



Kurdistan Regional  
Government

# Social Protection Strategic Framework

A TIME FOR REFORM

MAY 2016



# FOREWORD

“Putting People First”. This is how we start our Vision 2020 document for KRG. Our region is rich in resources – agricultural land, archaeological sites, minerals, gas, oil, and water. But our most valuable resource is our people. Our people deserve the best education and the best health. More importantly, our people deserve the best social protection.

Reforming our social protection system has become necessary in order to protect our Region from the oil price crisis, while creating a more competitive economy and improving our services. Our existing system is not aligned with our Vision 2020, where we promise to protect the poor and vulnerable population through social insurance and safety nets, and creating job opportunities for our youth.

The following are the challenges in our existing social protection system:

- Very high public spending on wages and transfers overall. Employment in the public sector is one of the largest in the world (accounting for 11.5 percent of the total population).
- A very low female labor participation rate (11 percent) and high numbers of educated unemployed especially amongst women.
- Very high spending on pensions (about IQD 1.2 trillion per year, or 4.5 percent of non-oil GDP), however more than 80 percent of the labor force in the private sector are not covered by a pension scheme, and 50 percent of people above 65 years old do not have a pension salary.
- High spending on cash transfers to various categories (1.3 percent of non-oil GDP), but most of the money does not go to the poor (only 11 percent of the poorest receive the cash transfer)

This new Social Protection Strategy ensures that the right policies are developed and appropriately implemented to address the main weaknesses and areas for improvement in the existing system. It is one of the pillars to support the economic reforms needed to steer our region from this crisis. The Strategy is designed to address specific areas that emerged from the assessments and consultations conducted which identified labor

market policies, social insurance, and social safety nets as the main pillars for the reform framework.

We will strengthen our labor market by:

- Improving the education and training systems, and creating market incentives to ensure an effective job supply of well-equipped job seekers and skilled workers.
- Accelerating job creation especially in the private sector.
- Relying on timely data analysis, well-designed employment policies, and constructive dialogue among the social partners

We will expand our pension and social insurance system by:

- Integrating public, private, and other pension schemes to ensure everyone has access to social insurance regardless where they work.
- Developing Unemployment Insurance program to ensure those who lose their jobs have temporary support.

We will improve our Social Safety Net by:

- Using poverty as a main determinant of eligibility for Social Safety Net Programs.
- Providing effective social care to protect vulnerable and disadvantaged groups

The Strategy is a long term one for KRG. It will put in systems that could address current and future shocks that may affect our region. It will take five to ten years to implement all the reforms but we are starting this year with reviewing and updating our laws, and strengthening the ministries' capacity. We will implement all these reforms engaging all those impacted by them.

Our goal is to create opportunities for our youth, build residence to protect the vulnerable, and ensure equity for our people. And this can only be achieved if we all work together towards that goal.

**Dr. Ali Sindi**  
*Minister of Planning*  
*Kurdistan Regional Government*

# EXECUTIVE SUMMARY

## Background

In September 2013, the KRG issued a seminal document titled “KRG Region of Iraq 2020: A Vision for the Future” (Vision 2020). This document sets out the following vision statement: **“In the KRG Region-Iraq, all people will enjoy the benefits of freedom, health, welfare, and economic security and opportunity”**. The Vision 2020 document further articulates four pillars to fulfill the vision: (i) Putting People First; (ii) Building the Region: Infrastructure; (iii) Creating an Economically Prosperous Region; and (iv) Putting Government to Work for the People.

The development of the Social Protection Strategic Framework is aligned with the KRG Vision 2020. The first pillar of the Vision 2020 encompasses principles of human development more broadly, including education and health, while also having a focus on social protection and inclusion. The third pillar of Vision 2020 sets as priority the growth of the private sector, and the fourth pillar embraces civil service reform, both having direct implications on the

public and private sector employment outcomes. The development of the Social Protection Strategic Framework thus is well aligned with existing development plans and visions for KRG.

The KRG Social Protection Strategic Framework is comprehensive in scope, encompassing the three main pillars of social protection of **Social Safety Nets; Pensions and Social Insurance; and Labor Market Programs**. The overall Framework includes a portfolio of programs that together provide Equity, Opportunity, and Resilience within a life-cycle approach. It provides a systems-oriented approach to social protection and labor programs that strengthens coordination and integration at the policy, program, and administrative levels. The portfolio of reforms will lead to new legislation, institutions, and programs to enable implementation, to be accompanied by an effective **communications strategy** that would engage, empower, and enable implementation across all stakeholders.

## Rationale

### Labor Market Policies in KRG – The Challenge of Employment

KRG faces the daunting task to increase the size and dynamism of the private sector where most future employment growth is expected to come. The **employment challenge** comes from the small size of the private sector, a fast growing labor force due to natural population growth and geopolitical events, weak policies, and fiscal constraints at the macro level. Of interest are, first at the macro level, the dominance of the energy sector as well as the volatility created

from the variation in the international price of oil; the continuing security concerns around the region and more generally in Iraq; and the dependence of the region’s public revenues on transfers from the federal budget. Second, and more directly relevant to social and labor policies issues, the urbanization rate is high. Third, KRG must be one of the very few where the share of public employment exceeds that of the private sector (53 percent to 47 percent).

The employment-to-population rate in KRG stands at 22 percent and is practically the same as the average for the non-GCC Middle East. Looked at from a household perspective, the average household has 5.9 members of whom 4.6 (60 percent) are below the age of 25, 2 (34 percent) are students, 1.3 (22 percent) are employed and 0.1 (2 percent) unemployed. The employment rate is very much affected by the **very low labor force participation rate** of working age (15-64) women at 14 percent that nevertheless rises to 17 percent if students are excluded. The current annual population growth is about 140,000 which corresponds to around 2.6 percent of the population. However, the female labor force participation rate is increasing fast, especially among educated women.

In addressing these issues, KRG can benefit from the recent reduction in fertility, the increase in the numbers of educated job-seekers – especially at post-secondary level, and the reserve “army” of the many graduates who are currently out of the labor force. Still this leaves **an extremely challenging** agenda even assuming that there will be no additional IDPs and refugees. The female labor force participation rate is increasing at a very fast rate implying that even a growth rate of the private sector of 8-10 percent will not be sufficient to stop unemployment from rising.

Furthermore, the growth rate of the education sector has been prodigious, which is manifested in the labor market, and has led to **the emergence of educated unemployment** as a potential problem for policy makers to contend with.

## Pensions & Social Insurance in KRG – Not Sustainable, Low Coverage, Inefficient

In 2014 the total pension spending in KRG was estimated to be around IQD 1.257 trillion, or 4.5 percent of non-oil GDP (or 2.8 percent of GDP when oil is included), which is high compared to other countries. More than 50 percent of the labor force in KRG is covered by the social insurance system. However, most of them are employees in the public sector. In fact, around **84 percent of the labor force in the private sector is not covered**. Also, only around 50 percent of people above the age of 65 in KRG are currently receiving a benefit from the pensions system (mostly retired public sector employees). The rest of the elderly have to rely on informal care, or public transfers as social assistance (non-contributory social safety nets).

Both social insurance schemes in KRG were designed as contributory self-financed mechanisms defined benefit system. In such a system, pensions are calculated according to a formula based on wages, and length of service. The financing mechanism of both schemes is “pay-as-you-go”, where current contributors pay for current beneficiaries. In the private sector, contribution rates from wages are 17 percent, which are 12 percent from employers, and 5 percent from employees (14 percent for pensions, 2 percent for work injury, and 1 percent for sickness and maternity). In the public sector contribution rates from wages are 19 percent which are 12 percent for employer (Government), and 7 percent for employee.

The benefit formulas for pension calculations in both sectors have high accrual rates by international standards (2.5 percent), and are based on last wages

(the three last wages in the case of the private sector scheme, and the last wage in the public sector scheme), making the schemes inequitable, and unsustainable. In addition to this, most aspects of a proper governance of social insurance, business processes and administrative systems are not in place (including collection, record-keeping and IT systems, and pay-outs). The current legislative framework for both schemes is not well defined with respect to various aspects. Basically, **the current main challenges** of the social insurance system in KRG can be summarized in four points: (i) Low administrative capacity; (ii) schemes are inequitable and financially non-sustainable; (iii) the system is fragmented, leading to distortions in the labor market between the public and the private sector; and (iv) the system suffers from low coverage in the private sector.

