PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.: AB2110

Project Name	Emergency Social Protection Project
Region	MIDDLE EAST AND NORTH AFRICA
Sector	Compulsory pension and unemployment insurance (50%);Other social services (50%)
Project ID	P099295
Borrower(s)	MINISTRY OF LABOR AND SOCIAL AFFAIRS
Implementing Agency	MINISTRY OF LABOR AND SOCIAL AFFAIRS
Environment Category	[ ] A [ ] B [X] C [ ] FI [ ] TBD (to be determined)
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1. Introduction

Beginning in late August 2005, the Interim Government adopted an ambitious reform-focused fiscal strategy including, *inter alia*, reducing some commodity subsidies, particularly relating to petroleum products and strengthening the social safety net in order to offset the impact of future price increases on the poor.

In part to counter the effects of higher prices on the poor, the Government has allocated ID 500 billion (US$330 million) in 2006 to strengthen the existing targeted cash-based safety net program administered by the Ministry of Labor and Social Affairs. Resources for the program will come from a reduction in the Public Distribution System budget, the nation's primary social safety net providing universal in-kind food transfers. Savings are expected primarily through improved administrative control over procurement. The reduction also signals a longer-term shift away from in-kind subsidies toward targeted cash transfer assistance mechanisms.

A parallel and related development involves pension policy. Since the Government introduced "flat" pension payments in 2003 to compensate for the relatively low pensions to which individuals were entitled, according to the law, these payments have now fallen below the level of regular pensions. Interest groups, mostly civil servants, have pressed for a return to the old pension law. Doing so, however, would increase pension payments across the board - by some estimates doubling expenditures. These expenditures would not go to the poorest in Iraq, and would tie up resources that could be used for alternative investments that are more productive. The mandatory pension system is accumulating large and unsustainable pension liabilities. The Government therefore has a strong interest in designing and implementing a new pension system that achieves the following objectives: (i) provides adequate and affordable benefits taking into account the demands of different population groups; (ii) is financially self-sustainable; (iii) is administratively and economically efficient; (iv) allows for transparent and progressive redistribution; and (v) supports economic growth and job creation.

1.1 Key Issues

Reform of subsidies and pensions has potentially huge consequences for the poor. How alternative safety net mechanisms and pensions are designed and implemented will be critical to the success of the overall economic reform effort in Iraq, both in welfare and political economy terms.

The existing information base is insufficient to support social protection policy reforms. Designing safety nets and pensions systems that meet basic norms in terms of efficiency, equity and financial sustainability requires detailed information on program costs and beneficiaries. Unfortunately, information systems in Iraq are severely underdeveloped. There is currently no comprehensive database of safety net program recipients nor of contributors to and beneficiaries of the pension system.

Cash-based safety nets have been small and not well-targeted to the poorest. The dominant safety net in Iraq is the Public Distribution System, accounting for more than 14 percent of GDP in 2005. As a universal subsidy, the PDS is likely to benefit the richer segments of society more than the poor in relative terms. Other safety nets, including the cash-transfer based mechanisms administered by MOLSA, are small in comparison, roughly 2 percent of GDP. Additional programs include: (i) cash transfers of ID 375 billion provided to the approximately 300,000 demobilized military personnel under the Demobilization and Reintegration Program; (ii) Family Allowances, given as a monthly cash transfer, regardless of family size, to those unable to work, including those with children[1]; and (iii) in-kind assistance provided to about 6,300 individuals, primarily through approximately 130 facilities maintained by MOLSA, including orphanages, institutes for the disabled, cooperative workshops and homes for the elderly. By June 2005, only about 157,500 families were receiving cash transfers from MOLSA's Family Allowance Program, versus an estimated need to reach some 800,000 families. In the context of scaling up the Family Allowance program, MOLSA has revised the payment structure of the program with technical assistance from USAID, with an expectation that over 1 million families would receive benefits by the end of 2006. However, targeting criteria have not fundamentally changed and there has been no assessment of how MOLSA will cope with the enlarged administrative burden.

