

# **World Bank Iraq Trust Fund**

Update to IRFFI Donor Committee  
Naples, Italy – February 18, 2009

## **Pension Reform Implementation Support Technical Assistance Project**

### **I. BACKGROUND & KEY DEVELOPMENT ISSUES**

1. The Unified Pension Law (Law 27/2006 and related amendments) was enacted in December 2007. Under the new law, a National Board of Pensions (NBP) has been established as the unifying body of the mandatory pension schemes. The NBP includes the Pension Directorate of the Ministry of Finance (MOF), which previously administered the State Pension System. A State Pension Fund (SPF) is to be established to provide pension benefits to public sector workers retiring on or after January 17, 2006. The SPF is an administrative unit under the umbrella of the NBP. Furthermore, the existing Social Security System (SSS), the private sector pension scheme currently under the Ministry of Labor and Social Affairs, is to be transferred to the authority of the National Board of Pensions. This envisioned merger is desirable as it aims to alleviate labor market segmentation along the public/private divide.

2. Reinstating the functionality of the pension system in Iraq was a first order priority of the reconstruction efforts. The Government of Iraq adopted Law 27 in December 2005, which redesigned public sector pension provision. Unfortunately, the adopted design was not in line with the generally accepted design features of “good practice” defined benefit (DB) pension schemes. If Law 27/2006 was implemented in its initial form it would have required government subsidies equivalent to 60 percent of GDP for the period 2007-2020. Beyond the considerations of affordability and financial sustainability, the system imposed disincentives towards work effort and the nontransparent mechanism also suffered from undesirable equity issues.

### **II. STRATEGIC CONTEXT AND DONOR COORDINATION**

3. The World Bank provides support in social safety net and pension reform to help Iraq meet the needs of vulnerable populations, through the Iraq Trust Fund financed Emergency Social Protection Project. The World Bank has been working closely with USAID on helping Iraq modernize and strengthen its social safety net systems and institutions, and will continue to collaborate and share information with USAID and other interested development partners.

### **III. RATIONALE FOR WORLD BANK INVOLVEMENT**

4. The Government of Iraq (GOI) formally requested technical assistance from the World Bank in the area of pension reform implementation. The main directions of World Bank support were mutually agreed through a series of workshops held between January and November 2008, which provided the framework for the technical assistance program to be initiated under this proposed project.

5. The World Bank has been involved in pension policy development in Iraq since the early stages of the Iraqi reconstruction efforts and has identified the massive risks that the implementation of the Unified Pension Law would have created had it been implemented in its initial form. The World Bank policy note “Pensions in Iraq: Improving Financial Sustainability, Efficiency and Equity in the Iraqi Pension System: A Concept for Reform”, contributed to the agreement between the GOI and donors (IMF, USAID and the World Bank) to suspend the implementation of Law 27/2006 until a significant amendment improving the design takes place. The World Bank has extensive experience in providing pension reform support, with pension work in over 50 countries, ranging from technical assistance to sector work to full lending projects.

6. The World Bank has also been involved in administrative capacity building efforts in the field of pensions on a limited basis, through the Emergency Social Protection Project (ESPP), which is financed by the Iraq Trust Fund (ITF). The ESPP aimed to reinstate and improve the capacities of the Ministry of Finance and the Ministry of Labor and Social Affairs to carry out crucial administrative and policy roles in social protection, to include the areas of social safety nets and pensions. Since 2006, the pension component of ESPP has contributed to building capacity through training and the provision of IT equipment. In addition, the ESPP includes a small pensions component which is designed to improve the reliability of pension policy decisions through making the necessary data available for actuarial projections. In particular, beneficiary and contributor surveys are being conducted as part of the ESPP activities.