## Social Safety Nets in KRG – Targeting as a Main Challenge

The **category targeting** used in KRG does not consider the poverty line or the size of the household leading to high leakage. The transfer of IQD 150,000 is allocated to beneficiary household regardless of size of the household nor its status, as defined relative to the poverty line or consumption level. For this, the implementation of the current program looks vague in identifying eligible households, thus increasing considerably the risk of exclusion and inclusion errors. As for the cash transfer for disability cases, these are provided based on a medical report issued by a specialized commission. Cash transfers use broad social categories instead of more effective targeting mechanisms to determine eligibility (such as Proxy-Means Testing or geographical targeting which helps explain why the majority of the poor do not benefit from this program).

In looking at the distribution of the population of Kurdistan per quintile, and by plotting the number of beneficiaries from the cash transfer in each of the consumption quintiles, it is noticed that a considerable percentage of beneficiaries are distributed in the upper level quintiles, leaving 11.3 percent of the beneficiaries in the lowest quintile, i.e. the poorest. With 75 percent of the recipients in the highest quintiles while only 25 percent are in the lowest, poorest quintile, it is evident that the program suffers from **weak coverage and leakage of resources** to the richest portions of the population. These characteristics reflect inefficient targeting mechanisms. The situation is compounded by weak administrative capacity and very little use of effective information technology mechanisms to support the program.

## Reforms and the Policy Response

KRG has outlined an ambitious vision for reform and development in the KRG Vision 2020. The KRG SPSF supports implementation of this vision through an integrated package of strategies, legislation,

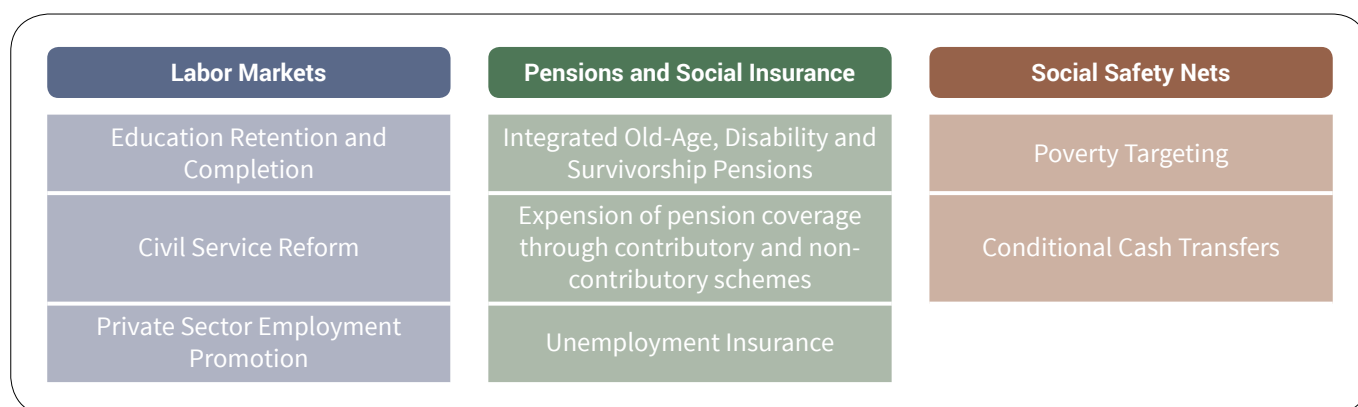
institutions, and programs. The proposed strategies align well with, and provide the mechanisms for implementation of, the KRG Vision 2020 policy priorities. The **strategies** are as follows:

Labor Markets	1	Create an effective labor supply of well-equipped job seekers and skilled workers through the education and training systems and market driven incentives
	2	Take measures to reduce the duality between employment in the public sector and private sector and thus contribute to a more dynamic private sector
	3	Develop regulatory and institutional frameworks based on timely data analysis, well-designed employment policies, and constructive dialogue among the social partners
Social Insurance	4	Implement parametric reforms to the current schemes to ensure financial sustainability and move towards integrating public, private and other (occupational) pension schemes
	5	Design and implement conventional and alternative mechanisms to expand pensions and social insurance coverage
Social Safety Nets	6	Design and implement an Unemployment Insurance program
	7	Use poverty as a main determinant of eligibility for its Social Safety Net Programs (including the PDS) and provide effective social care for vulnerable and disadvantaged groups
	8	Protect human capital by providing incentives for better health and education

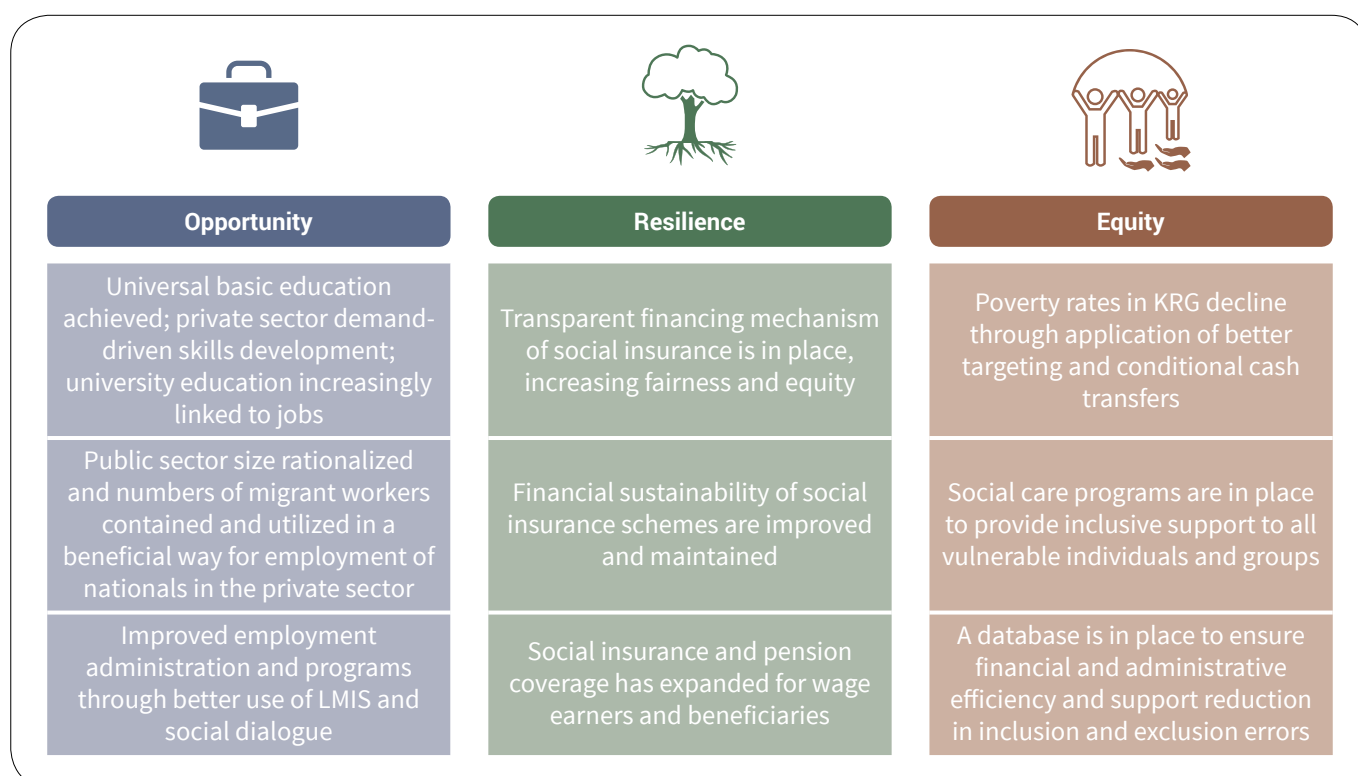
Strategies will be supported by a set of KRG enacted **legislation** to support and enable implementation through renewal of **institutions**.



