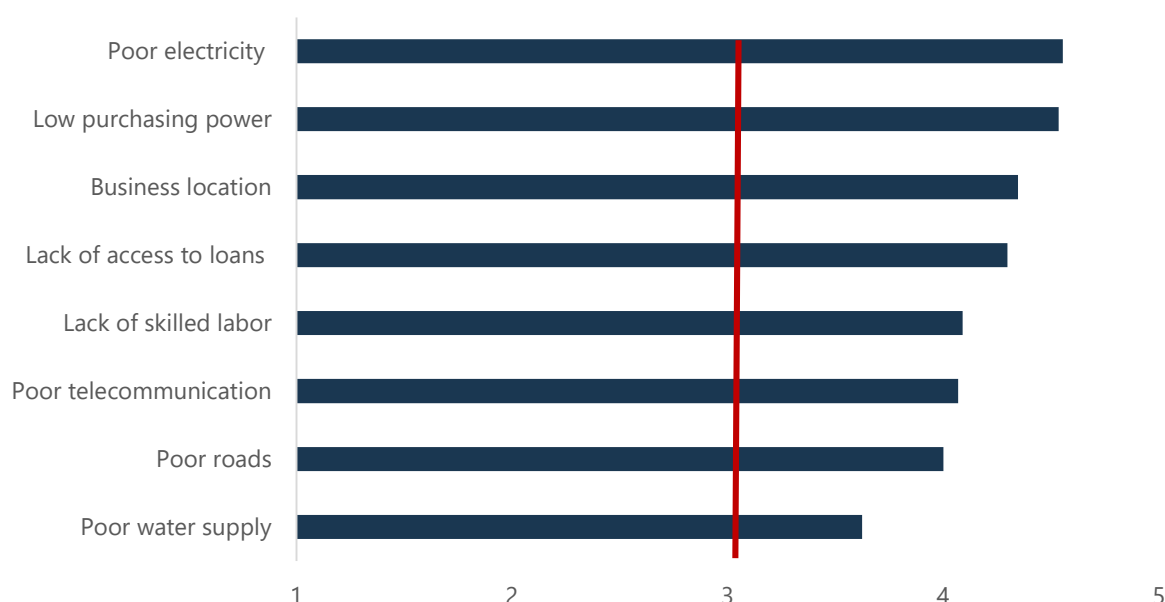
Although households were on average neutral in terms of satisfaction towards electricity, businesses consider poor electricity as the biggest barrier to growth. Enterprises' dissatisfaction with electricity is not only because of the frequent power cuts but also because of the unstable transmission

“Electricity production is a federal matter. The transmission lines are weak and there is a lack of mobile power plants.”

– Vice Governor of Kerbala

(variations in tension, notably), which damages their equipment. Other barriers related to hard infrastructure, such as water, road and telecommunications, are ranked lower than other challenges, such as lack of access to loans and skilled labor, although such services have relatively low satisfaction at the household level.

Figure 30. Barriers to growth facing businesses (1=not important at all and 5=very important) N=101³⁴



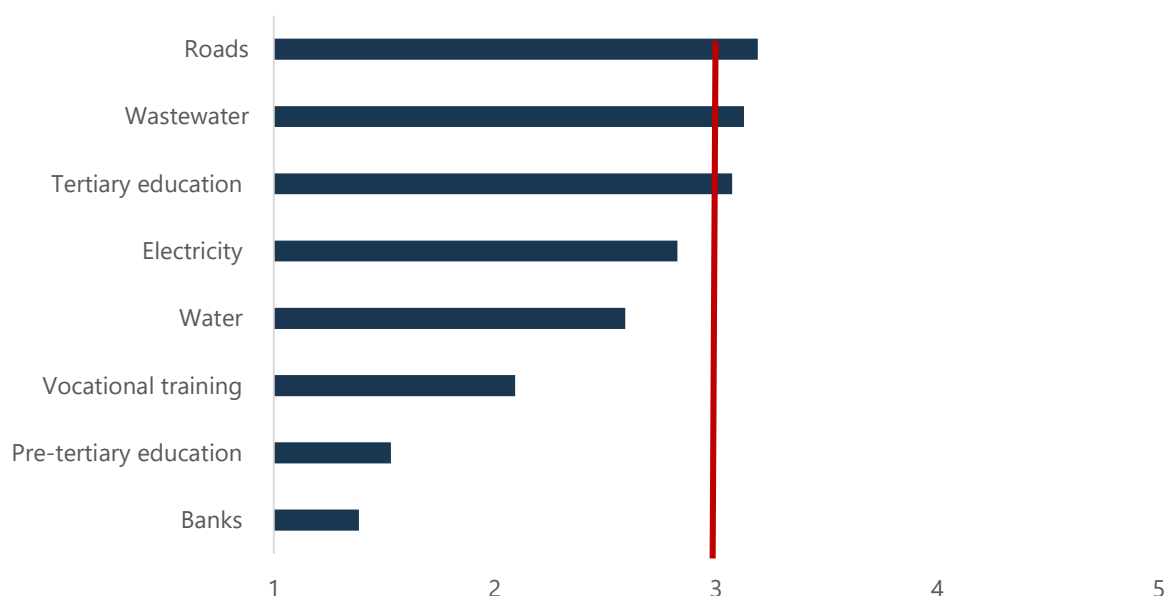
Key stakeholders (including those from INGOs and chambers of commerce), on the other hand, do not share the above sentiments in terms of the primary obstacle to economic development. Enterprises are more focused on apparent and imminent challenges such as poor electricity and low purchasing power, while stakeholders point out less apparent yet more structural challenges to development. Key stakeholders believe that soft infrastructure, such as education and financial services, are the key barriers to growth in the region. Aside from the excessive and cumbersome bureaucratic procedures and the hefty requirements for issuing loans, banks are also centralized, meaning a given branch cannot

³³ Interview with Al-Basrah Investment Commission. Daily average coverage of 22 hours per day compared to 18 hours per day in 2018.

³⁴ The red line represents a neutral response.

process a loan application without passing through the central branches in Baghdad³⁵. As for schools, they suffer from severe overcrowding: it is not uncommon to find 45 and 60 students per class in public schools³⁶. Whereas the lack of skills due to low educational attainment limits the quality of enterprises' products and services, the constrained access to finance denies enterprises the opportunity to expand their reach and diversify their products.

Figure 31. Key stakeholders' assessment of soft and hard infrastructure in terms of their impact on economic development (1 = very poor and 5 = very good) (N = 17)³⁷



4.2. TRUST AND SOCIAL COHESION

The south of Iraq is on average a low-trust society. The lack of trust reduces the potential for collaboration and cooperation towards economic development. The entities with the lowest levels of trust from the general public are local and central government officials, which is problematic given that those authorities plan and execute various important decisions that relate to development in the south. Trust is the highest in people from the community rather than any particular institution. Additionally, the only two institutions that have levels of trust that are slightly above neutral are the police and teachers, despite the fact that the quality of education is low in the south. Even in regard to the police, trust is considerably lower in the south compared to other regions of Iraq such as Ninewa and Anbar: less than 40% of residents in Baradiyah in Al-Basrah (compared to more than 70% in Juneil in Anbar and Hamdaniyah in Ninewa) feel that they are treated fairly and respected by the police despite that slightly

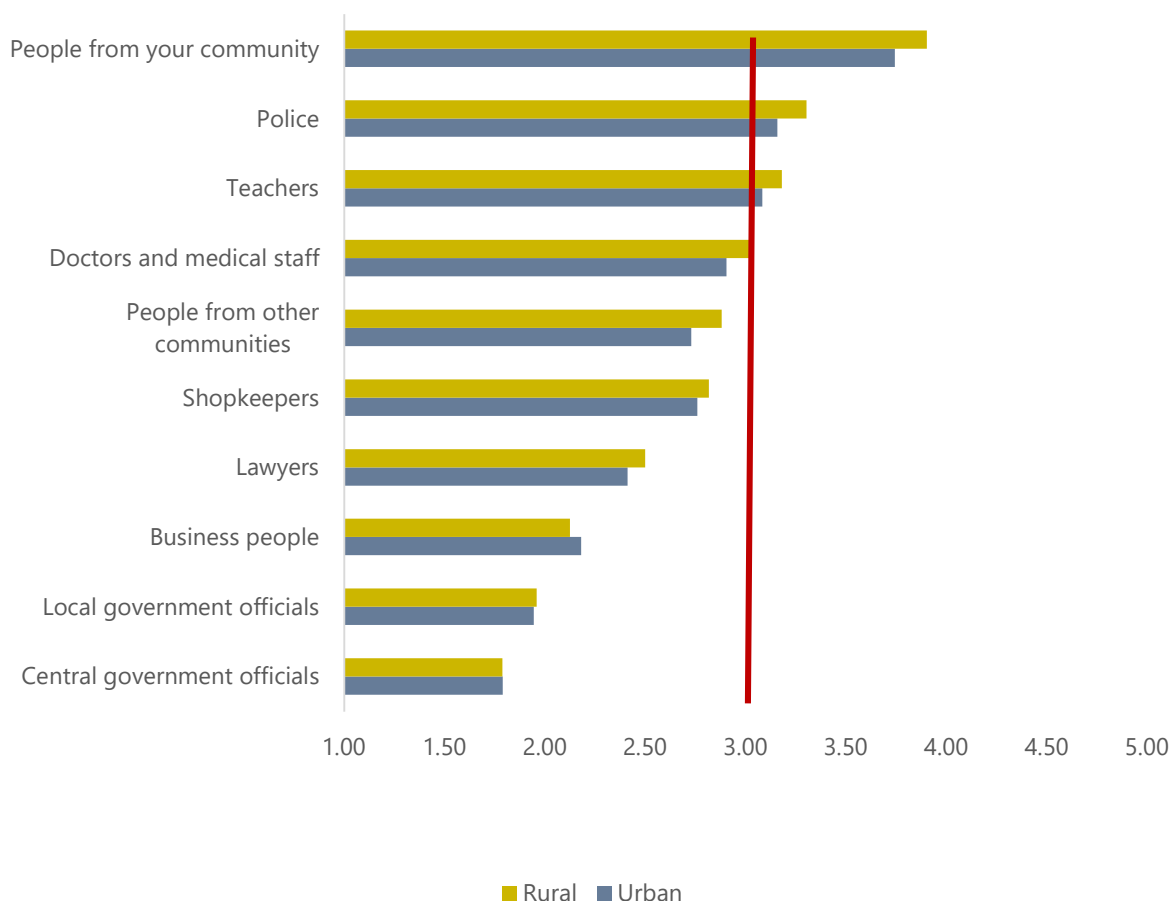
³⁵ Interview with Chamber of Commerce in Samawa.