#### **IV. PROPOSED PROJECT DEVELOPMENT OBJECTIVE**

7. The project aims to help the National Board of Pensions (NBP) develop full capacity to implement the provisions of the Unified Pension Law, undertake long-term analysis for pension policy analysis, and develop long-term old-age income protection strategies for Iraq. The proposed project builds on the work started through the ESPP, and would begin to address the short-medium and long-term objectives for pension reform implementation in Iraq. The short-term activities will focus on helping the authorities implement the Unified Pension Law and build the institutional capacity of the NBP to implement the Law in a sustainable manner. The medium-term objectives will focus on helping the GOI unify the policies and rules of the private and public sector pension schemes, as well as providing support to the associated administrative merger. The long-term objectives of the proposed program will be to help the GOI develop a long-term old-age income security strategy for Iraq with a focus on the expansion of social insurance coverage.

#### **V. PROJECT DESCRIPTION**

8. The project will be organized along five main components, and prioritized to ensure immediate support to short-term implementation requirements of the Unified Pension Law while building the institutional capacity of the NBP. The project components and implementation arrangements are outlined below:

- i) ***Develop Implementation Capacity to Implement the Unified Pension Law:*** Aims to help the GOI: (i) build the institutional capacity of the NBP to implement the provisions of the Unified Pension law; (ii) implement a human resource development plan for the NBP; (iii) develop a system for contribution management for the SPF; (iv) design of a pension administration information system and provide technical assistance for systems acquisition; (v) develop prudent investment policy and management procedures for the SPF; and (vi) design a public relations campaign.
- ii) ***Develop Actuarial and Pension Policy Analysis Capacity for the SPF:*** Aims to help the GOI: (i) develop the SPF organizational unit responsible for pension policy and actuarial analysis; and (ii) provide training to a core group of staff in this unit to undertake policy analysis.
- iii) ***Improve the Physical Infrastructure of the NBP:*** Support will be provided to undertake an audit of the physical infrastructure of the NBP offices in Baghdad and in the governorates. Resulting civil work requirements, including building a new NBP headquarters, will be financed by GOI.
- iv) ***Unify Mandatory Pension Provisions in Iraq:*** Support will be provided to: (i) discontinue the segmentation of the labor force across the public and private sectors; (ii) harmonize policies and rules between the public and private schemes; and (iii) assist in the administrative merger of the SSS under the NBP, as mandated to take place by January 1, 2010.

- v) ***Develop Long-Term National Old-Age Income Protection Strategy for Iraq***: Technical assistance will be provided to develop a long-term old-age income security strategy for Iraq with a focus on the expansion of social insurance coverage which will take into account the expected development path of Iraq and envision how the sources of old-age income could be diversified in the future within and beyond the mandatory pension scheme.

9. At the request of the MOF, the technical assistance will be implemented by the World Bank, in close coordination with the National Board of Pensions and the Ministry of Finance. While the World Bank will provide key technical assistance inputs, the GOI intends to provide financial support for key investments. This is expected to include GOI financing to: (i) acquire the pension administration information system; (ii) recruit over 50 new and qualified staff; (iii) launch a public relations campaign; and (iv) improve the physical infrastructure of NBP headquarters and regional offices. In addition, the technical assistance is designed specifically to build the institutional capacity of the NBP through extensive training to ensure sustainability during the project and following completion.

10. Project implementation will focus on:

- Providing specific implementation support tied to the provisions of the Unified Pension Law, as opposed to general capacity building workshops;
- Building institutions through helping the authorities develop NBP guidelines, regulations, and human resource development activities;
- Helping the GOI determine the capital investment requirements to be financed through its own financial resources.

11. The project will finance a full-time experienced project manager to allow for continuous engagement in project implementation and management, and a full-time national staff in Baghdad to provide "on-the-ground" support. Project reviews will be undertaken by the World Bank task team, to include possible missions to Baghdad (dependent on management and security clearance) for implementation-related capacity building events. The World Bank, as requested by the GOI, may also provide assistance to support donor coordination as needed.

## **VI. STATUS OF PROJECT AND TIMELINE FOR APPROVAL**

12. The project has been fully designed with active participation of the relevant GOI officials. The total financial requirements are estimated at US\$6.2 million, and the project duration is expected to be about three years. The Project Concept Note is being prepared for World Bank management review; concurrently, MOF is expected to seek approval of the Iraqi Strategic Review Board for the project. The project launch could be underway by June 2009.