

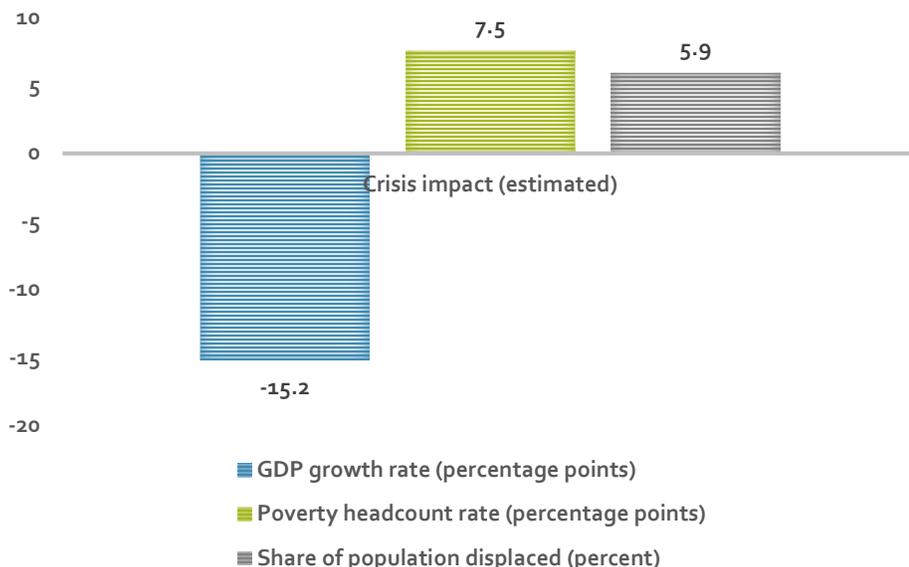


**Kurdistan Regional Government
Ministry of Planning
Kurdistan Region Statistics Office**

ESTIMATED IMPACTS OF THE 2014 TWIN CRISES IN IRAQ

©February 2018
Kurdistan Region Statistics Office
Web-Site: www.krso.gov.krd
E-mail: Contact@krso.gov.krd
Tel: 066 255 91 70

ESTIMATED IMPACTS OF THE 2014 TWIN CRISES IN IRAQ



LOSING THE GAINS OF THE PAST: The welfare and distributional impacts of the twin crises of 2014 in Iraq

THE TWIN CRISES OF 2014

WORLD BANK AND GOVERNMENT OF IRAQ, JUNE 2015

Iraq was plunged into two simultaneous crises in the second half of 2014, one driven by a sharp decline in oil prices, the other, by Islamic State militants. Since June 2014, crude oil prices per barrel have fallen from around 112 USD to 97 USD in September and 62 USD by December. Given Iraq's heavy dependence on oil as a share of GDP and exports, and a source of government revenues, this decline in prices alone would have hit Iraq's fragile economy hard.

In addition, since June 2014, Islamic State (IS) or Da'ash militants extended their influence from Syria into Iraq's northern and western provinces of Anbar, Nineveh, Salahadin, and to a lesser extent, Kirkuk and Diyala. A total of 354,000 families were internally displaced between June and December of 2014 which represents about 2.1 million individuals (Source: International Organization of Migration Displacement Tracking Matrix (IOM-DTM) January to December 25, 2014); and those left behind have been cut off from the rest of the country. The internally displaced persons (IDPs) have sought refuge across Iraq and about half of those who have

crossed governorates boundaries have moved to Iraqi Kurdistan.

Civilian casualties in Iraq have increased to close to 2007 levels (Iraq Body Count) as a result of the ongoing violence. The prevailing insecurity has disrupted oil exports from the north, adversely impacted trade and investment, led to the destruction of infrastructure and impeded the flow of goods and services across the country, leading to a sharp contraction in oil and non-oil GDP. Moreover, the sharp physical fragmentation of the country has impeded normal mechanisms of adjustment and likely magnified impacts.

OBJECTIVES

Given the severity of these crises, and the recurrent nature of such crises in Iraq, quantifying and understanding their welfare impact is critical for government and development partners. This note summarizes the findings of new analysis based on a micro-simulation approach. This approach uses macroeconomic data and projection estimates as well as household survey data to provide an ex-

ante estimate and analysis of the complex and dynamic poverty and distributional impact of the crises. It examines:

- (i) how the population has been affected across the distribution,
- (ii) assesses spatially differentiated impacts,
- (iii) estimates the effect of the crises through macro level shocks and the micro level shocks (primarily large scale internal displacement),
- (iv) predicts the poverty impact on the existing poor and those who have fallen into poverty (including internally displaced peoples (IDPs)), and
- (v) compares the characteristics of these groups.