³⁶ Interview with Chamber of Commerce in Nasireyah.

³⁷ The red line represents a neutral response.

more than 50% believe that the police have a positive impact on security³⁸. All in all, the low levels of trust are understandable given many years of under-delivery on public services.

Figure 32. Trust (1 = very small extent, 5 = very great extent) (N = 960)³⁹



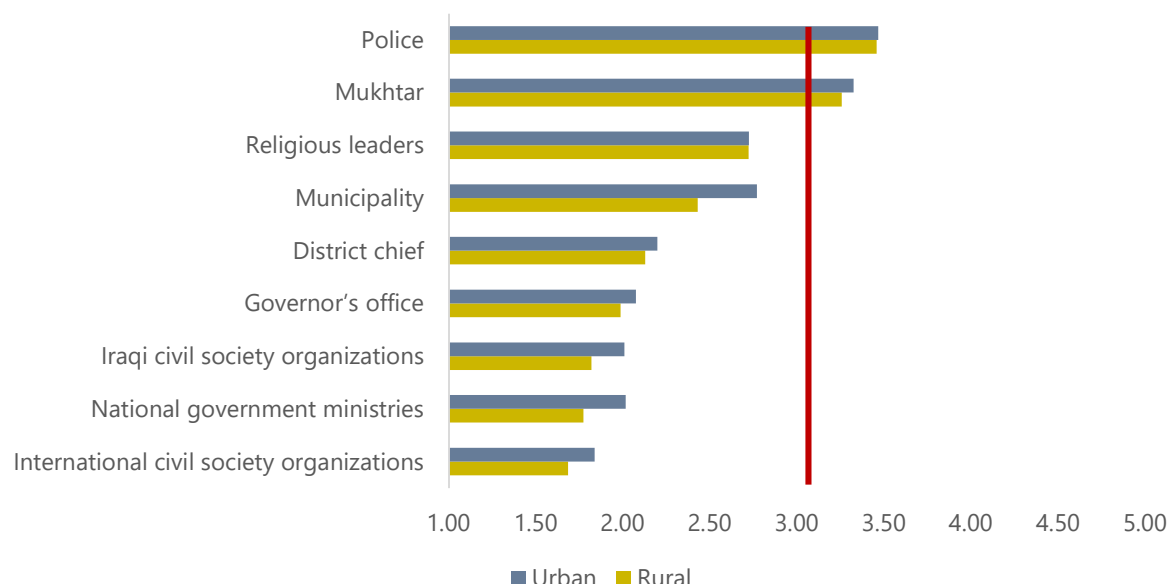
In line with the trust levels, southern residents find that only the police and the mukhtar are responsive to their needs while other institutions are deemed to be unresponsive. National government ministries and international civil society organizations are considered as the least responsive to the requests of southern residents. With respect to the latter, the level of trust can be justified due to resident's

³⁸ IOM, Perceptions of Police, Security, and Governance in Iraq, 2020.

³⁹ The red line represents a neutral response.

unfamiliarity with the work of international organizations given their minimal activity in the south until now.

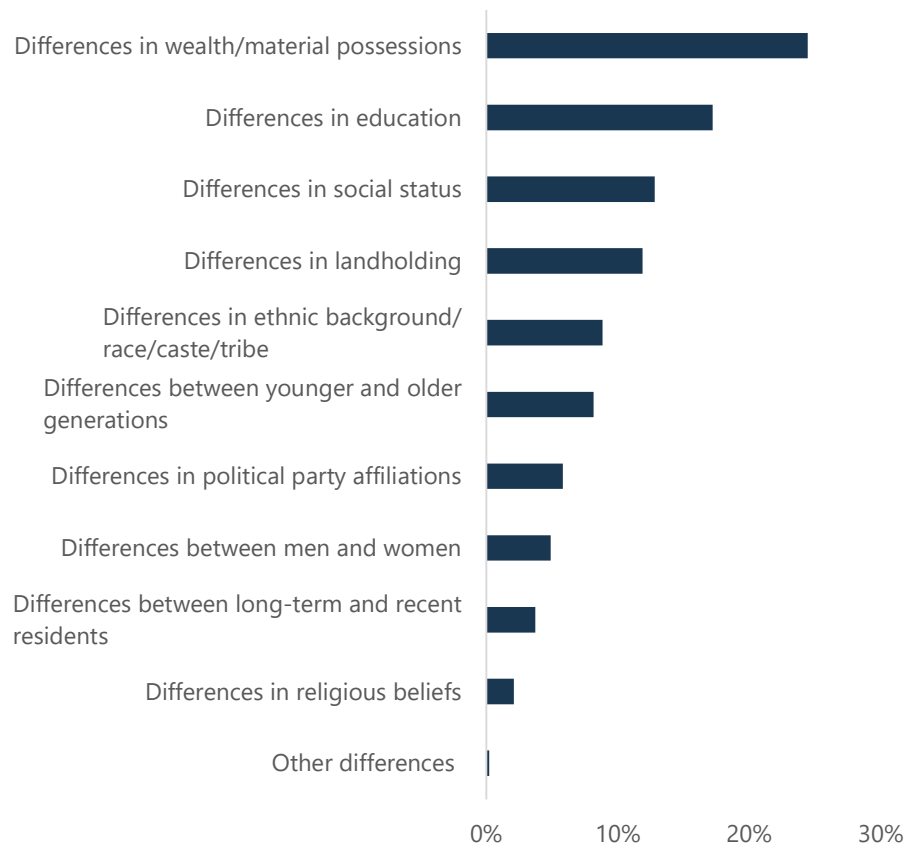
Figure 33. Answer to “In case you need support, the following actors respond to my needs effectively”
(1 = very small extent, 5 = very great extent) (N = 960)⁴⁰



Most households do not see that communal differences cause any problems. Among those who do, socio-economic factors are more reported as feeding communitarian tensions than political, cultural and demographic differences which is unsurprising given the near homogeneity of the south with the dominance of Shia Arabs.

⁴⁰ The red line represents a neutral response.

Figure 34. Answer to “Which differences most often cause problems?” (N = 208), Multiple Response Groups



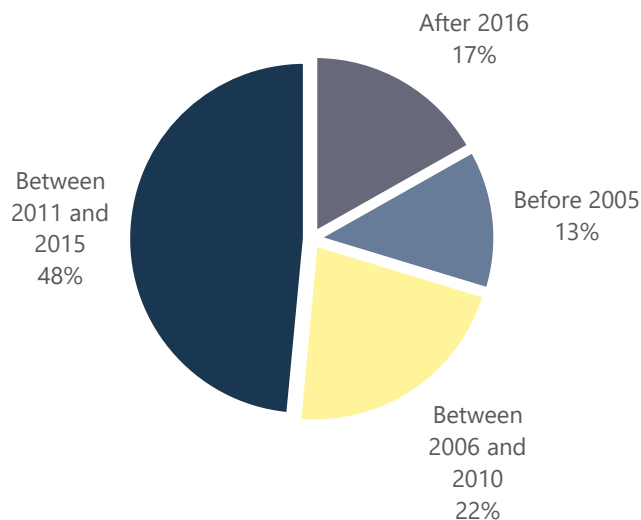
For instance, a quarter of households reported that differences in wealth/material possessions most often cause problems. Interestingly, differences in educational attainment are reported to cause problems more than differences in landholding or social status while differences in tribal affiliations are a minor cause of differences in the south.