Strategies are further translated to **programs** for implementation.



Leading to the **results** to be achieved by 2020.



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KRG

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# Abbreviations and Acronyms

<b>ALMP</b>	Active Labor Market Programs
<b>CCT</b>	Conditional Cash Transfer
<b>CSO</b>	Civil Society Organization
<b>DB</b>	Defined Benefit
<b>ECOSOC</b>	Economic and Social Council
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>GRM</b>	Grievance Redressing Mechanism
<b>IDP</b>	Internally Displaced Persons
<b>ICT</b>	Information and Communication Technology
<b>IQD</b>	Iraqi Dinar
<b>KRG</b>	KRG Regional Government
<b>KRSO</b>	KRG Region Statistics Office
<b>KSAI</b>	KRG Social Assistance Institution
<b>KSIA</b>	KRG Social Insurance Authority
<b>MIS</b>	Management Information System
<b>LMIS</b>	Labor Market Information System
<b>MOE</b>	Ministry of Education
<b>MOF</b>	Ministry of Finance
<b>MOH</b>	Ministry of Health
<b>MOL</b>	Ministry of Labor
<b>MOLSA</b>	Ministry of Labor & Social Affairs
<b>MOP</b>	Ministry of Planning
<b>NGO</b>	Non-Governmental Organization
<b>PAYG</b>	Pay-As-You-Go
<b>PDS</b>	Public Distribution System
<b>PMT</b>	Proxy-Means Testing
<b>UCT</b>	Unconditional Cash Transfer
<b>UI</b>	Unemployment Insurance
<b>SC</b>	Steering Committee
<b>SPSF</b>	Social Protection Strategic Framework
<b>SSN</b>	Social Safety Net



**Table 1. Vision 2020 Priorities and the SPSF**

Putting People First		SPSF Strategies
Education in Kurdistan	<ul style="list-style-type: none"> <li>• Ensuring access to all levels of K-12 education</li> <li>• Providing high quality K-12 education</li> <li>• Increasing relevance and success of technical and vocational education and training</li> <li>• Building on improvements in higher education</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy 1. KRG will create an effective labor supply of well-equipped job seekers and skilled workers through the education and training systems and market driven incentives</li> </ul>
Ensuring an inclusive society	<ul style="list-style-type: none"> <li>• Assuring equal opportunities for girls and women</li> <li>• Reducing poverty and improving the social safety net</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy 7. KRG will use poverty as a main determinant of eligibility for its Social Safety Net Programs (including the PDS) and provide effective social care for vulnerable and disadvantaged groups</li> <li>• Strategy 8. KRG will protect its human capital by providing incentives for better health and education</li> </ul>
The Labor Market in Kurdistan	<ul style="list-style-type: none"> <li>• Instituting legal reforms</li> <li>• Ensuring our workforce is highly skilled</li> <li>• Introducing pension and benefits reforms</li> <li>• Developing a comprehensive unemployment insurance system.</li> <li>• Helping women enter the labor market and succeed</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy 1</li> <li>• Strategy 2. KRG will take measures to reduce the duality between employment in the public sector and private sector and thus contribute to a more dynamic private sector</li> <li>• Strategy 3. KRG will develop regulatory and institutional frameworks based on timely data analysis, well- designed employment policies, and constructive dialogue among the social partners</li> <li>• Strategy 4. KRG will implement parametric reforms to the current schemes to ensure financial sustainability and move towards integrating public, private and other (occupational) pension schemes</li> <li>• Strategy 5. KRG will design and implement conventional and alternative mechanisms to expand pensions and social insurance coverage</li> <li>• Strategy 6. KRG will design and implement an Unemployment Insurance program</li> </ul>
Creating an Economically Prosperous Region		SPSF Strategies
Enabling the Private Sector for Growth	<ul style="list-style-type: none"> <li>• Improving the legal and regulatory environment for the private sector</li> <li>• Expanding business opportunities for women</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy 2</li> </ul>
Putting Government to Work for the People		SPSF Strategies
Reform of the Civil Service	<ul style="list-style-type: none"> <li>• Helping civil servants choose to leave government and contribute to the private sector</li> </ul>	<ul style="list-style-type: none"> <li>• Strategy 2</li> </ul>

*\*Priorities in green are primary, in red are supportive*

# SECTION II

## Social Protection Systems – A Strategic Perspective and Conceptual Framework for the KRG SPSF

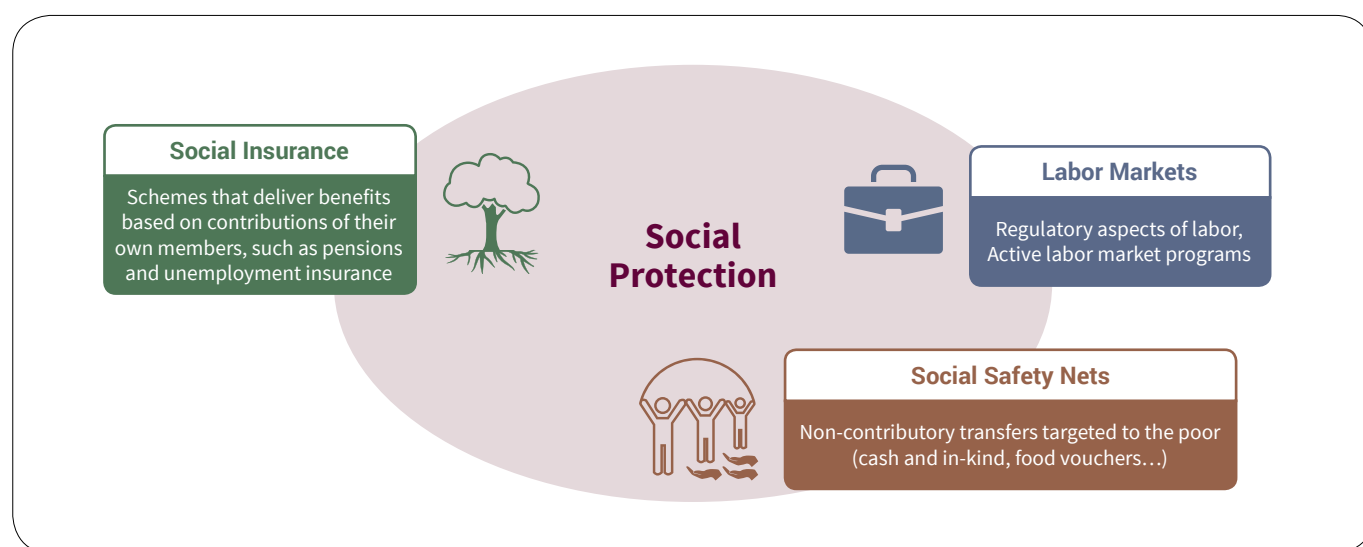
**Social protection and labor systems, policies, and programs help individuals and societies manage risk and volatility and protect them from poverty and destitution - through instruments that improve resilience, equity, and opportunity<sup>1</sup> (Figure 2 and 3).**

**A major challenge of effective access to social protection is to ensure that programs are responsive to the needs of various groups and risks, drawing from a “portfolio” of programs that together provide resilience, equity, and opportunity to all who need them.** One way to structure Social Protection systems is by taking a life-cycle approach to map demands to the portfolio of social protection programs (as shown in Figure 4). This approach provides an integrated lens by which to view social protection interventions, but there are many other ways to think of a program portfolio, including distinguishing by formal/informal sectors, different types of vulnerabilities, gender, poverty levels or

urban-rural distinctions. But the life-cycle approach illustrates well how programs targeted to particular demographic groups can serve one or more of the goals of social protection—for instance, school feeding programs protect school-age children, skills programs help promote opportunity by facilitating the access of youth to productive jobs, and disability insurance provides resilience against the adverse income consequences of an illness or accident.