The current pension system is financially unsustainable, benefit formulas and eligibility conditions do not respect basic norms in terms of design, and coverage is limited. Iraq has two earning related pension systems (one for civil servants and one for private sector workers) covering approximately 15 percent of the labor force. Beginning in April 2003, the Coalition Provision Authority replaced regular pensions with emergency "flat" payments to cope with the depreciation of the Iraqi Dinar and resolve problems related to individual records that emerged following the armed conflict. Flat payments are estimated to cost around 5 percent of GDP, among the highest level in the region, and are being financed from the general budget. The Government is now under pressure to phase-out the flat payments and to revert to the old benefit formulas which, given recent increase in wages, would now generate higher pensions. However, reinstating the old pension formulas per se is not a feasible option in the long run.[2] Indeed, the old system faces several problems in terms of design that compromise financial sustainability, damage incentives, and open the door to adverse distributional transfers. In a recent policy note, the Bank advised that the Government continue with the flat payments, until new rules that meet minimum design standards are in place. Unfortunately, the Transitional National Assembly recently passed a Law reintroducing the old benefit formulas. Because the budget cannot accommodate the resulting increase in pension

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[1] The transfer was provided to about 113,000 families in 2004, while conservative estimates have put the number of needy families at more than 850,000.[1];

[2] These issues and recommendations have been identified and discussed at large in the grey cover social protection report that the World Bank to the Iraqi Government in July, 2005.

expenditures, it is unclear whether the new Law will be implemented. This opens a window of opportunity to prepare an alternative pension Law that respects best practices in terms of design.

Administrative and institutional capacity to implement reforms is weak. Despite strong efforts to provide services and assistance under extremely difficult conditions, the lack of institutional capacity remains a major weakness. The Ministry of Labor and Social Affairs has only recently begun to reassert its position as the lead institution for government-provided social protection policy and services. Administration and management of programs must be strengthened, along with the capacity to analyze and develop sector policy. Facilities and other infrastructure are insufficient to support a major scaling up of services, despite assistance from donors.

1.2. Rationale for Bank Involvement

The World Bank is responding to a direct request from the Minister of Labor and Social Affairs in October 2005 and followed up by an official letter in January, 2006, for support in social safety net and pension reform design and implementation processes within the context of the Government's Medium-Term Poverty Reduction strategy. The Bank has been engaged with the Government and the Ministry in particular over the past 18 months in providing technical assistance and capacity building on social protection. This has included a policy note on social protection, covering safety net, labor market, and pension issues, together with a series of policy workshops involving major stakeholders within government (Ministry of Finance, Ministry of Planning, Ministry of Defense and others) as well as international donors. In addition, the Bank is supporting the preparation of a social protection strategy under the direction of MOLSA with inputs from other government stakeholders. The request for more in-depth support in safety nets and pensions is therefore a natural extension of the ongoing relationship. And strengthening social safety net and pension reform design and implementation processes will contribute directly to helping the Government implement its Medium-Term Poverty Reduction strategy. In addition the proposed project will complement the Strengthening Policy Making project also under preparation by the Bank. The SPM project will involve a multi agency effort on the GOI side supported by a joint MNSED/HD/RE/IF group to produce a poverty reduction, employment and SSN strategy as an output. In contrast, this proposed project will focus on building technical capacity within the MOLSA so that MOLSA can contribute to the development of the overall SSN strategy and to making operational the new programs for which it is responsible.

The Bank has a comparative advantage relative to other donor institutions in social protection, given both the ongoing Iraq involvement and the program experience accrued in a variety of country settings in and outside of the region. Economic sector work and projects in safety nets have been carried out in most countries in MENA, including difficult post-conflict settings such as the West Bank and Gaza. Pension assistance has been provided to these same countries, typically involving design and assessment of reform options. Experience from outside the region will also inform the capacity building and advice, customized to the Iraq context and in partnership with the Government.

The proposed project is fully consistent with the World Bank Second Interim Strategy Note for Iraq that was approved in September 2005. Its two components address three of the Second ISN's four pillars: restoring basic service delivery (Pillar 1), strengthening the social safety nets (Pillar 3) and public sector governance (pillar 4).

Finally, the World Bank is one of the few donors that finance recipient-executed projects. The vast majority of donor-financed projects in Iraq have been implemented by the donor agencies, consulting firms or NGOs on behalf of the Government. A major benefit of recipient execution, apart from greater ownership and sustainability, is the institutional capacity building that is developed through project implementation.