5. BUSINESS CHALLENGES AND PROSPECTS

5.1. ENTERPRISE CHARACTERISTICS

Most enterprises in the south are informal entities with limited competitiveness⁴¹ and value-for-money despite being established for more than five years. Slightly more than the three-quarters of enterprises were established before 2016 which indicates that a sizable portion of enterprises are mature:

Figure 35. Enterprise age (N = 101)

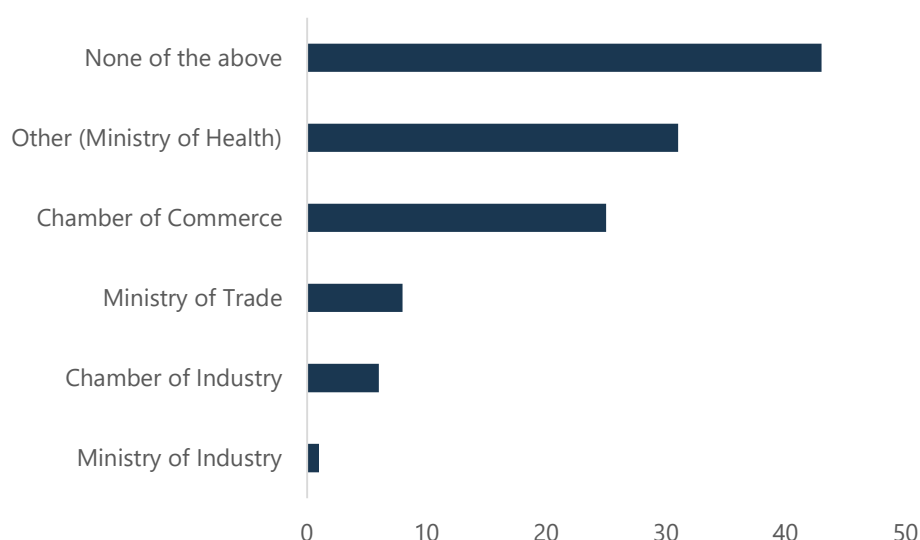


Companies in the south are able to operate without registering with the Ministry of Trade as around half of enterprises are not registered with any public authority.⁴² Additionally, only about a third of companies are registered with a chamber of commerce despite the important role played by the chambers in promoting exports and facilitating access to finance.

⁴¹ This refers to the value-for-money of products compared to goods from outside the south.

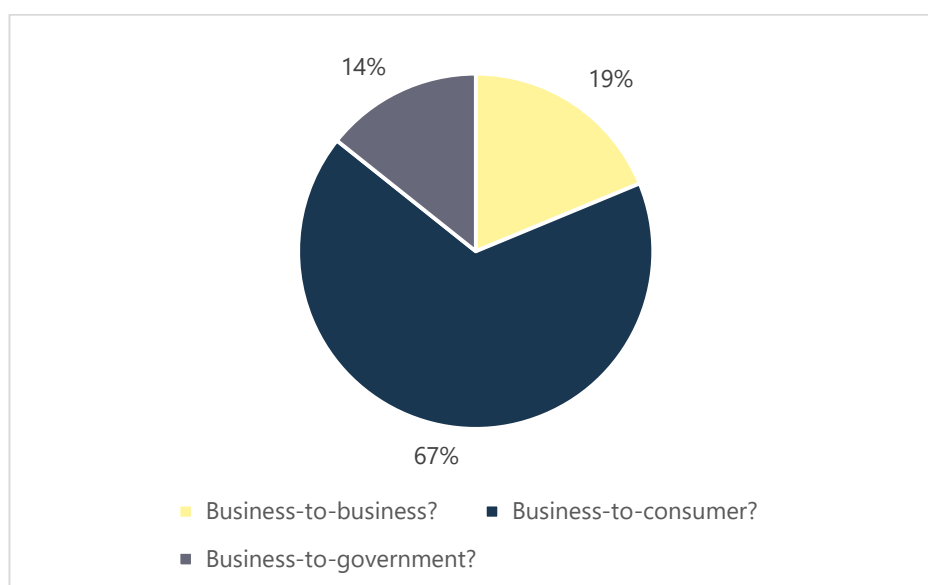
⁴² It appears that banks and MFIs give loans to businesses even if they are not registered.

Figure 36. Business registration (N = 79), Multiple Response Groups ⁴³



The fact that most enterprises are informal limits their ability to export as they cannot obtain Certificates of Origin, which are essential for exporting, without being registered. Most sell only within their own governorate. However, enterprises in Al-Basrah, thanks to the role of the city as a port and a trading hub, are considerably more likely to export to governorates (35%).

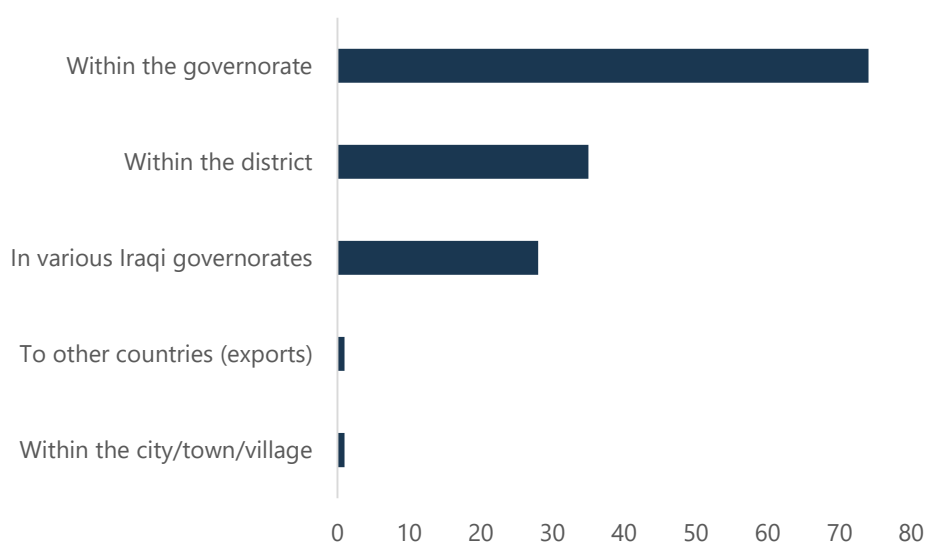
Figure 37. Type of customer (N = 101), Multiple Response Groups



The limited export potential of enterprises in the south could also be explained by the fact that the majority produce rather basic final goods and services, for local consumers, with limited competitive potential. Business-to-business enterprises, which produce intermediate goods and services, constitute only a fifth of enterprises in the south.

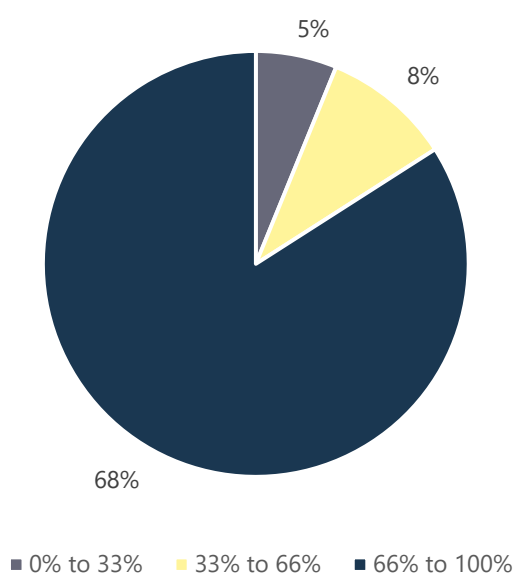
⁴³ Restaurants, bakeries and hotels are the sectors where it is mandatory to register with the Ministry of Health – without this approval it becomes harder to operate.

Figure 38. Product destination (N =101), Multiple Response Groups



In contrast to the lack of export among companies, more than three-quarters import more than two-thirds of their supplies.

Figure 39. Share of imported supplies (N = 82)



This means that enterprises are highly vulnerable to currency shocks, such as the devaluation by about 20% against the US dollar in December 2020. This is all the more relevant since companies have low foreign currency reserves, because they do not export or trade outside of Iraq.

Picture 1. *Al-Mostakeem*, a local dairy product



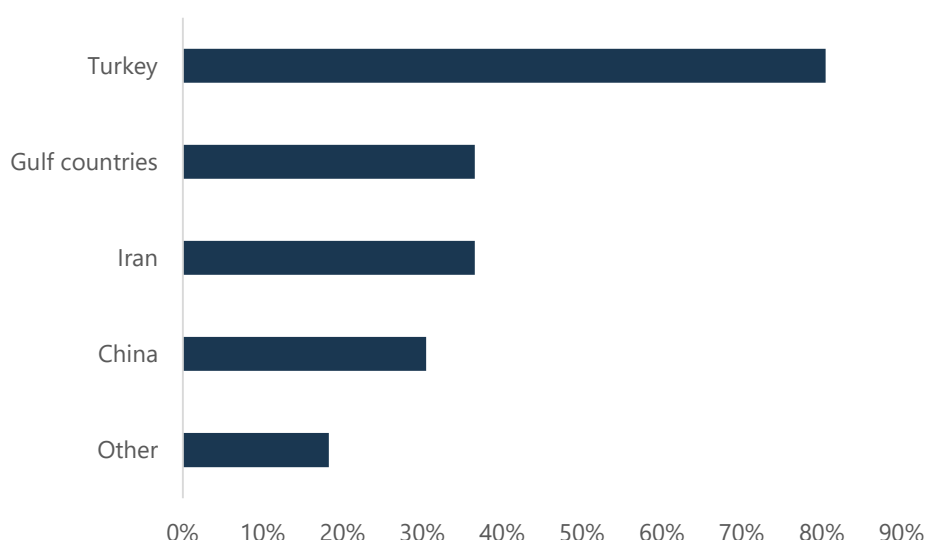
Focus Box 1. Challenges of import substitution

Ismail had been working in importing dairy products for 11 years when in 2017 the Iraqi parliament ratified a law to protect local products and increase tariff fees on imported goods. As a result, and due to the increase in the price of imported goods, Ismail decided in 2019 to build a factory in Najaf to produce cheaper and locally produced dairy goods under the *Al-Mostakeem* brand.