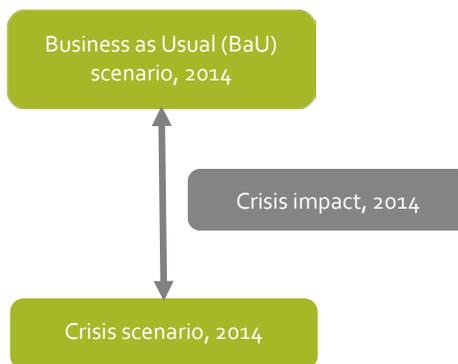
The findings reported here represent ex-ante estimates based on available data from the Central Statistical Organization and Kurdistan Region Statistics Office and assumptions made after discussions and agreements with counterparts from the Government of Iraq and Kurdistan region. The analysis covers only the 2014

period, and the findings do not constitute official estimates. Instead, they are intended as a guide to policy makers. This method represents an application of the most methodologically advanced technique and uses all currently available data. It constitutes the best alternative in the absence of real time data, which may suggest even larger adverse impacts.

SCENARIOS AND ASSUMPTIONS: BUSINESS AS USUAL VERSUS CRISES

The methodological approach employs a comparison of two scenarios, one that simulates the welfare impact in the absence of any shocks, and the other that incorporates the current crisis. Using baseline micro data from 2012 (the Iraq Household and Socio Economic Survey), and macroeconomic data from 2012, 2013, and 2014, as well as a set of assumptions, the crises impact is estimated by comparing two simulated scenarios for 2014:

- (a) Business as Usual (BaU): The population and the economy are assumed to behave as in their usual trend; i.e. following the “without-shock” trend between 2012 and 2013.
- (b) Crises: The population and the economy incorporate the effects of the oil-price decline, the IS-related macro shocks, and forced internal displacement.



The analysis groups the 18 governorates of Iraq into 6 regions:

1. Kurdistan (KR-I): Duhouk, Sulaimaniya and Erbil
2. Baghdad
3. IS-affected: Anbar, Nineveh, and Salahadin
4. Rest of the North: Diyala and Kirkuk
5. Centre: Babylon, Wasit, Najaf, and Karbala
6. South: Basra, Thi Qar, Missan, Muthanna and Qadisiya

Assumptions about IDPs and IS-affected populations:

For the purposes of this exercise, IDPs are defined as those Iraqis who are forced to move across governorate boundaries due to IS-related violence and insecurity. The magnitude and direction of these displacement flows are based on the IOM’s DTM (January to December 2014). Left-behind populations refers to households who continue to live in the IS-affected governorates. In addition, reasonable assumptions were made about the welfare losses IDPs and the population who continue to live in the IS-affected governorates are likely to experience. These are summarized here:

IDPs	Left behind (IS-affected governorates)
Loss of private sector employment	Loss of 60% of earnings
Loss of private transfers	Loss of public and private transfers (except pensions)
Loss of services for home owners	
Loss of all immobile assets	
Loss of 50% of housing services	

CRISIS IMPACT: MACROECONOMIC GROWTH

A 15 percentage point contraction in GDP

Under the BaU scenario, Iraq’s GDP would have grown at the same rate between 2013 and 2014 as it did between 2012 and 2013, i.e., at the rate of 9

percent per annum. In contrast, official estimates for 2014, which take into account the macroeconomic shocks related to the IS-militancy as well as the oil price decline suggest that Iraq’s economy contracted by 6 percent. Thus, the macro shocks led to a 15 percentage point decline in economic activity.

Especially in the manufacturing and construction sector

The combined manufacturing and construction sector is estimated to have experienced a 45 percentage point reduction in growth, falling from a predicted 27 percent expansion under BaU to a negative growth rate of 18 percent during the 2014 crises. Smaller declines are estimated in other economic sectors.

