

# Creating Sustainable Employment in Iraq



## Economic growth and stability

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During the previous regime, economic growth was stifled due to economic policies. The economy was centralized and state-owned, inhibiting innovation and private sector development. Long-term economic growth and employment requires a robust private sector. USAID programs are assisting the CPA to develop an economic system which is stable and creates long-term employment.

These programs have been implemented in similar post-conflict situations in Kosovo, Georgia, and Afghanistan. They have achieved large increases in private sector growth and, in each case, economic reconstruction correlated strongly with employment growth.



*The Iraqi economy relies heavily on its agriculture sector as a source of employment and income in rural areas. (USAID Photo)*

### Creating a Private Sector Workforce

**Stability in Iraq** depends on economic growth, which requires long-term private-sector job creation.

Private sector jobs are created by access to **private sector financing** for agriculture in rural areas and small and medium-sized enterprises in the more urban areas.

Approximately **70 percent of the Iraqi population is under 25 years old**, creating a large labor pool with need for economic opportunity.

For every long-term job created, another **1.5 jobs** are indirectly created.

### Rural Stability from Agriculture

As a result of war, drought, and repression, Iraq's agricultural productivity and competitiveness have severely declined over the years. This is particularly detrimental because 30-40 percent of Iraq's population depends on agriculture as a livelihood. A strong private agriculture sector will create sustainable employment in rural areas. USAID currently implements programs that:

- Strengthen small and medium-sized agro-enterprises to produce, process and market agricultural goods and services.
- Nurture rural financial services to meet the needs of agricultural producers.
- Rehabilitate the natural resources base to promote conservation and sustainability.
- Increase agricultural employment to prevent urban migration and social unrest.

### First Steps to Economic Stability

- Complete the program to exchange new dinars for old by Jan. 2004, **unifying and strengthening** Iraq's currency, a critical component for sustained economic growth.
- Assisted the Central Bank in creating a **bank-to-bank payment system** that allows 80 bank branches to conduct transactions.
- Provide assistance to NGOs delivering \$21 million in microcredit loans and prepared a countrywide survey to assess supply and demand for **microcredit and small and medium-sized enterprise credit**.



*Iraqi merchants will be able to access private lending and financing to expand their enterprises. (USAID Photo)*

**In close cooperation with Iraqi nationals and the Coalition Provisional Authority, USAID is restoring critical infrastructure, improving healthcare and education services, expanding economic opportunities, and implementing good governance.**

## Large urban job growth potential

The key to development of the Iraqi economy is to facilitate private sector development. Urban areas contain the labor and resources to jumpstart Iraqi entrepreneurship and enterprise development.

**The construction industry**, especially in urban areas, represents significant employment for both skilled and unskilled workers.

Though inefficiently used under the previous regime, Iraq has the foundations for a vibrant construction industry with the required labor and **small and medium-sized enterprises** in place.

Construction can also be a driving force in the economy, as a result of a **one-million unit housing deficit**. Financing construction firms through lending programs will increase demand for labor and vocational training.

In addition to construction, other sectors will benefit from private investment and provide for employment growth including: **finance, the services sector and eventually, tourism.**



Construction workers lay concrete foundation at the site of a new market in Samawah, Iraq. Construction workers will soon be able to work for companies that have received private lending for housing construction. (Photo: Thomas Hartwell)



Computers such as these are being installed in the Central Bank and banks around the country in order to increase their capacity to establish lending programs. (Photo: Thomas Hartwell)

## Programs supporting job creation and economic stability

**Financial sector strengthening:** Strengthening programs aimed at selected state- and privately-owned banks will transform these institutions into productive players in a developing economy.

**Small and medium-sized enterprise credit:** This program provides assistance to banks to strengthen their credit underwriting capacity and increase their lending activities to the SME sector. Two state-owned banks and seven private sector banks have been recommended for the program.

**Private investment:** A new, more open law to promote foreign investment has been prepared. Proposals are being considered to improve trade, streamline business registration and simplify procedures.

**Agriculture:** The Agriculture Reconstruction and Development Program for Iraq will rehabilitate agriculture resources and improve capacity of small and medium-sized agro-enterprises. Expected one-year results include a 100% increase in productivity for 30,000 farm families, yielding income opportunities that will keep youth in the rural economy.

## Lessons Learned

The breakup of the Soviet Union is an example of the difficulties of the transition from a state-owned, centralized system. Lessons from the breakup include the need for a transparent and disciplined regulatory environment which favors the private sector. Such a framework will also attract foreign investors, leading to further economic prosperity. In addition, the idea of equitable economics becomes important, which ensures that the distribution of resources and financing must be equal to ensure stability.