However, all the raw materials – including the milk – are imported from outside of Iraq which increases the costs of production. Additionally, he relied on Turkish engineers to set up the factory and technical teams from the Kurdistan Region of Iraq to train the workers at the factory. He could not implement the best practices in production passed on by the Turkish engineers given the extra costs – this means that he has had to compromise on quality to remain competitive. Ismail sees that the biggest challenge in food processing is there is no quality assurance nor health inspection by the Iraqi authorities, which means that he has had to compete with the local brands which do not meet the minimum hygiene and food safety requirements.

Interestingly, Turkey is the country from which most of the supplies are imported. Neighboring countries such as Iran and Gulf countries only come in at second place (40% of enterprises reported importing from each of those areas).

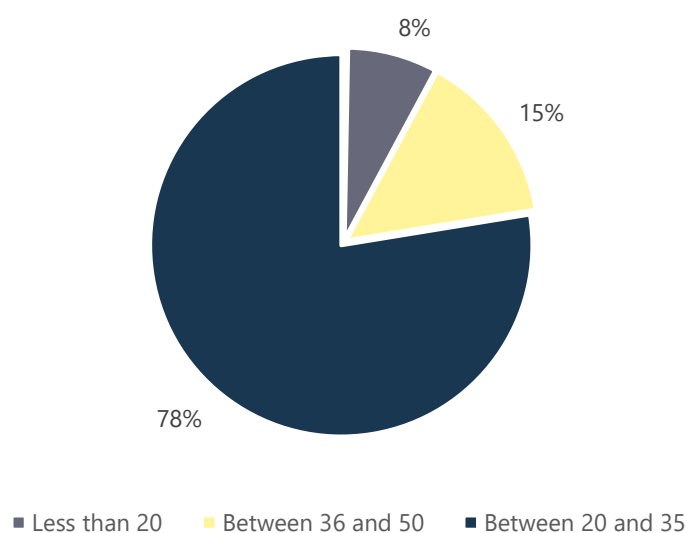
Figure 40. Origins of imported supply (N = 79), Multiple Response Groups



5.2. WORKFORCE CHARACTERISTICS

The workforce in the south mostly consists of young employees, with more than three-quarters of workers aged between 20 and 35. There is a considerable lack of senior and experienced employees with more than 10 years of experience in the private sector as it is likely that older individuals seek opportunities in the public sector which are perceived as more stable and secure.

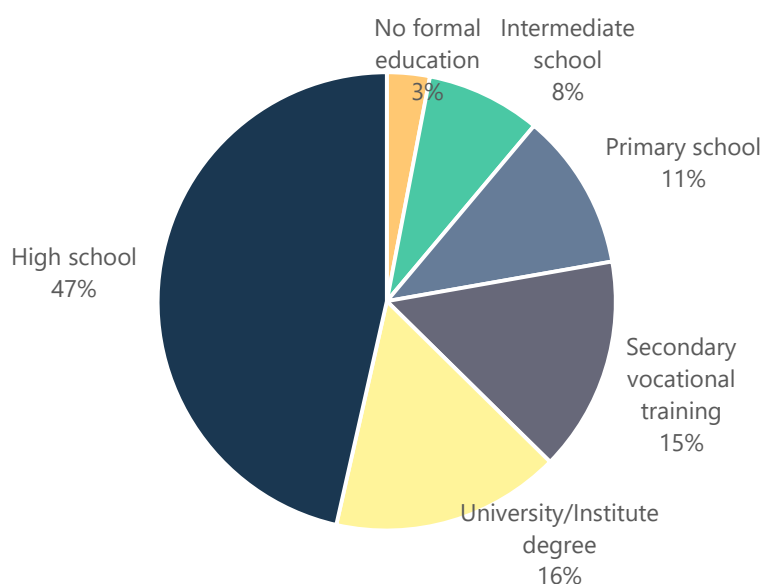
Figure 41. Distribution of the workforce per age groups (N = 101)



The large majority of employees have some form of formal education, which is in stark contrast with the levels of education measured in the general population by the household survey (where around 50%

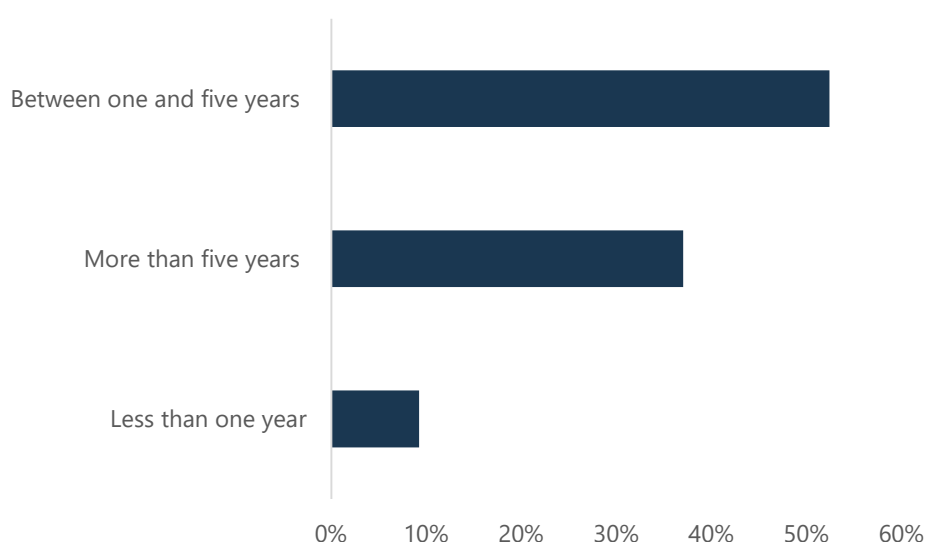
have no formal education) and means that those without formal education tend to be excluded from the labor market. But less than a quarter of workers have post-secondary education which indicates the limited level of skill sets available to enterprises in the south. Among those who attended vocational post-secondary school, around half of them trained in industrial fields.

Figure 42. Distribution of the workforce per levels of education (N = 101)



Enterprises have high retention and low turnover rates in terms of employment. This can be inferred by the fact that around 40% and 50% of workers have been in their current occupation for more than five years and between one and five years, respectively.

Figure 43. Employment retention/employee seniority (N = 101)

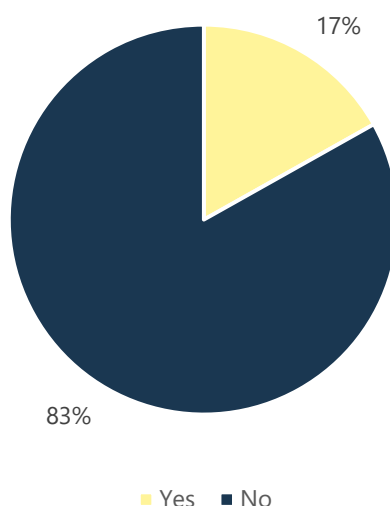


There are two factors that explain this phenomenon. First, and given the lack of institutes that provide modern vocational training, enterprises invest time and effort in the training of their employees on the

job and employers, as a result, value their loyalty⁴⁴. Second, the Iraqi economy has stagnated since 2014 and as a result the number of jobs created has been limited, which has led to workers holding on to their jobs⁴⁵.

Only 3% of workers in the south are female employees. This is in line with enterprises' bias towards recruiting male over female employees, with 80% of enterprises mentioning that they would not hire female employees.

Figure 44 Proportion of employers who would hire a female employee (N = 83)



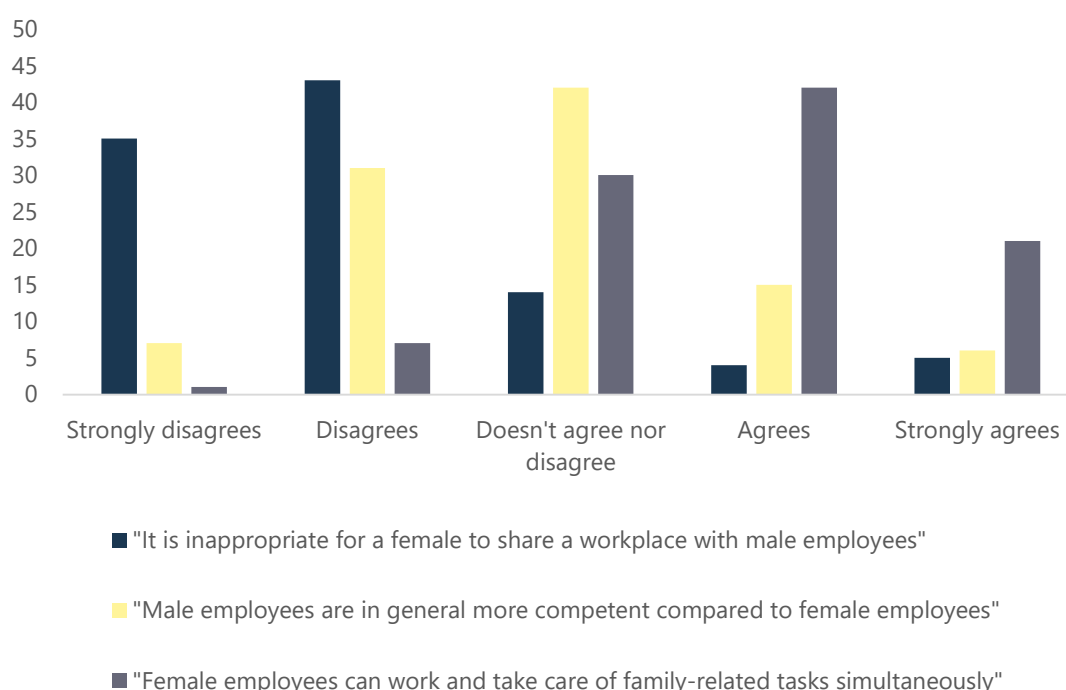
However, the reasons for not recruiting female employees appear more likely to be related to perceived levels of competence than to strictly cultural factors.⁴⁶ The majority of enterprises do not find it inappropriate for female employees to share a workplace with their male counterparts and believe that female employees can both work and take care of family-related tasks. On the other hand, enterprises are more ambiguous towards the notion that male employees are in general more competent compared to female ones. This perception is supported by the fact that males are in general more educated compared to female persons, as indicated by the household survey results.