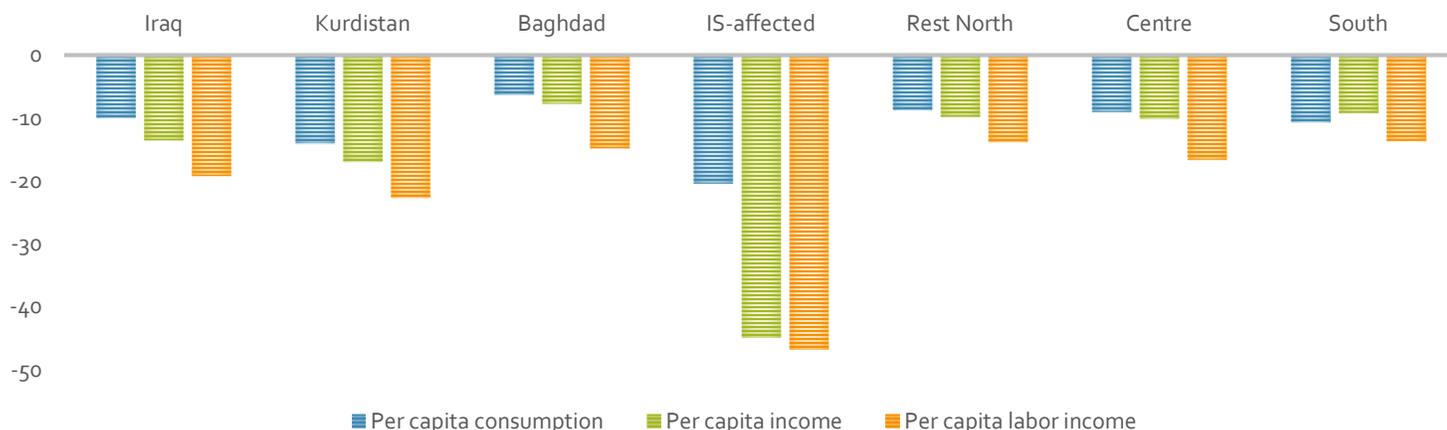
CRISIS IMPACT: LABOR MARKET AND INCOMES

800,000 additional non-employed Iraqis

The 2014 crisis is estimated to have lowered employment by 800,000 jobs. This implies that an additional 800,000 Iraqis ages 15 to 64 are now without work relative to the BaU scenario.

Moreover, employment appears to be shifting away from more productive/higher earnings jobs in manufacturing and construction to less productive/lower earnings and possibly more informal jobs in agriculture and services. This is worrying because the majority of Iraq’s poor worked in construction and agriculture in 2012. On the one hand, they are losing jobs (in construction) and on the other hand, moving to precarious jobs in agriculture (where incomes had been low and falling even in 2012).

CHANGES IN INCOME AND CONSUMPTION (CRISIS VS. BAU, 2014)



Sharp declines in labor incomes

Given the scale of the economic contraction, and the consequent effects on the labor market, the crisis is estimated to adversely impact per capita labor incomes, which account for 65 percent of per capita incomes. Relative to BaU, per capita incomes fall by almost 14 percentage points in the crisis scenario, driven by a 20 percentage point decline in per capita labor income, and smaller declines in other income sources such as non-labor income and public and private transfers.

This is also reflected in a significant decrease in per capita consumption (the welfare aggregate on the basis of which poverty is measured), which is 10 percentage points lower on average as a result of the crisis.

CRISIS IMPACT: POVERTY AND INEQUALITY

Losing the gains of the past

Based on these estimates, it is evident that the 2014 crisis has likely had a significant and adverse welfare impact. Had there been no shock, Iraq's poverty headcount rate was predicted to fall from 19% in 2012 to 15% by 2014. But accounting for the two negative shocks, the analysis suggests poverty would have increased to 22.5% in 2014. This implies a crisis impact of an additional 7.5 percentage points. In addition, the

existing poor fell further below the poverty line. Thus, the estimates suggest that poverty rates are now back to their 2007 levels, an erosion of the hard-won welfare gains of the 2007 to 2012 period.

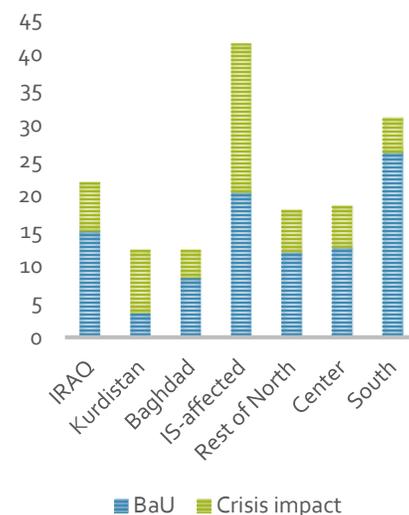
Sharp increases in poverty in KR-I and IS-affected governorates

Not surprisingly, the largest adverse impacts were experienced in the Kurdistan region and the IS-affected governorates, but for different reasons. KR-I experienced a quadrupling of poverty rates, from 3.5% under BaU to 12.5%, due to the large influx of IDPs and the increased competition for jobs, goods and services. In the IS-affected governorates, the direct impact of economic, social and security disruptions is estimated to have doubled poverty rates to 41.2 percent under the crisis scenario. While the effects were smaller in the rest of Iraq, poverty increased everywhere. Especially in the South, where poverty rates have always been high, the macro level shocks have further increased estimated poverty rates to above 30 percent.

While the twin crises are not predicted to increase inequality (on average) at the national level, estimates suggest an increase in inequality in Kurdistan, Baghdad and the IS-affected governorates.