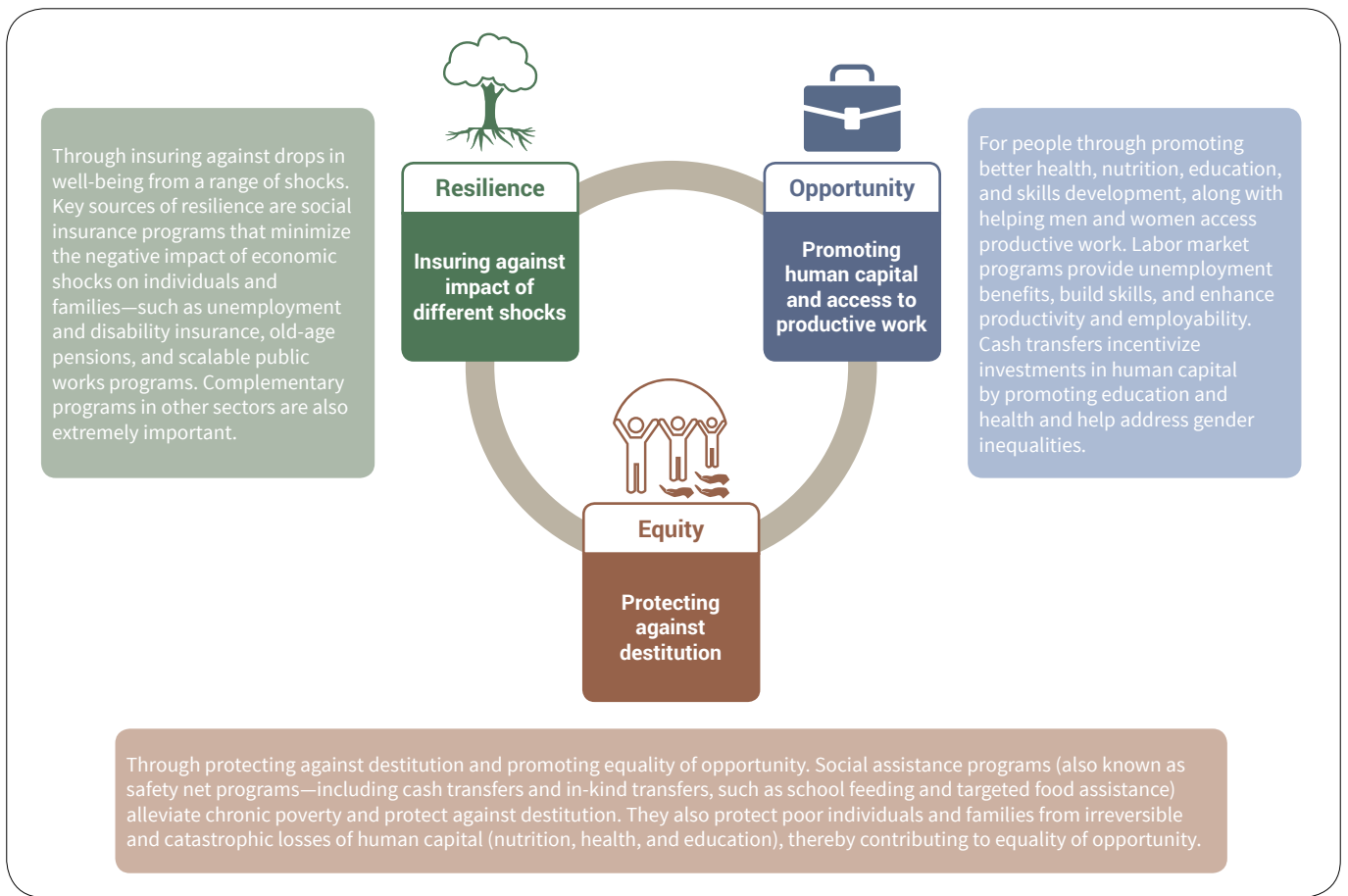
**There is no one design for a social protection portfolio, but dynamic links across programs.** For example, in the life-cycle approach, links across age groups mean that the effectiveness of programs catering to older populations will depend critically on the success of programs that have helped the young. Early child development is a crucial ingredient for resilience across the life cycle—with adequate nutrition in infancy and early childhood being an important determinant of whether children can escape