2. Proposed objective(s)

The overall objective of the proposed project is to strengthen the policy, management and administrative capacity in the Ministry of Labor and Social Affairs to develop, manage, and monitor pension and social safety net reforms.

Specifically, the project aims to achieve the following outcomes:

- Establishment of a basic information system within MOLSA to record and process information on safety nets as a foundation for policy design.
- An updated and digitized database on beneficiaries, contributors and employers of the pension system.
- Consolidation and expansion of the information base for direct cash-transfers managed by MOLSA to allow for development of targeting strategies.
- Building of technical capacity within MOLSA and MOF for policy analysis and design in the area of pensions and safety nets.
- Design and implementation of a monitoring and evaluation system for the reformed Family Allowance safety net program.
- Development of a public awareness campaign for safety nets and pension reform.
- Development of a draft pension reform strategy.

Due to financing and implementation constraints, the project would provide support only to those activities that are most feasible and that would yield the best results in the current country context, as assessed during project preparation and appraisal.

3. Preliminary description

The proposed project will support two areas of social protection – safety nets and pensions – and will comprise three components.

Component 1: **Safety Nets. (Estimated cost US$ 2.7 million)** This component will have two subcomponents:

Subcomponent A: Information Systems Development. This subcomponent will provide technical assistance to: establish a basic information infrastructure within MOLSA, including the development of a statistical database for its social safety net programs, with relevant information on applicants and recipients of benefits. In addition, support will be provided to develop a basic monitoring and evaluation system. Specifically, the project will support: (i) assessment of IT needs and establishment of a local area network; including purchase of IT equipment, software, and basic office equipment and supplies; and (ii) training of selected staff in basic computer skills and database management.

Subcomponent B: Institutional Capacity Building for Safety Nets Policy Development. This subcomponent will focus on four areas of safety nets policy: (i) monitoring and evaluation systems; (ii) sustainable safety net program designs that can replace generalized subsidies; (iii) targeting and eligibility options; and (iv) human resource management. Activities would include technical assistance and training for MOLSA staff inside Iraq as well as in other countries within and beyond the region to acquire the skills that are needed. A final element will assist in the development of a public awareness and outreach campaign for social protection reforms stressing safety nets.

Component 2: **Pensions. (Estimated cost US$2.7 million)** This component will have two subcomponents:

Subcomponent A: Preparation of baseline information and IT support for policy analysis. This subcomponent will include: (i) conducting a representative survey of beneficiaries, contributors and employers to update pension records; (ii) providing basic IT technologies to support management, policy analysis, and secure pension records; and (iii) conducting a basic survey of current administrative processes (collection, reporting, record keeping, and benefit payment).

Subcomponent B: Institutional Capacity Building for Pension Policy Development. This subcomponent will provide technical assistance and training to improve the capacity of MOLSA and MOF staff in the following areas of pension policy: (i) evaluation of system design (including assessment of financial sustainability and fiscal implications); (ii) pension system management and administration; and (iii) pension reform design for public mandatory systems, including the preparation of a draft strategy for pension reform and the assessment of fiscal and welfare implications of the reform. Activities would include consultant studies and training for selected staff from MOLSA and MOF in pension design and financial modeling, including study visits for officials to gain exposure to relevant models of pension reform adopted by other countries.

Component 3: **Project Management (estimated cost US$ 0.6 million).** The objective of this component is to set-up a Project Management Team (PMT) within MOLSA to manage and monitor the proposed project. The staff of the PMT will consist of: a director, a safety nets policy advisor, a pension policy advisor, an IT specialist, a procurement specialist, a financial management specialist, an executive secretary, and administrative support. Technical assistance and training will be given to staff for their respective functions in the team.

4. Safeguard policies that might apply

Not Applicable

5. Tentative financing

Source:		($m.)
BORROWER		0
SPECIAL FINANCING		6
	Total	6

6. Contact point

Contact: David J. Steel
Title: Lead Operations Officer
Tel: (202) 473-2522
Fax: (202) 477-0036
Email: Dsteel@worldbank.org