⁴⁴ Interview with Al-Basrah food manufacturer.

⁴⁵ Interview with Al-Basrah food manufacturer.

⁴⁶ Further research is needed to understand to what extent levels of competence may also be due to certain cultural factors.

Figure 45. Employer perception of female employees (N = 101)



In terms of job advertising, enterprises rely on social media (mostly Facebook) and social networks (friends and family) to identify potential recruits⁴⁷. When deciding on who to recruit, employers value specific skills (such as a solid knowledge of English or Microsoft skills) over degrees. This is because holding a university degree does not mean that the graduate has a solid grasp of those skills. Some enterprises enroll their employees at English-learning institutes, even if they already have a university degree⁴⁸.

5.3. FINANCIAL STANDING

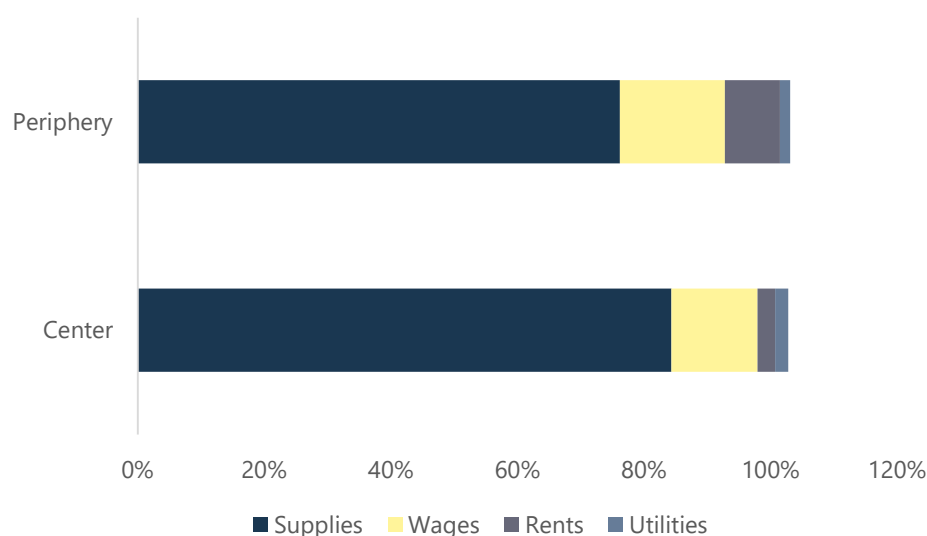
Supplies constitute the bulk of enterprises' costs. This comes as no surprise given that most of the companies' supplies are imported from outside of Iraq where transportation costs and import fees hike up the price of goods. Wages constitute around 20% of enterprises' costs. In terms of regional difference, the average monthly wage in governorate centers (USD 770) is almost double that of peripheral towns (USD 400). The average wage in Iraq is higher than neighboring countries from where significant imports into Iraq originate, for instance, workers' monthly salaries range between USD 200 and 400 in Turkey and USD 150 and 250 in Iran⁴⁹. This difference, which is linked to the characteristic of Iraq as an oil-economy, certainly encourages imports and discourages exports (since the cost of labor is higher in Iraq).

⁴⁷ Interview with various enterprises.

⁴⁸ Interview with date processor.

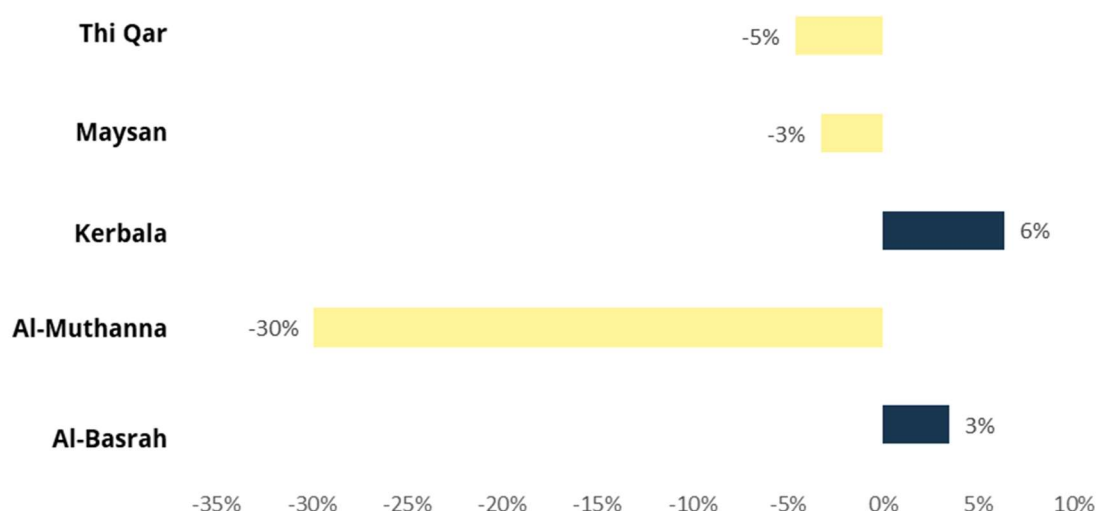
⁴⁹ Interview with dairy processor.

Figure 46. Distribution of costs for rural and urban enterprises (N = 101)



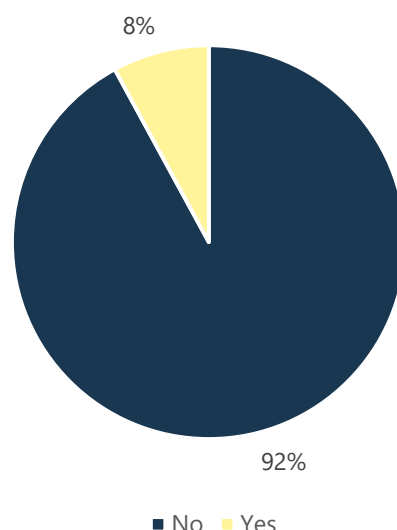
Enterprises in the south registered a loss in 2020 whereby their profit margin amounted to around minus 6%, which is understandable given the shocks of 2020 (political turmoil, oil price collapse, and Covid-19). However, this is not uniform across all regions – enterprises in Al-Basrah and Kerbala, i.e., in governorates which are more economically prominent, registered a slightly positive profit margin whereas Thi Qar, Maysan and especially Al-Muthanna registered negative profit margins. Similarly, governorate centers registered a positive profit margin whereas peripheral towns registered a negative margin; this is partially due to the fact that the enterprises sample in the governorate center included considerably more enterprises from the construction and transport sectors (which showed positive profit margins) compared to the peripheral areas. This indicates that the shocks of 2020 have had an unequal impact on the different regions inside Iraq.

Figure 47. Enterprise profit margins per governorate (N = 101)



Enterprises in the south lack access to finance. **Only 8% of enterprises have previously obtained loans.** Those who took loans obtained them from banks, microfinance institutions (MFIs), and friends/family relatives living inside of Iraq. As for the purpose behind taking the loan, half of those who obtained loans did so to physically expand their businesses.

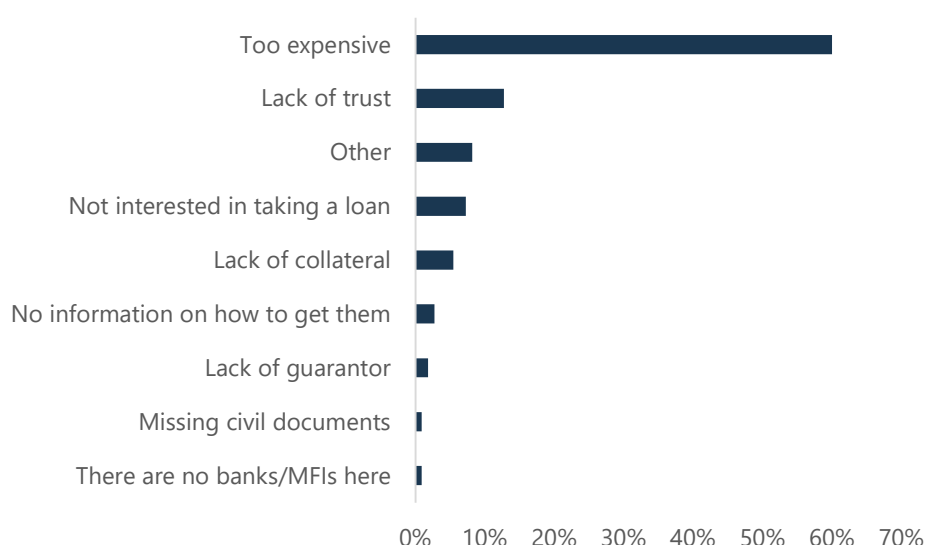
Figure 48. Enterprises that have taken loans (N = 101)



Similar to households, the cost of loans is the primary factor behind the low occurrence of credit among enterprises, followed by lack of trust in lending institutions. The market price of loans interest rates can reach up to 15%. Iraq's interest rate spread (the difference between the lending and deposit rates) is 7% and is the highest in the MENA region (the spread is 3.8% in Jordan and 2.9% in Kuwait). The high funding costs are partially due to the high operational costs of banks in Iraq. Poor corporate governance (the majority of banks are small-sized and family-owned) and the absence of comprehensive published audits are among the factors that contribute to higher operational expenses. Even though the Central Bank of Iraq has launched a program known as the "One Trillion Dinar Initiative" to subsidize loans targeting businesses since 2015, the reach of that program remained limited and even in this government-supported program the barriers to obtaining loans (such as the existence of guarantors and real estate collateral) are strong⁵⁰.