Figure 2. Social Protection Pillars

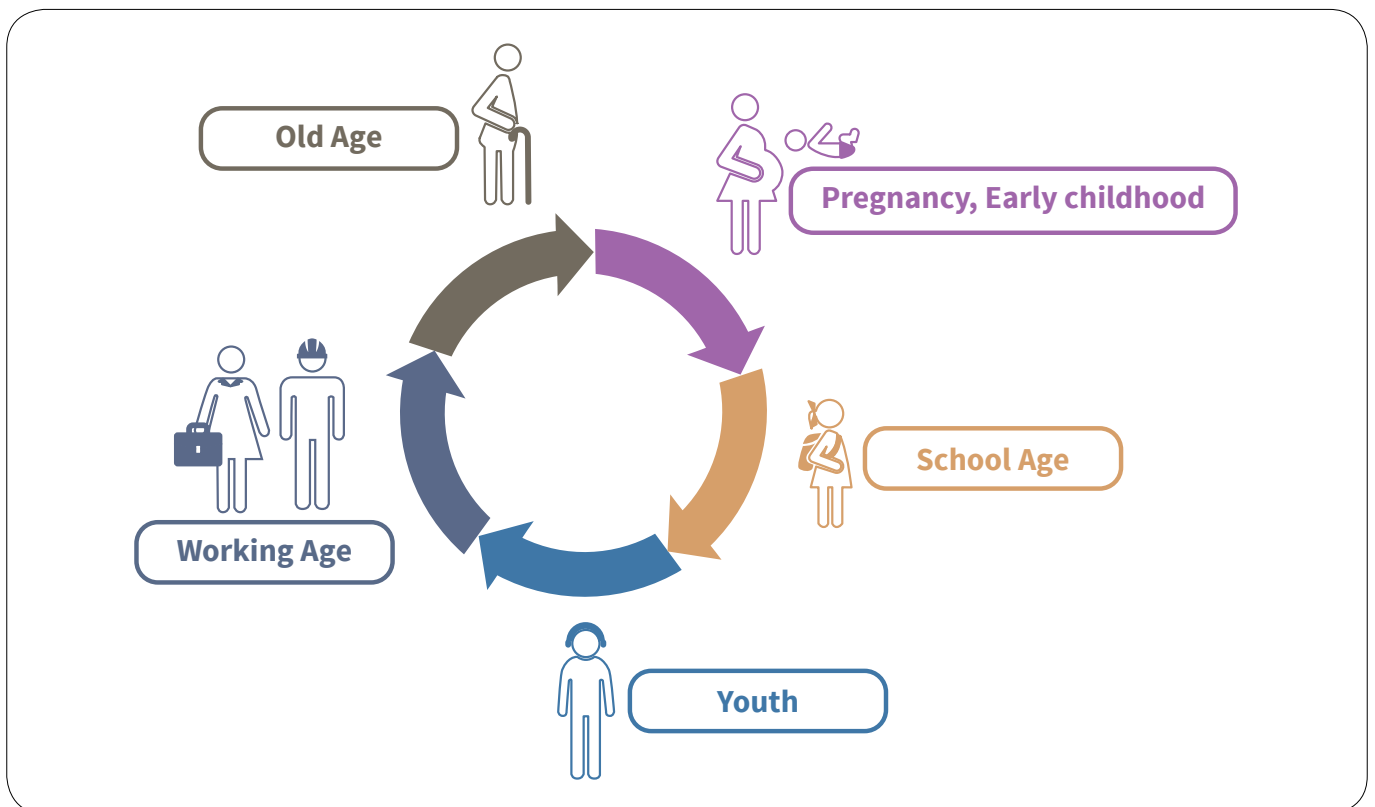


1 The World Bank 2012-2022 Social Protection and Labor Strategy

**Figure 3. Key Principles Underpinning Social Protection Systems**



**Figure 4. A Life-Cycle Approach to Resilience, Equity, and Opportunity**

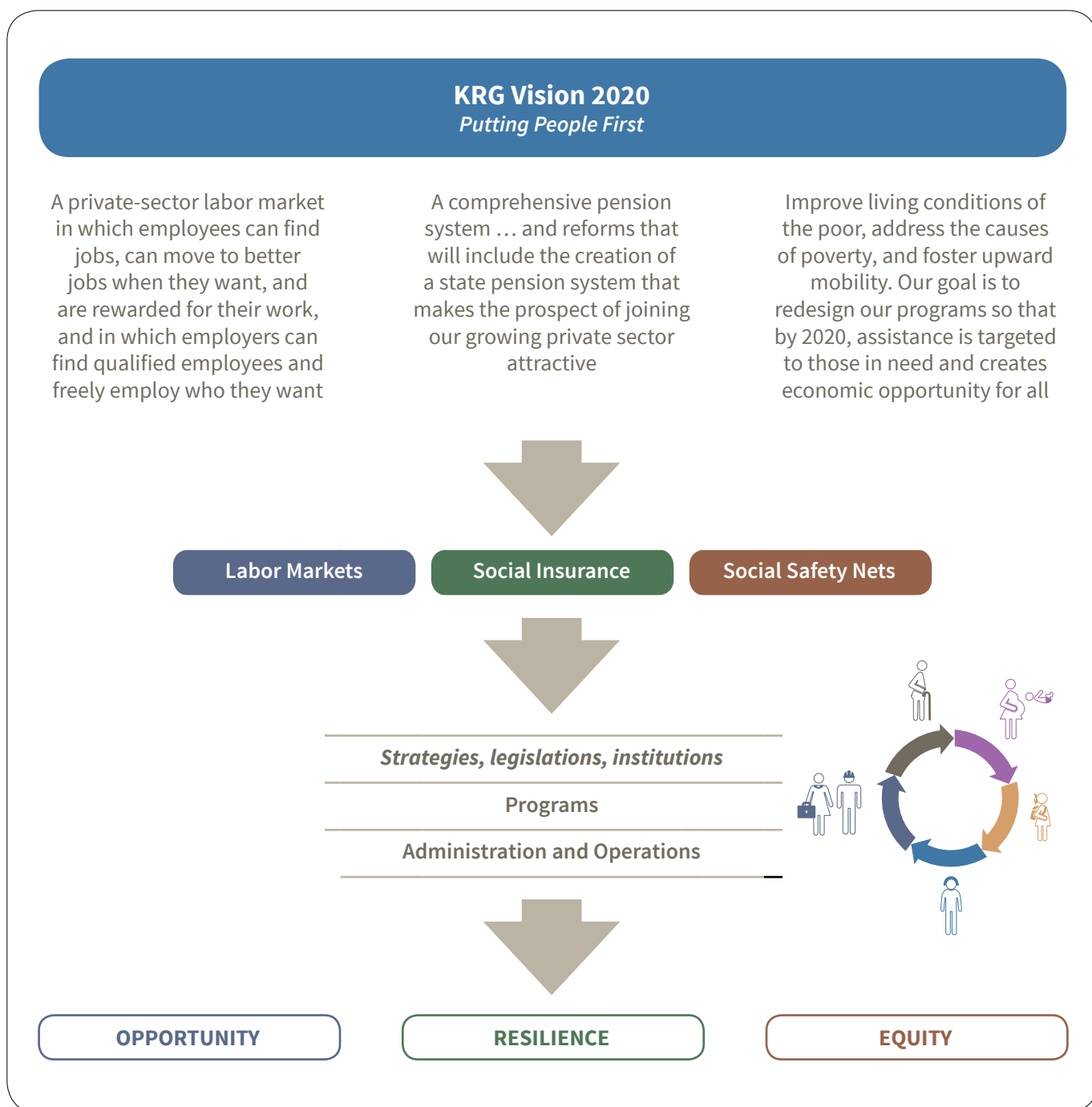


poverty. Again, preschool stimulation and proper education is a major predictor of being able to avail of skills-building programs and other promotion-oriented social protection programs later in life. And old-age income security is greatly enhanced if employment-oriented social protection programs allow individuals to work productively, save, and contribute to their pension plans during their working life.

**The social protection challenge for KRG is to progressively develop a well-articulated, financially sustainable, and well-performing portfolio of social protection programs, tailored to the local circumstances and meeting the needs of different**

**groups.** A typical developing country may have several gaps in terms of serving the different groups who need social protection programs—with some having just broad poverty-targeted programs that may protect all age groups but not provide sufficient resilience or opportunity, while others have a patchwork focused on the social protection goals but serving only a small group of the population (usually the formal sector or urban populations), and yet others have programs that do span the needs but are poorly performing in their ability to effectively deliver resilience, equity, and opportunity. For KRG, the conceptual framework is shown in Figure 5 below:

**Figure 5. Conceptual Framework for Developing the KRG SPSF**





# SECTION III

## Assessment of Social Protection in KRG

### Labor Market Policies and Programs

**KRG faces the daunting task to increase the size and dynamism of the private sector where most future employment growth is expected to come from.**

The employment challenge comes from the small size of the private sector, a fast growing labor force due to natural population growth and geopolitical events, weak policies at the Ministry of Labor and Social Affairs (MOLSA), and fiscal constraints at the macro level. Specifically at the labor market level, the activities of MOLSA can be considered more appropriately to be pilots rather than programs while there is no centralized coordination, even operational information, of these activities. The scant records of individual agreements/programs with various international, regional and bilateral agencies that MOLSA keeps, suggest that existing programs are not only of small scale but also ad hoc and they depend to a large extent more on what donors are willing to support than what MOLSA can deliver within the strategic priorities of the regional government taking into account the needs and capacities of MOLSA itself.

**This picture gets more complicated from the structure of the labor market that has a number of unique features shaped by the region's history and the resulting economic and population characteristics.** Of interest are, first at the macro level, the dominance of the energy sector as well as the volatility created from the variation in the international price of oil; the continuing security concerns around the region and more generally in Iraq; and the dependence of the region's public revenues on transfers from the federal budget. This creates a stop-go circle in public (and correspondingly, private) investments with adverse effects on economic growth and the ability of the private sector to create jobs. Though not assessed in this report, there are signs that neither the size and the over-time consistency of public expenditures nor the level and composition of private investment (including) Foreign Direct Investment (FDI) are able to create high social returns.