Poverty headcount rates			
	2014		Impact
	BaU	Crisis	
Iraq	15	22.5	7.5
Kurdistan	3.5	12.5	9
Baghdad	8.5	12.8	4.4
IS-affected	20.5	41.2	20.6
Rest-North	12.1	17.7	5.6
Centre	12.7	18.6	5.8
South	26.1	31.5	5.5

POVERTY HEADCOUNT RATES, BAU VERSUS CRISIS, IRAQ 2014



CRISIS IMPACT: A NEW CLASS OF POOR

The analysis also distinguishes between the “new poor”, households who fell below the poverty line as a result of the twin crises; and the “existing poor”, i.e., households who would have been poor in the BaU scenario and who continue to live below the poverty line in the crisis scenario.

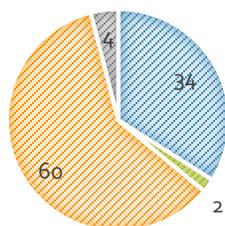
2.8 million people fell into poverty due to the crisis

Of Iraq’s estimated 8 million poor in the 2014 crisis scenario, 36% are “new poor”. These households, who would not have been poor in the BaU scenario, suffered more than a 40% decline in per capita consumption and more than 50% decline in per capita incomes due to the crisis. This was almost entirely driven by a large fall in labor incomes. The demographic characteristics of these households lie between the “existing poor” and the average, which also suggests that these households fell from closer to the middle of the distribution to below the poverty line.

That being said, the majority of Iraq’s 8 million poor people in the 2014 crisis comprise of households who were already below the poverty line, and fell deeper into poverty.

OF IRAQ'S 8 MILLION POOR PEOPLE IN THE 2014 CRISIS SCENARIO...

- New poor
- Existing poor
- IDP new poor
- IDP existing poor



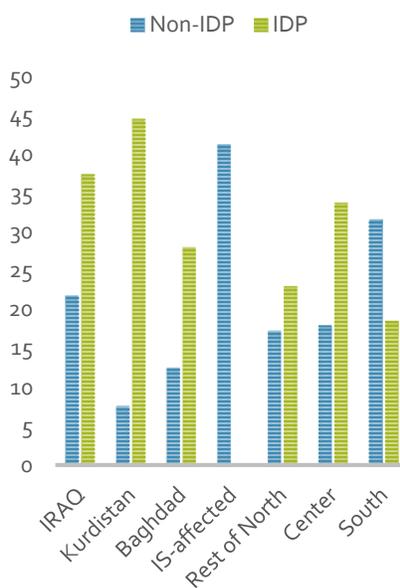
CRISIS IMPACT: INTERNALLY DISPLACED PEOPLE

The wave of internally displaced people who crossed governorate boundaries make up 1.3 million of the 2.1 million IDPs in 2014. While the analysis only accounts for IDPs who moved out of their governorate of origin, it does suggest a large welfare shock for this population with per capita consumption falling by a fifth in the crisis scenario relative to the BaU scenario, and with larger effects on incomes.

4 in 10 IDPs are poor

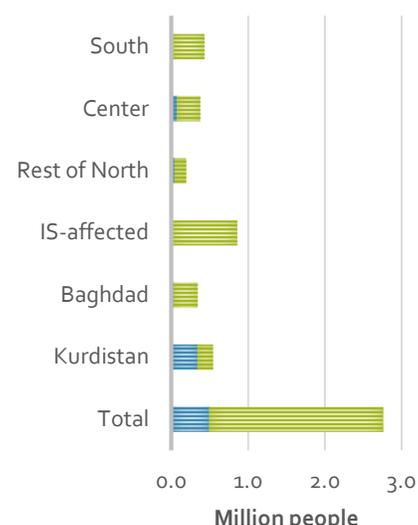
The sharp decline in incomes among this group was reinforced by the loss of assets and housing, implying a significant increase in poverty among the households who became IDPs as a result of the crisis – from 23% in BaU to 38% in crisis. In other words, 4 out of 10 IDPs are now poor. This estimate excludes displacement within governorate boundaries, and is therefore a lower bound.

POVERTY HEADCOUNT RATES, 2014 CRISIS SCENARIO, IDPS VERSUS NON-IDPS



Overall, IDPs alone account for half a million of the additional or “new poor” of Iraq – people who fell into poverty as a result of the crisis. This 20 percent increase in the poor accounts for 2.8 million additional poor people. However, the share of the IDPs in these “new poor” varies significantly across Iraq, making up 62 percent of the “new poor” in the Kurdistan region. On the other hand, IDPs make up only 2 percent of the additional poor in the South, where the crisis impact has been largely through the macroeconomic shocks.

OF THE ADDITIONAL 2.8 MILLION POOR IRAQIS...



This note summarizes the findings of work undertaken by the World Bank in collaboration with the Ministry of Planning and Central Statistical Organization, Iraq and the Kurdistan Region Statistics Office. More details are available in the technical note: “Losing the Gains of the Past: The Welfare and Distributional Impacts of the Twin Crises of 2014 in Iraq – A Micro simulation Approach”, World Bank 2015.