⁵⁰ <https://gds.gov.iq/iraqi-government-finance-schemes-to-support-smes-and-business-innovation/>

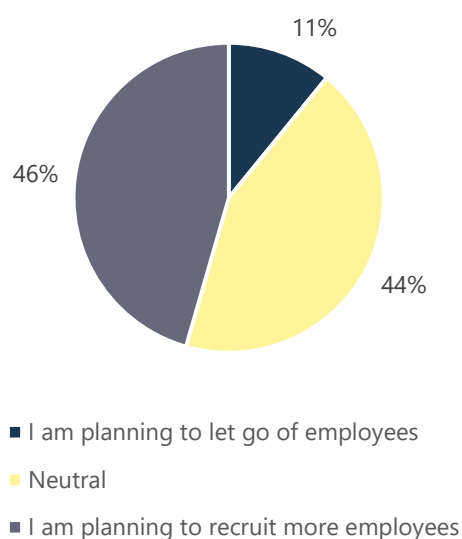
Figure 49. Reasons given for enterprises not to use bank loans (N = 101), Multiple Response Groups



5.4. GROWTH PROSPECTS

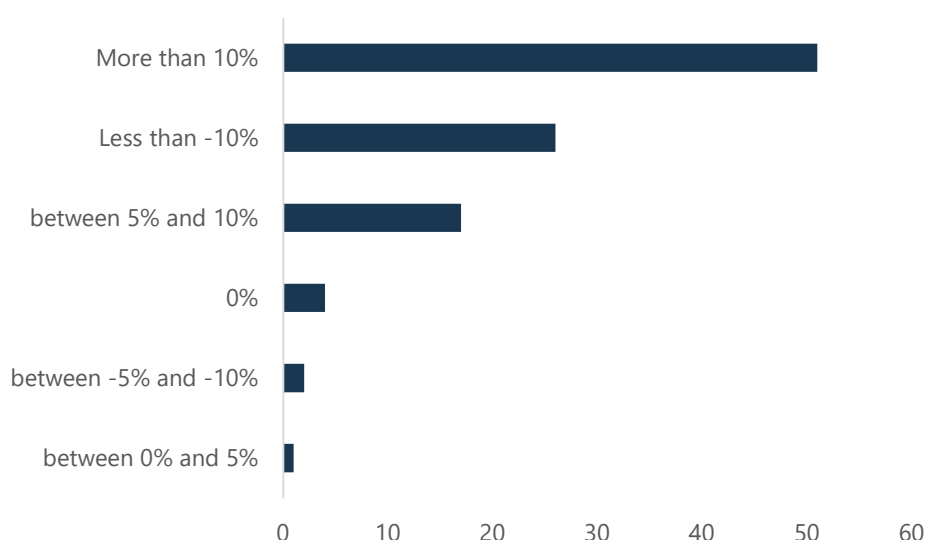
On average, enterprises have a positive outlook for the short-term future. Around half of enterprises plan on recruiting more employees whereas only around 10% are planning to let go of workers.

Figure 50. Employment prospects over the next year (N = 101)



Similarly, more than two thirds of enterprises expect their revenue to grow by more than 5% in the upcoming year which provides more evidence of their positive short-term expectations. Therefore, enterprises believe that their current problems are temporary (possibly due to Covid-19) and they expect to experience a rebound from the economic contraction experienced in 2020 (negative profit margin).

Figure 51. Revenue prospects over the next year (N = 101)



5.5. APPROACH TO MANAGEMENT

The majority of enterprises are willing to pay for the development of a business plan and marketing strategy, whereas most were not willing to pay for support on budgeting and training staff (on computer skills or foreign language). Enterprises in the south in general do not have a sustainable approach to business in terms of balancing their books as indicated by their lack of interest in support for budgeting⁵¹. Additionally, enterprises are also lacking in terms of planning for the future (such as planning their inventory in response to business cycles)⁵².

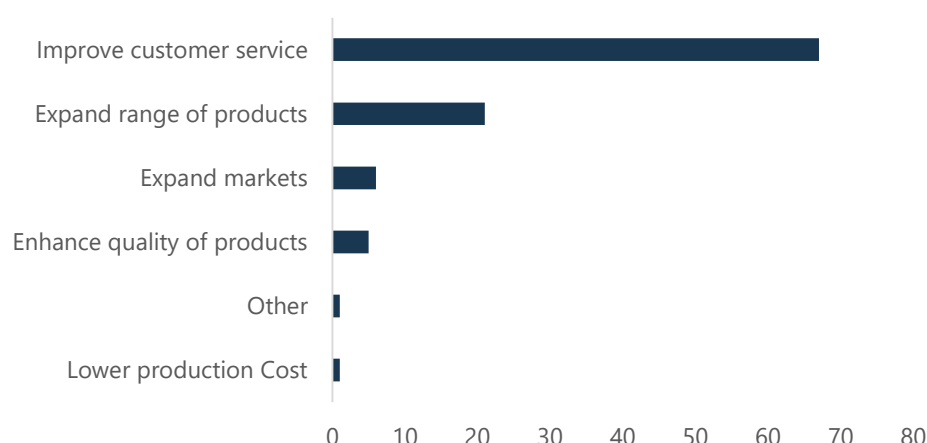
“Most enterprises produce based on short-term trends. They do not deliver based on reasonable estimates and projections.”

— Investment Commission of Thi Qar

⁵¹ Interview with GIZ.

⁵² Interview with IOM.

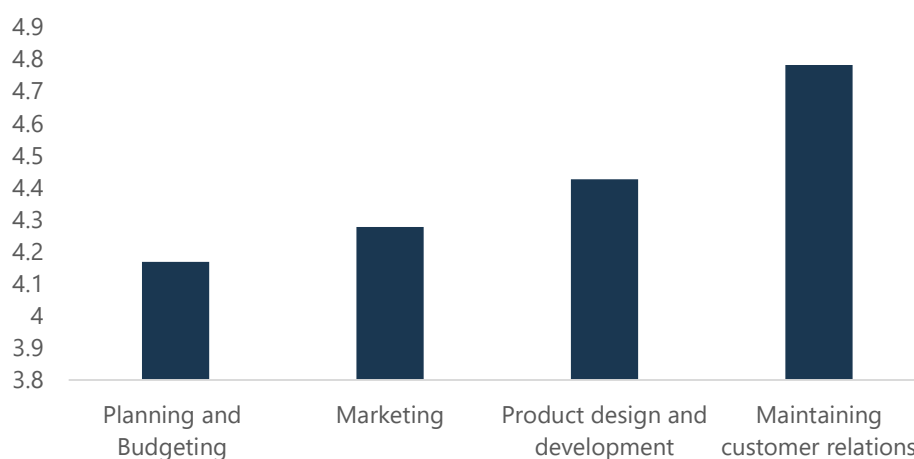
Figure 52. Ranking of business development strategies (N = 101)



In terms of their strategic orientation, enterprises favor short-term low-cost approaches over more timely and pricier ones. The majority of enterprises place improving customer service as their top-ranked strategy, followed by expanding the range of products. Therefore, strategies that require research and development (expanding range, enhancing products), capital investment (lowering costs), and business development (expanding markets) are less favored compared to the more easily attainable goal of improving customer service. This is also reflective of the importance enterprises attach to personal relations and social networks, which are especially crucial for improving customer service.

In line with the above, the highest ranked business skill is maintaining customer relations. Budgeting, on the other hand, which the majority of enterprises are not willing to pay for, is ranked the lowest.