**Second, and more directly relevant to social and labor policies issues, the urbanization rate is high.**

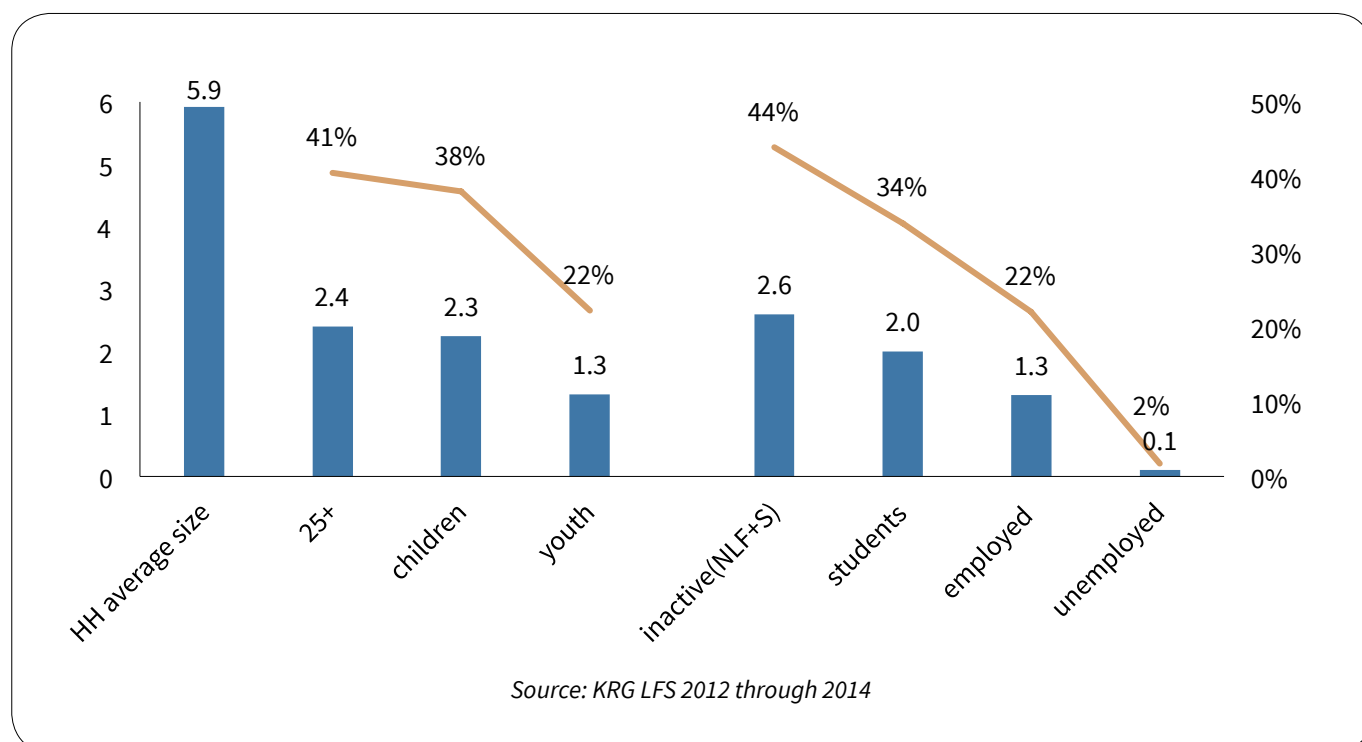
This has been partly the result of the destruction of many villages during the previous regime and concurrent concerns about safety in rural areas. Moreover, urbanization rates tend to rise during the ordinary course of development as a result of internal migration of citizens in pursue of more economic opportunities in the cities - including higher wages compared to those in agriculture. Urbanization coupled with the Government's commitment to education, including public subsidies to post-secondary education, have raised education enrolments at all levels thus increasing both the size of the middle class and its aspirations. These factors have combined with high fertility rates in the past and today to lead to the following:

- One-in-three of the residents in KRG are in school/college/university;
- Two-out of three are below the age of 25; and
- 38,000 post-secondary education graduates of *working age* (with one-third of them being male) are *out of the labor force*<sup>2</sup> compared to the nearly 100,000 officially unemployed of all education levels.

**Third, and specifically within the labor market, KRG must be one of the very few, if any among comparator countries, where the share of public employment exceeds that of the private sector (53:47).** The size of the public sector has been often and severely criticized, especially in terms of discouraging job seekers to get a private sector job in the hope that there will be employment also for them in a government post if so many others managed to get one. However, nearly two-thirds of public sector employment is in what one can label as largely non-discretionary sectors (defense, security, education,

<sup>2</sup> That is, they are "inactive" or "idle", not even unemployed.

**Figure 6. Average Household Size (Number) and its Composition (%)**



and health). This implies that the policy focus should be less on downsizing the public sector and more, first, on the quality and efficiency of the government apparatus and, second, the differences in the levels of pay and conditions of employment in the public sector and the private sector.

**In addressing these issues, KRG can benefit from the recent reduction in fertility, the increase in the numbers of educated job seekers - especially at post-secondary level, and the reserve “army” of the many graduates who are currently out of the labor force.** Still this leaves an extremely challenging agenda even assuming that there will be no additional IDPs and refugees. The female labor force participation rate is increasing at a very fast rate implying that even a growth rate of the private sector of 8-10 percent will not be sufficient to stop unemployment from rising. When available, public sector investment in infrastructure is not of adequate size and composition to act as a driver of growth, FDI tends to be concentrated in non-tradables, thus compromising export growth, and weak governance acts as a constraint to public-private partnerships and, more generally, private sector development.

**The employment-to-population rate in KRG stands at 22 percent and is practically the same as the**

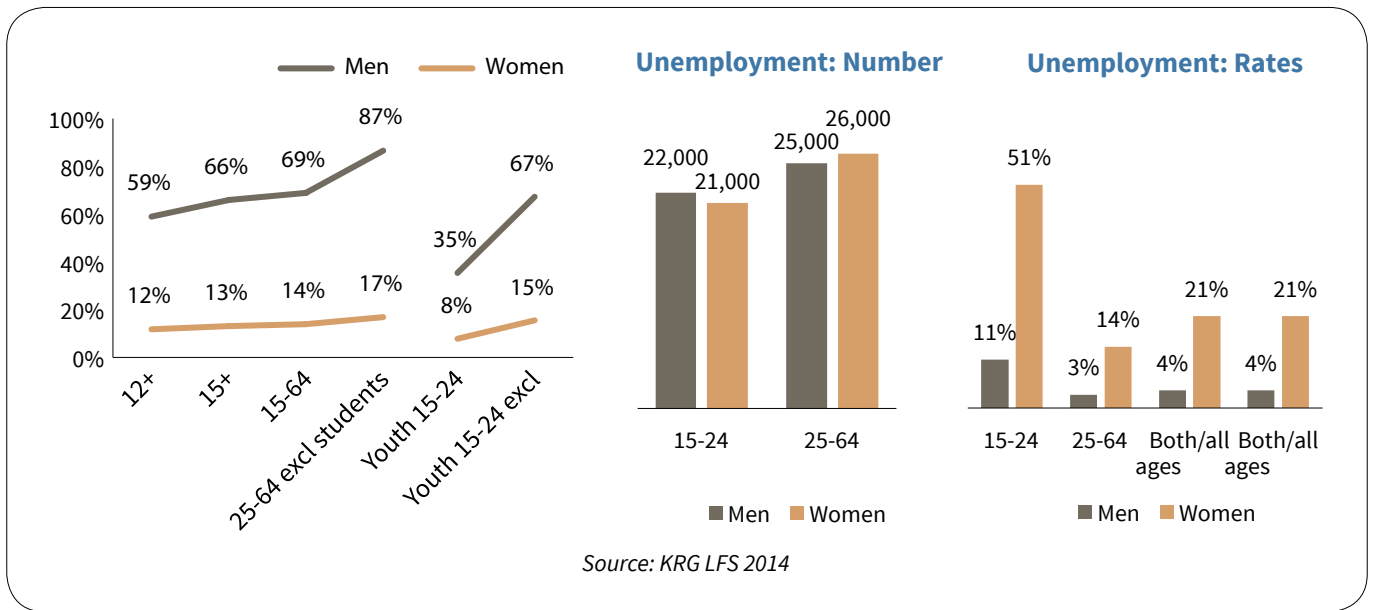
**average for the non-GCC Middle East<sup>3</sup>.** Looked at from household perspective, the average household has 5.9 members of whom 4.6 (60 percent) are below the age of 25, 2 (34 percent) are students, 1.3 (22 percent) are employed and 0.1 (2 percent) unemployed (Figure 6)<sup>4</sup>. The figure shows that one-in-three residents are in school, two out of three are below the age of 25, and just over one-in-five employed.

**The employment rate is very much affected by the very low labor force participation rate of working age women (15-64) at 14 percent that nevertheless rises to 17 percent if students are excluded (Figure 7).** However, unemployed women contribute as much as unemployed men to the low employment rate despite the fact that the female unemployment rate is very high (at 21 percent overall and 51 percent for the female youth aged 15-24) compared to the male unemployment rate (4 percent overall and 11 percent for the male youth). The female labor force participation rate in KRG is indeed among the lowest in the Middle East (with the exception of Saudi Arabia) though the female unemployment rate is similar to that in neighboring countries (with the exception of Lebanon).

