



Chapter Title: Introduction

Book Title: An Assessment of the Present and Future Labor Market in the Kurdistan Region—Iraq

Book Subtitle: Implications for Policies to Increase Private-Sector Employment

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Introduction

Background

The Kurdistan Region–Iraq (KRI) is developing rapidly. Fueled by its natural resource wealth, the economy is growing especially in infrastructure and services. Although a large share of the economy remains in the government sector, the Kurdistan Regional Government (KRG) has been promoting a larger role for the private sector. To develop a private sector that can further fuel and sustain this economic growth, KRG policymakers will need to take steps to develop a more robust labor market that can supply the necessary skills. This study addresses the issue of how the KRG can promote a labor market that is responsive to the needs of the private sector.

To develop a more robust private-sector labor market, three broad goals must be reached. First, job-seekers will need to acquire the necessary skills that meet employer demand and that can be deployed on the job readily. Second, employers should be able to make job-seekers aware of jobs and should be able to find the employees who possess the needed skills. Third, government policies should create an enabling environment in which the best matches between job-seekers and employers can be made.

This study provides necessary inputs toward improving the KRG's labor-market policies and the matches between job-seekers and employers. First, it estimates the likely number and education levels of new job-seekers through 2020. The composition of the KRI labor force is likely to change. The kindergarten through grade 12 (K–12) education system has seen tremendous expansion in recent years. Enrollment is increasing because of population growth but also as demand rises for basic (grades 1–9) and secondary (grades 10–12) education. Furthermore, the KRG has mandated education through grade 9, rather than through grade 6, as was the case before this reform, and so it is likely that more people will stay in school and complete at least a basic education. Accompanying this growth in K–12 education is increasing demand for postsecondary education, as evident by the rapid expansion of enrollment in both two-year and four-year postsecondary institutions. These trends have implications for the preparation of labor-market entrants as well as the type of jobs they might be searching for.

Second, this study conducts an original, scientific survey of employers to learn about labor demand. The survey elicits employer perceptions of the KRI labor force, including areas of perceived weakness. It also tries to understand employer hiring practices and the extent to which employers look outside the KRI to fill their demand for labor and the reasons for doing so. The survey also solicits from employers their views about the most important skills that

prospective employees should possess. These are the skills toward which education and training institutions will ultimately need to orient their programs.

The third component of this study is an investigation of sectoral employment growth in comparison economies to identify potential growth sectors. The KRG can formulate policies to address today's labor-market needs using employer input, but it also needs to anticipate likely sector growth to identify the background and skills that employers will need in the future. This component examines the growth trajectories of comparison countries to identify the broad economic sectors and the specific manufacturing industries likely to grow in the KRI.

Finally, the fourth component of this study outlines policy steps for the government to consider, including establishing a Labor Market Information System (LMIS) to support policymaking and improve the functioning of the private-sector labor market. Through this study, we demonstrate the types of analyses that need to be undertaken to monitor the performance of the labor market. An LMIS could facilitate this activity by compiling data, developing an in-house capability to analyze the data, and regularly disseminating data and indicators for use by policymakers and others.

Well-functioning private-sector labor markets also strongly benefit from broader government policies, such as those related to business regulation, financial markets, and the legal system. Although we did not examine these issues within the scope of this study, we recognize that the labor-market policies we discuss are linked to broader policy actions and therefore constitute a useful but not complete program for improving the private-sector labor market. Other steps are described more fully in other research that the RAND Corporation has completed for the KRG (Hansen et al., 2011). Even in the absence of other reforms, however, the data collection and analysis and skill development policy directions discussed in this report will contribute to better labor-market performance.

Data and Methods

We relied on a number of data sources in this study.