Figure 53. Important skills for business (1 = not important at all; 5 = very important) (N = 101)

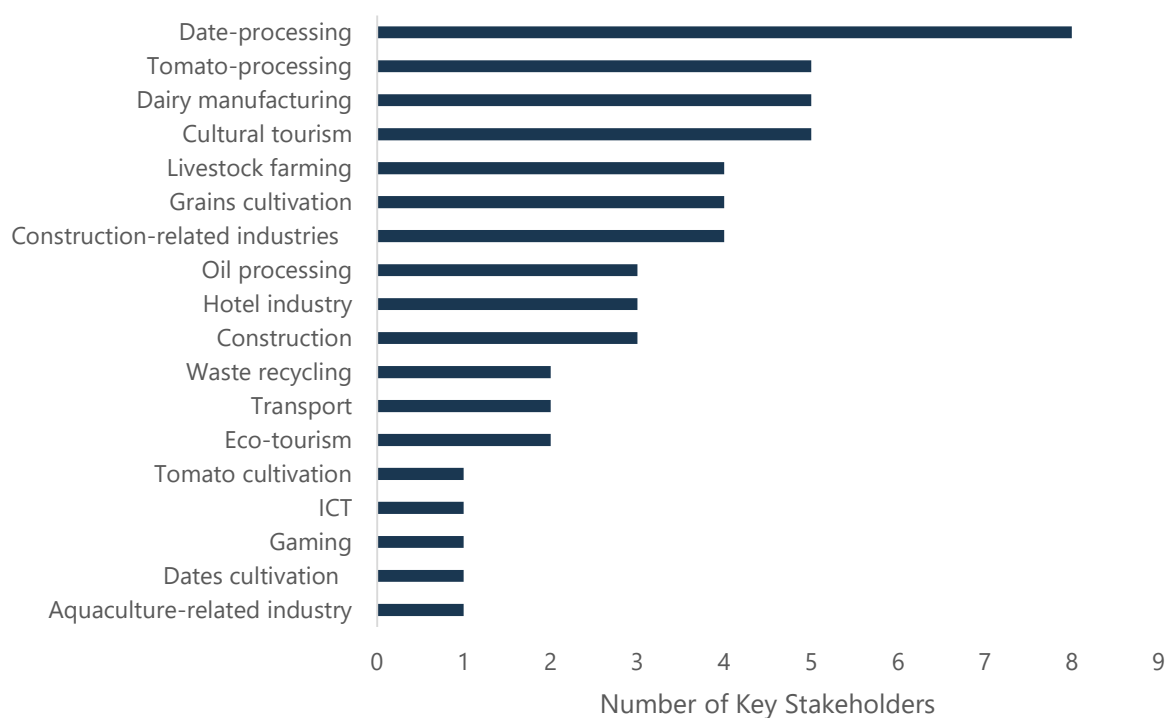


5.6. PROMISING SUBSECTORS

Three out of the top four subsectors pointed out by key stakeholders as promising in terms of growth prospects and job-creation belong to the agro-processing sector. The reasons behind this include the

fact that the main agricultural inputs are grown and cultivated in the south and the high local demand on food products such as dates, tomato paste and yoghurt.

Figure 54. Promising subsectors as identified by key stakeholders⁵³



In particular, date-processing was the subsector cited the most as promising. Among the various agro-processing subsectors in the south, date-processing stands out as the one with the potential to be exported outside Iraq. However, several challenges, such as the lack of technical expertise, relative high cost of labor and inputs that are mostly imported, reduce the competitiveness of Iraqi date-based goods in export markets.

⁵³ Various KILs.

Picture 2. Making and branding of *Berhyah* luxury dates



Focus Box 2. *Berhyah* luxury dates

Maytham Saad launched *Berhyah*, a luxury brand of sweets based on local Barhi dates, in 2019. *Berhyah's* target customers are visitors to Iraq who would like to take a culturally rooted souvenir when they travel back home. All the workers at *Berhyah's* factory are female and from Abu Al-Khaseeb (Al-Basrah), the area where the factory is located.

Berhyah's short-term strategy is to expand the range of products into date-based cookies and cakes and increase the product's quality. One of the challenges facing *Berhyah* is the lack of food-processing skills in the south, and in Iraq in general, where it's tough to find a worker with a diploma in food safety, for example.

6. DISCUSSION

The extremely low level of educational attainment is a major facet of the south's vulnerability. With half of the south's residents lacking in formal education, households have to resort to unskilled and irregular labor to generate income, unless they are fortunate enough to have a member land a government job. Rates of employment are particularly low among females, who on average have lower levels of education compared to males in the south. With the high reliance on irregular labor and lack of regular job opportunities, households are forced to adopt negative mechanisms to cope with their economic insecurity. Half of households are in debt, as around a third of them are forced to borrow to buy food, mostly informally from friends and family. This vulnerability, as indicated by high adoption of negative coping mechanisms and low educational attainment, means that 80% of the population are in need of MPCA, as per CCI's vulnerability model.

The private sector in the south is underdeveloped, which means that few skilled and stable jobs are generated on a regular basis. Enterprises are mostly informal and are of limited competitiveness, as indicated by the fact that most are only capable of selling within their own governorate. Additionally, their products are limited in terms of complexity as enterprises are business-to-consumer firms that produce final, rather than intermediate, goods and services. Enterprises' potential to grow is constrained by their severely limited access to finance and adoption of short-term business strategies. The high cost of borrowing from financial institutions forces most enterprises to borrow informally. Furthermore, enterprises' emphasis on short-term business strategies such as improving customer service, rather than investing in the training of their employees or in research and business development to expand their markets and the range of their products, sets them on a low-growth path.

The current state of key hard and soft infrastructure, such as schools, financial institutions, and electricity, is another major factor that prevents enterprises from achieving prosperity. The central and local government institutions' neglect of the south's needs is made evident by the fact that government authorities have the lowest levels of trust compared to other institutions. However, unlike their attitude towards most informal institutions, trust of people towards other member of their community is moderately high, which means that community-based initiatives have a solid foundation for success.

7. RECOMMENDATIONS

7.1. GENERAL DEVELOPMENT IMPLEMENTATION LEVEL

7.1.1. ENCOURAGE COMMUNITY SAVING SCHEMES SPECIFICALLY DESIGNED FOR DAILY LABORERS

Given the irregular nature of their work, daily laborers – which form more than a third of the workforce in the south – are restricted from accessing traditional financial services. CCI and ILO could support the formation of community-based saving groups where members take turns to save and borrow from inside the group, with no collateral required. The micro-loans can be spent on health needs, school fees, and livelihood support. The saving groups would be self-managed and self-capitalized. CCI and ILO could lay the infrastructure of such schemes that would promote consumption smoothing for those with irregular income.

7.1.2. SUPPORT THE CAPACITY-BUILDING OF MFIs

The size of the microfinance industry in Iraq is limited. Of the governorates included within this research, MFIs are only present in Al-Basrah and Kerbala. In terms of products and services, MFIs currently provide micro-loans and personal loans (educational, housing, car, etc.) and do not provide business development services and training.

As such, MFIs could be supported by training their staff so that they can better design loans and onboard suitable clients. Loan officers could be trained on conducting cash flow analysis so that they can themselves help clients construct their balance sheets and eventually allow clients to access loans based on their cash flow rather than collateral. Additionally, MFIs can be supported to offer financial literacy to both households and enterprises to complement their issued loans.

7.2. HOUSEHOLD LEVEL

7.2.1. PROVIDE CASH ASSISTANCE FOR BASIC NEEDS AND CONSUMPTION SUPPORT

There is a high level of socio-economic vulnerability evidenced across the south, with over four-fifths eligible for some level of humanitarian cash assistance. Cash assistance is necessary to steer individuals away from negative coping mechanisms and to allow households to meet their immediate consumption needs without resorting to debt. However, given the unlikelihood of CCI and ILO being able to distribute cash on a regular basis to 80% of the southern population, the criteria could be better targeted and more restrictive. The expected consumption threshold through which beneficiaries are identified should be lowered. Also, coordination with MoLSA is necessary to gain insights from its experience in social protection and could then contribute to the SEVAT model accordingly. For instance, the model could be adapted to factor in the adoption of negative coping mechanism more, which would also help to better target beneficiaries. Otherwise, given the complicated political situation in the south

and separate challenges for program implementation for each governorate, assistance could be restricted to the most vulnerable governorates, such as Maysan.

7.2.2. IMPLEMENT A CONDITIONAL CASH TRANSFER PROGRAM TO INCREASE EDUCATIONAL ATTAINMENT

A key obstacle in the south's path out of poverty is the lack of educational attainment, where around 50% of the population miss out on formal education altogether. Without formal education residents of the south cannot access jobs, as seen by the fact that less than 10% of enterprise workers have no formal education, and the cycle of inter-generational poverty cannot be broken. As such, financial incentives could be provided to households who enroll their children at school. Cash transfers would be conditional on both enrollment and attendance, while different grants can be provided – for instance, the value of grants can be higher for households enrolling their girls at school and for those enrolling their children in high schools (as the level of enrollment decreases with higher levels of education).

7.2.3. OFFER FINANCIAL LITERACY TO INFORM HOUSEHOLDS' SAVING AND BORROWING BEHAVIOR

Households in the south are more likely to borrow more than to save and this puts them at risk of being stuck in a debt trap. Training and campaigns on different saving options and household budgeting can help households better organize their financial decision-making. Cash-plus programs where training complements cash transfers would also be a viable option.

7.2.4. CARRY OUT A CASH FOR VOCATIONAL TRAINING TAILORED FOR FEMALE INDIVIDUALS AND PROMISING SUB-SECTORS

Given that competence is a primary reason why enterprises prefer recruiting males over females, providing access to vocational training to women should be prioritized. Directly providing vocational training modules or partnering with other entities specialized in vocational training are both possible options. To encourage female individuals to attend vocational training, they could be supported with cash in return for their graduation from the training. Sectors such as agro-processing that have strong growth potential and where employing women is common should be prioritized when deciding on which sectors to consider in terms of providing vocational training. CCI and ILO could also complement vocational training modules with job-placement schemes to further incentivize individuals to enroll in vocational training courses.

7.3. ENTERPRISE LEVEL

7.3.1. PARTNER WITH CHAMBERS OF COMMERCE TO PROVIDE MANAGEMENT AND MARKETING TRAINING TO ENTERPRISES AND EXPAND THEIR MARKETS

Given that the majority of enterprises are willing to pay for a business plan, CCI and ILO could cooperate with chambers of commerce, who have considerable experience in partnering with international organizations, to provide training on business planning. Incentives should be offered for enterprises to ensure that they attend. Modules should bundle together training that allows enterprises to achieve both short-term strategies and long-term ones, as enterprises would be less incentivized to attend training on just the latter. Additionally, chambers of commerce should also be supported to enable them to establish or expand their own business development services (BDS) unit so that they can continue providing training in a sustainable manner.