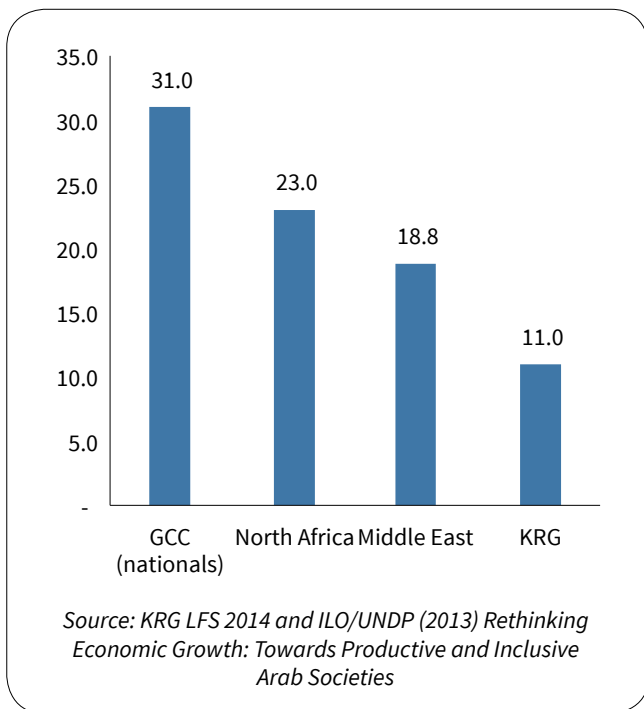
3 The comparators are Jordan, Lebanon, Syria, West Bank and Gaza and Yemen where the employment rate averages 23 percent. See ILO/UNDP (2013).

4 The information is derived from the 6 rounds of the biannual Labor Force Surveys (LFS) that sampled nearly 40,000 households, 225,000 individuals and 50,000 workers.

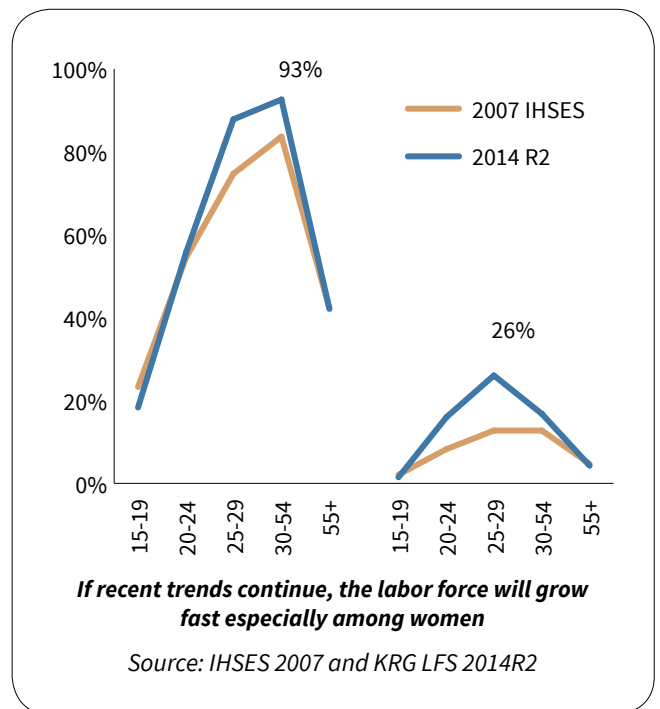
**Figure 7. Very Low Employment Rate**



**Figure 8. Female Labor Force Participation Rate**



**Figure 9. Female Labor Force Trend**



**The labor force is expected to increase fast—even ignoring population increase arising from refugees and IDPs.** The current annual population growth is about 140,000 which corresponds to around 2.6 percent of the population. As current labor force participation rates this will also be the rate of growth of job seekers. However, the female labor force participation rate is increasing fast, especially among educated women (Figure 9).

## Education and Unemployment

**The education sector in KRG had not been well developed until recently.** Its output has been largely absorbed by the government either in the form of teachers or in other government jobs. This trend is accentuating as KRG caters more for its own needs and education institutions are being pressed into the service of the country. What might have been small-scale provision for the elite is now expanding fast to serve the national development goals and individuals' aspirations. In fact, the rate of growth of the education sector has been prodigious, and this is manifested in the labor market as shown in Figure 10.

**The increase in education eventually started rising much faster than the public sector can absorb.** However, the sophistication of production in the private sector is not requiring much education and skills—something confirmed by the extremely low rates of return to education.

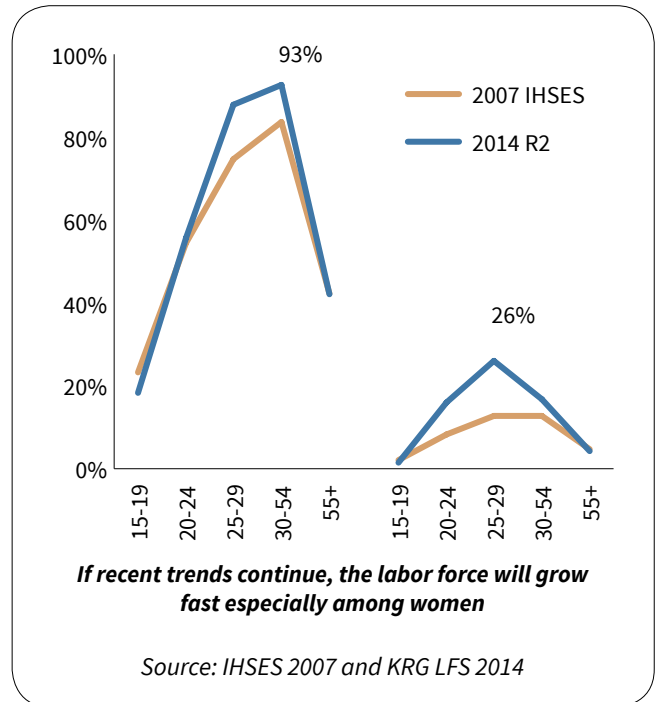
**Moreover, as it has been common in many other countries, this fast growth has led to the emergence of educated unemployment as a potential problem.** Since a graduate often has the option of accepting a non-graduate job, rather than be unemployed, it has also led to the issue of graduate unemployment, as well as gender variances, as shown in Figure 11.

**KRG is facing an employment challenge of huge proportions even if one assumes that there will be no significant increase in the annual numbers of job seekers (women, IDPs, refugees and foreign workers hired at low wages on short term contracts).** Based on international estimates of the impact of output (GDP) growth on employment, a medium case scenario for KRG suggests that for employment to increase annually by 50,000—a number that would prevent unemployment from rising—would require future economic growth rates to be consistently in the region of five percent or more per annum. And if future workers were to be absorbed predominantly by the private sector, the relatively small private sector would need to increase annually by 10 percent or more. Unless there is a resurgence of the international price of oil, this is a high figure for KRG as few countries have achieved that fast rate, most of them in East Asia and driven by export-led industrialization.

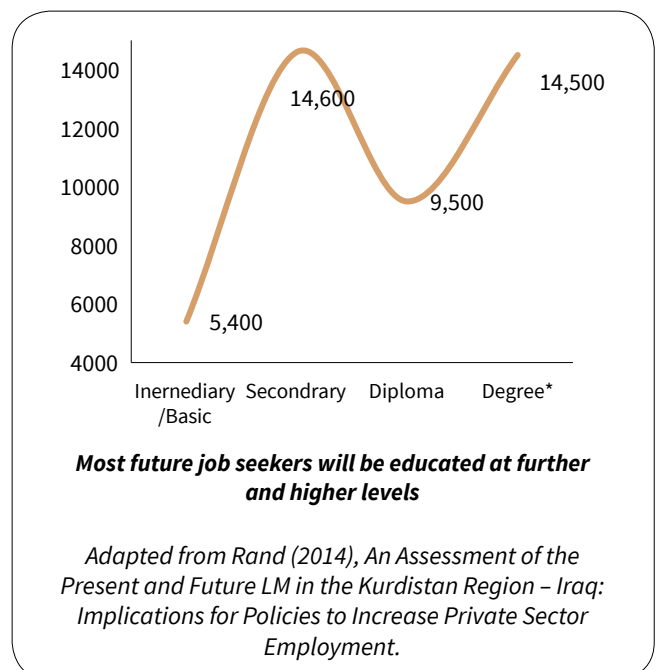
**The backlog of inactive educated workers plus the already educated unemployed and the increasing share of educated workers among the job seekers (Figure 10) means that others who join the labor market with basic - and worse, if lower - education**

**may face bleak employment prospects, increased risk of poverty, and continuing dependence on welfare benefits.** In addition to specific policies for

