

Strengthening Economic Transformation in Iraq (SET)

The challenge

Iraq's economy is highly reliant on oil. It has suffered from two decades of conflict as well as the impact of the COVID-19 pandemic. After experiencing an oil price-driven growth spurt with a GDP growth rate of 7.0% in 2022, the economy was expected to contract by 1.0% again in 2023, as oil prices fell. According to its ministerial programme, the Iraqi government wants to reduce its dependence on oil drastically, yet faces considerable challenges to do so. In 2022, the oil sector accounted for 61% of GDP and thus, was the main source of government revenues, making the public budget highly vulnerable to oil price fluctuations. The revenues finance a large public sector that accounts for about 38% of employment. This leaves little room for structural reforms and investments for a sustainable economic transformation.

With an annual population growth of 2.4%, about one million young people enter the labour market every year. According to the World Bank, the economic conditions in Iraq are currently not conducive to creating enough new jobs, especially in the private sector. Iraq's labour force participation rate stands at 39.5% and the official general unemployment rate is comparatively high at 16.5%, especially for women (28.2%) and youth (25.8%). The country is already highly impacted by the effects of climate change such as increasing water scarcity and droughts, which burden agriculture as well as other economic sectors.

Although Iraq has suffered from unrest due to economic grievances in the past, especially from discontented youth, the current government has provided a sense of stabilisation. However, vested interests, ongoing political disputes as well as corruption-prone structures make long-term economic planning and the implementation of necessary reforms towards an economic transformation a challenge.

Project name	Strengthening Economic Transformation in Iraq (SET)
Commissioned by	German Federal Ministry for Economic Cooperation and Development (BMZ)
Project region	Baghdad, Basra and Erbil
Volume	15 Mio EUR
Lead executing agency	Deutsche Gesellschaft für Internationale Zusammenarbeit
Duration	01/2024-12/2026

Recent measures

SET is a follow-up module to the previous Private Sector Development & Employment Promotion (PSD) Project, which was jointly funded by the BMZ and the European Union.

PSD aimed at improving the economic conditions for a growth-oriented business and investment climate. To this end, the project supported reforms such as the revision of the company law and the development of the draft renewable energy law in central Iraq. Its approaches included the involvement of representative organisations of the private sector, enabling them to participate in economic policy-making processes more constructively.

In addition, PSD worked on improving the employment prospects of Iraqi youth, supporting governmental and private institutions to provide training and job placement services for job seekers. Around 12,500 young people, 4,900 of them women, were supported and successfully placed in dependent or self-employed jobs. To increase the capacities of companies to identify and hire qualified personnel, services for small- and medium-sized enterprises were developed in cooperation with chambers and associations, creating more than 800 new jobs, 270 filled by women.

SET will consolidate and build upon these results.



L. to r.: Data Management Workshop & Installation of Solar Modules in Baghdad Photovoltaics Training Centre

Our approach

SET aims to help build the capacities of partners for the development and implementation of necessary reforms for an economic transformation. In addition, it will work to support labour market structures to be more needs-oriented and work with chambers and associations to anchor sustainable business development services.

The overarching objective of SET is to strengthen the economic policy framework conditions for a socially, ecologically and economically sustainable transformation of the economy in Iraq. It will work on four outputs:

- **Output 1** aims at supporting evidence-based economic policy-making processes in Iraq (including KRI). To this end, the project will support government institutions and private organisations in preparing analyses and implementation plans for improving the economic policy framework, including complementary capacity development measures.
- **Output 2** will work to improve the representation of the interests of the private sector in political decision-making processes. To this end, the project will work with chambers and associations to establish mechanisms for involving their member companies to systematically record and communicate the interests and needs of the private sector.
- **Output 3** will improve access to advisory services for socially, ecologically and economically sustainable business development for enterprises. The project will build the capacities of providers such as chambers and associations to offer services for micro-, small- and medium-sized enterprises independently and promote economic transformation.
- **Output 4** will strengthen the effectiveness and needs-orientation of labour market policy instruments. The project will support employment service structures in developing, adapting and implementing relevant mechanisms. To ensure a needs-based approach, private enterprises will be included to address labour market requirements better and to support job seekers in a more targeted manner.

Objectives



Six draft laws, regulations, directives, action plans or strategies on transformative economic policy reforms have been prepared by various government agencies.



Seven proposals from private sector organisations to improve Iraq's investment and business climate have been included in government legislation, action plans and economic policy reform strategies.



250 out of 400 companies that have taken advantage of the supported advisory and service offers of chambers, associations confirm a positive development in their business activities.



1,000 out of 3,000 jobseekers, 400 of them women, are in paid or self-employed employment or a further labour market integration measure six months after participating in one of the supported employment measures.

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On behalf of Federal Ministry for Economic Cooperation and Development (BMZ)