7.3.2. ORGANIZE COMMERCIAL FAIRS TO CONNECT ENTERPRISES IN THE SOUTH WITH THEIR COUNTERPARTS IN BAGHDAD, ERBIL, AND SULAYMANIYAH

Most enterprises sell within their own governorates and to consumers rather than businesses. As a result, enterprises in the south rarely interact with enterprises in other governorates and miss out on learning from the successes and failures of those enterprises. Accordingly, enterprises who pass and complete the business planning training could be offered access to fairs and networking opportunities in Baghdad, Erbil and Sulaymaniyah, such as the Erbil International Fair, where they can expand their markets and establish partnerships that would allow for knowledge spillover.⁵⁴ This can be implemented in partnership with the Federation of Iraqi Chambers of Commerce.

7.3.3. SUPPORT FOOD PROCESSING ENTERPRISES WILLING TO ENROLL THEIR WORKERS IN TRAINING MODULES

Despite the skill deficit in the south, most enterprises are not willing to pay for the training of their workers. CCI and ILO could cover the expenses of training workers at enterprises in promising sectors, such as the food processing industry (specifically the date and dairy processing industry). The contribution to training costs would depend on the retention of trained workers, or even progressive transition from daily, informal employment, to more stable work contracts.

Given that a considerable percentage of machines are imported from neighboring countries such as Turkey, CCI and ILO could connect with vocational training centers in Turkey to facilitate the provision of training to workers in the south.

7.3.4. CONNECT ENTERPRISES WITH OPPORTUNITIES TO TAKE OUT LOANS TO GROW THEIR BUSINESS

Enterprises in the south rarely use credit to grow, expand and enhance their businesses. Only 8% of enterprises had previously taken out a loan. Enterprises cited reasons related to cost and trust as reasons they are unable to access credit, and that the inability to access credit constitutes a barrier to growth. The CCI and ILO should connect and support enterprises with opportunities to obtain and use credit in order to improve their competitiveness. The support should include both assistance in connecting relevant actors as well as providing support to appropriately plan and use credit that is accessed.

7.4. ADVOCACY LEVEL

7.4.1. ENCOURAGE INVESTMENT IN THE SOUTH'S EDUCATIONAL SECTOR

Given the overcrowding at schools and that around half of residents in the south lack formal educational attainment, advocating for more investment in the education system by both the Iraqi government and the international donor community is an essential requirement for advancing development in the south.

⁵⁴ <http://www.eif-expo.com/>

Reducing vulnerability and, as a result, social tensions in the south are not reachable without more and better schools. In coordination with the Ministry of Education, ILO and CCI could push for expanding educational facilities in rural areas where educational attainment is particularly low and encourage the training of teachers to improve the quality of education.

7.4.2. SUPPORT THE MODERNIZATION OF VOCATIONAL TRAINING CURRICULA

The curricula of universities and vocational training centers are not up to date with the requirements of the market in Iraq. ILO and CCI should ensure that its potential beneficiaries are receiving the education that would enable them to access the job market. As such, and in partnership with the Ministry of Education, ILO and CCI could advocate for the design of policies that encourage vocational training in Iraq and that modernize their curricula. ILO and CCI could also support initiatives that promote market-based vocational training opportunities in the south of Iraq.

7.4.3. ADVOCATE FOR INCREASED FINANCIAL INCLUSION OF ENTERPRISES AND HOUSEHOLDS.

By enhancing engagement with and accessibility of loans, enterprises would have more opportunity to grow their business and increase their competitiveness. Improving households' financial management and their access to saving and credit mechanisms would help them to smooth consumption and make human capital investments. For instance, legal and regulatory reforms could be encouraged so as to facilitate cash flow – based lending as opposed to traditional collateral – based lending.

8. ANNEX

8.1. LIST OF KIIs

Category	Organization	Interviewee Name	Position
Business Network	Al-Basrah Chamber of Commerce	Mazen Mowajed	Head of Chamber of Commerce
Business Network	Kerbala Chamber of Commerce	Alaa Najib	Director of Studies
Business Network	Maysan Chamber of Commerce	Alaa Wali	Head of Chamber of Commerce
Business Network	Al-Muthanna Chamber of Commerce	Karim Mohamad Ali	Head of Chamber of Commerce
Business Network	Thi Qar Chamber of Commerce	Hamed Jaberi	Member of the Board of Directors
INGO	Chemonics	Martha Myers and Rory Brown	Chief of Party and Director of DCEO
INGO	UNDP	Sundus Abbas	SDGs Project Manager
INGO	IOM	Aws Ezzi	Field Officer and South of Iraq Coordinator
INGO	GIZ	Elaf Kandauou	Head of Field of Action and Youth Capacity Development
MFI	Amalkom	Ammar Shamsa	General Manager
MFI	CHF Vitas	Haidar Nabeel Hussein	Manager of the Hella Office
Private Sector	Dairy processing company	<i>Anonymous</i>	General Manager
Private Sector	Date processing company	<i>Anonymous</i>	General Manager
Private Sector	Religious tourism company	<i>Anonymous</i>	General Manager
Private Sector	Tourism travel agency	<i>Anonymous</i>	General Manager

Public Authority	Al-Basrah Planning Department at the Governor's Office	Walaah Kareem	Abdul	Head of the Planning Department
Public Authority	Al-Basrah Commission	Investment	Mustafa Mohoder	Chief of Staff of the Head of the Chamber of Commerce
Public Authority	Kerbala Commission	Investment	Louay Jassem Mohammed	Director of Technical and Economic Studies
Public Authority	Kerbala Planning Department at the Governor's Office		Ali Mayyali	Deputy Governor of Kerbala
Public Authority	Maysan Commission	Investment	Ahmed Karim	Member of the Board of Directors
Public Authority	Al-Muthanna Commission	Investment	Mahmoud Hadi	Adviser to the Chamber
Public Authority	Thi Qar Investment Commission		Mohamad Turki	Member of the Board of Directors

8.2. KII QUESTIONNAIRE

8.2.1. ENTERPRISES

Interviewee:

Date:

Type of interview:

Understanding the business

- What are the different products that you provide? What is the contribution of each product to your total revenue?
- Are you specialized in any particular subsector? If so, why and on what basis?
- What has been your average annual growth revenue for the past three years?

Understanding recruitment trends

- How do you recruit your employees? (Step-by-step)
- What is the average duration of employment for each employee? (Differentiate between full-time and part-time employees and between different functions)
- What are the three most in-demand skills in the market?

- What are the three skills most lacking in the market? Can you explain why, in your opinion, they are lacking?
- Which top three skills have the highest potential in the future?
- Have average wages increased or decreased over the last three years? How would you explain those changes?

Understanding the market

- What have been the major changes in your sector over the last ten years?
- Which subsectors employ the highest number of workers?
- Which subsectors are the most profitable and have the highest chances for growth in your opinion?

Understanding the challenges

- What are the challenges facing the growth of your company? And the sector overall in your particular governorate (compared to the rest of Iraq)?
- What are the challenges that your company faces in terms of:
 - Access to finance
 - Regulations and law
 - Infrastructure

8.2.2. OTHER STAKEHOLDERS

Interviewee:

Date:

Type of interview:

Stakeholder specific questions

To MFIs:

- What is the number of active loans in each of the south's governorates? How are they divided across the different sectors? What has been the year-on-year growth in active loans over the past few years?

- Is the portfolio-at-risk ratio higher in the south compared to other governorates? If so, why?

To INGOs:

- Are there any difficulties operating in the south compared to other governorates?

To chambers of commerce and industry:

- What are the factors that prevent businesses in Iraq from exporting outside of Iraq?

To investment commissions:

- What is the number of investment projects in each of the south's governorates? How are they divided across the different sectors? What has been the year-on-year growth in investment projects over the past few years?
- Who are the primary investors in the south? Are they from the south or from other areas in Iraq or foreign investors?

To provincial planning council committees:

- How much of the governorate's budget is dedicated to factors that promote economic development such as health, education, roads, water network, wastewater networks, electricity, etc.? Kindly specify by each factor.

Mapping of livelihood and poverty-reduction support

- Who is providing livelihood and poverty reduction support in the south?
 - What is the program and what are the project activities? Project duration?
 - How many beneficiaries? What are the targeted areas?
 - Who are their implementing partners (local NGOs and governmental institutions)?

Assessing the challenges facing economic development

- Kindly assess the following factors (very poor to very good) and explain the reasoning behind your assessment.
 - Infrastructure
 - Roads
 - Electricity
 - Water
 - Wastewater

- Education
 - Schools
 - Vocational training
 - Universities
- Finance
 - Banks
 - MFIs

Assessing business performances

- Kindly assess enterprises in your area (very poor to very good) with respect to the following:
 - Management (such as business planning, product development, budgeting, pricing, etc.)
 - Human capital
 - Access to finance
 - Infrastructure
 - Regulations and taxes
 - Access to market information

Identifying promising sectors

- Kindly identify three of the most promising subsectors in terms of growth potential and job creation in their respective governorates and explain why you believe they're promising.

Policy recommendations

- What do you think should be done to promote economic development and reduce vulnerabilities? Kindly differentiate between INGOs and public authorities.