- **Ministry of Education (MOE) enrollment data for basic and secondary grades.** We used MOE enrollment data from the 2004–2005 academic year to the 2009–2010 academic year and projected enrollment growth from earlier work (Vernez, Culbertson, and Constant, 2012) to estimate the number of people leaving the system at grade 9 and grade 12 and therefore available to join the labor market.
- **Ministry of Higher Education and Scientific Research (MOHESR) enrollment data for all public higher-education institutions in the KRI.** We used the MOHESR aggregate enrollment data from academic year 2006–2007 to academic year 2011–2012 to calculate transition rates from one year to the next and then applied those transition rates to our MOE projected enrollment through 2020 to develop estimated labor-market entrants from two-year technical institutes and four-year universities. We used detailed enrollment data by department discipline from academic year 2008–2009 to academic year 2011–2012 to develop shorter-term projections of the number of people with specific disciplinary training leaving the system to potentially enter the labor market.
- **Kurdistan Region Labor Force Survey (KRLFS 2012).** In 2012, in cooperation with RAND, the Kurdistan Region Statistics Office (KRSO) fielded a new labor force survey,

with plans to field the survey quarterly (Kurdistan Region Statistics Office, 2012). We used this recently completed household survey to examine labor-force participation rates, labor-force education levels, and employment patterns.

- **Iraq Household Socio-Economic Survey 2007 (IHSES, 2007) (Central Organization for Statistics and Information Technology, Kurdistan Region Statistics Organization, and World Bank, 2008).** We used this household survey to supplement the data from the KRLFS on labor-force participation rates, labor-force education levels, and employment patterns.
- **The RAND Survey of Business Establishments 2012 (the RAND Skills Survey, RAND Corporation, 2012).** In cooperation with our colleagues from the RAND-KRG education research team, we conducted a survey of 360 business establishments in Duhok, Erbil, and Sulaimaniya to ask employers about their hiring practices, perceptions of the local labor force, and skills needed. RAND designed the survey, including the survey instrument and the sampling strategy. The survey was fielded by ASHARQ Co. Ltd., a survey firm based in Baghdad, Iraq. The KRSO and ASHARQ also provided valuable input into the contents of the survey and the sampling strategy (see Appendix A for the survey and Appendix B for details about the sampling strategy). Results presented in this report use governorate and sector-based sampling weights calculated using the KRSO's enumeration of housing and business establishments—an enumeration of all households and business establishments conducted in 2009 in preparation for a planned Iraq-wide census. To incorporate sampling weights to account for the different sizes of the firms interviewed, we extracted information from the World Bank Enterprise Survey, a multiyear, cross-national survey of business establishments.
- **Interviews with officials in the government, private sector, and universities.** RAND researchers have met with a variety of government officials, private business people, and representatives of education and training institutions since February 2010. We interviewed business representatives from all three governorates within the KRI representing a variety of industries, including construction, manufacturing, transport, infrastructure, services, tourism, finance, and information and communications technology. We spoke with small family-run companies as well as large international companies and included long-established companies as well as new companies. The interviews of government and university officials provided us with information on current and planned initiatives to align the supply of graduates with private-sector demand. The interviews with business people provided us with rich qualitative data about employers' perceptions of the local labor force—their assessment of the skill gaps and areas of main concern.
- **Existing secondary datasets.** To understand potential scenarios for sector employment growth in the KRI, we drew on data about other countries from the World Bank; the International Monetary Fund; the Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania; the Organisation for Economic Cooperation and Development; and the International Labour Organization (ILO).
- **Document review.** We reviewed documents obtained from the KRI as well as the international policy and research literature on trends in the supply of occupations and skills, employer demand for skills, and use of an LMIS to guide policymaking.

Organization of the Report

In Chapter Two, we examine projected labor supply. We discuss the education levels of anticipated labor-market entrants and compare those to the current labor-force composition. In Chapter Three, we review our findings about employer perceptions of the local labor force, skill gaps, and hiring plans. In Chapter Four, we examine scenarios for future sectoral employment growth based on historical evidence in comparison economies. In Chapter Five, we review LMISs and their role in labor market analysis. We present our conclusions and recommendations in Chapter Six, the final chapter. In Appendix A, we provide the RAND Skills Survey, and in Appendix B, we provide technical details about the sampling strategy for the survey.