**Figure 10. Education Composition of the Labor Force by Age Group**

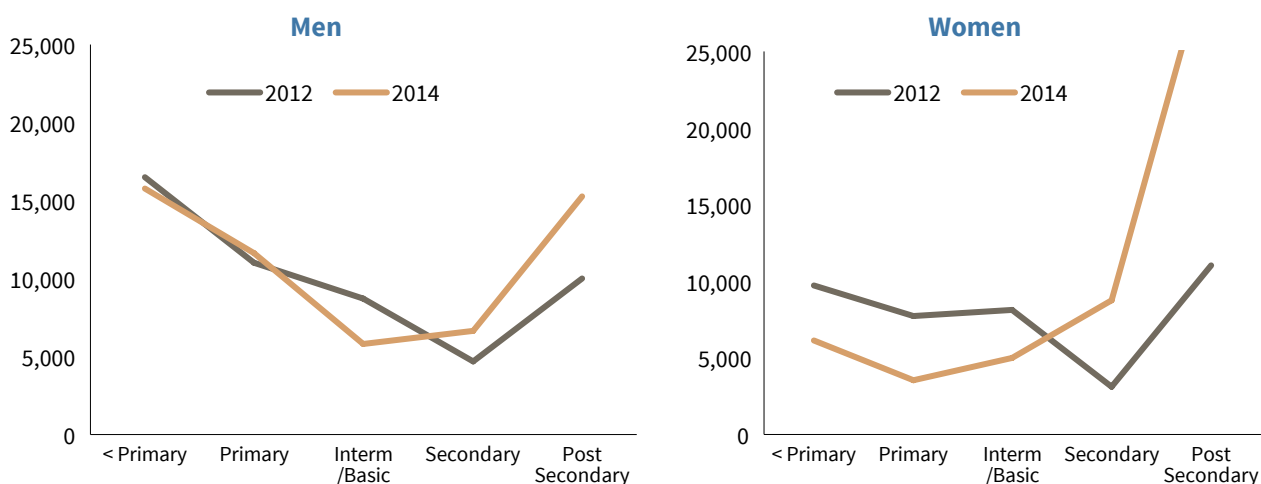


**Figure 12. Projected Annual Number of New Labor Market Entrants till 2020**



employment and social assistance, policies would therefore be required that would raise “all boats” from sound macro management to sectoral economic policies and additional emphasis to public social spending especially regarding education and health.

**Figure 11. Composition of Unemployment by Education, LFS 2012 and LFS 2014**



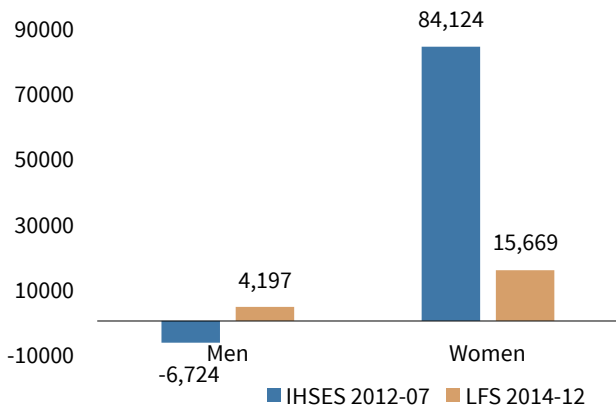
Adapted from Rand (2014), *An Assessment of the Present and Future LM in the Kurdistan Region – Iraq: Implications for Policies to Increase Private Sector Employment*.

**THERE ARE SUBSTANTIAL GENDER DIFFERENCES WITH RESPECT TO UNEMPLOYMENT**

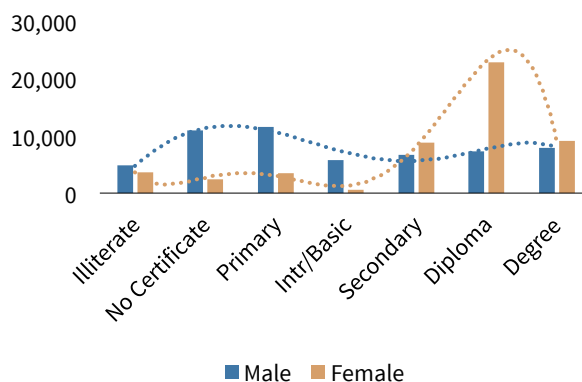
All the increase in unemployment since 2007 has come from female job seekers

Male unemployment is more evenly distributed by education level but both educated men and educated women increasingly contribute more to unemployment than before

**Increase in unemployment by sex, 2007-12 and 2012-14**



**Unemployed (no.) by education level and sex, 2014**



Adapted from Rand (2014), *An Assessment of the Present and Future LM in the Kurdistan Region – Iraq: Implications for Policies to Increase Private Sector Employment*.

## Pensions and Social Insurance

**Since the mid-1950s social insurance programs have been implemented in KRG.** Currently there are **two** social insurance schemes in KRG.

- i. Pensions scheme covering public sector employees, administered by the Ministry of Finance (MOF), and covering the risks of old-age, disability and survivorship;
- ii. Social Security scheme covering private sector employees, administered by MOLSA, and covering the risks of old-age, disability, and survivorship (widows, orphans, etc.), health, and work injury.

**In 2014 the total pension spending<sup>5</sup> in KRG was estimated to be around IQD 1.257 trillion, or 4.5 percent of non-oil GDP (or 2.8 percent of GDP when oil is included<sup>6</sup>), which is high compared to other countries (see Figure 13).** More than 50 percent of the labor force in KRG is covered by the social insurance (pensions) system. However, most of them are employees in the public sector. In fact, around 84 percent of the labor force in the private sector is not covered. Also, around 50 percent of people above the age of 65 in KRG are currently receiving a benefit from the pensions system (mostly retired public sector employees). The rest of the elderly have to rely on informal care, or public transfers as social assistance (non-contributory social safety nets).

**Both social insurance (pensions) schemes in KRG were designed as PAYG contributory self-financed mechanisms defined benefit system.** In such a system, pensions are calculated according to a formula based on wages, and length of service, where current contributors pay for current beneficiaries. In the private sector, contribution rates from wages are 17 percent, which are 12 percent from employers, and 5 percent from employees (14 percent for pensions, 2 percent for work injury, and 1 percent for sickness and maternity). In the public sector contribution rates from wages are 19 percent which are 12 percent for employer (Government), and 7 percent for employee (only pensions are covered in the case of the public sector).

**The public sector scheme has currently a support ratio<sup>7</sup> of three contributors for each beneficiary (682,000 contributors vs. 246,639 beneficiaries).**

The private sector scheme has still a high support ratio of 120 contributors for each beneficiary (78,525 contributors vs. 652 beneficiaries). However, it is important to note that the private sector scheme also pays more than 2,000 “end of service indemnity” payments per year to those members who end a job contract but do not qualify for a pension.

**The benefit formulas for pension calculations in both sectors have high accrual rates by international standards (2.5 percent)<sup>8</sup>, and are based on last wages (the three last wages in the case of the private sector scheme, and the last wage in the public sector scheme).** Qualifying conditions are different in both schemes. In the private sector the minimum length of service is 20 years if the retirement age is reached (55 for women, and 60 for men), or 30 and 25 years of service for men and women respectively at any other age, otherwise individuals can only receive a lump-sum payment, instead of a regular pension. In the public sector the minimum length of service is 15 years, the minimum retirement age 50, and **compulsory** retirement age is 63, according to the law.

**The current legislative framework for both schemes is not well defined with respect to various aspects.** Also, KRG has not yet created any pension fund (as established by Federal law 27/2006, which is the Iraqi pensions law that currently, but partially, is followed in KRG). A KRG pension law does not exist at this moment, nor is one being contemplated. In addition, KRG does not follow any provisions of federal law 9/2014 (Unified Pension Law). In both private and public sectors, the Iraqi Federal laws are the ones currently in used in KRG (although in practice only partially). Basically, neither the public sector, nor the private sector pension schemes are clearly and fully following a specific legislative framework.

**Basically, the current main challenges of the social insurance system in KRG can be summarized in four points:**

- i. Low administrative capacity of the social insurance

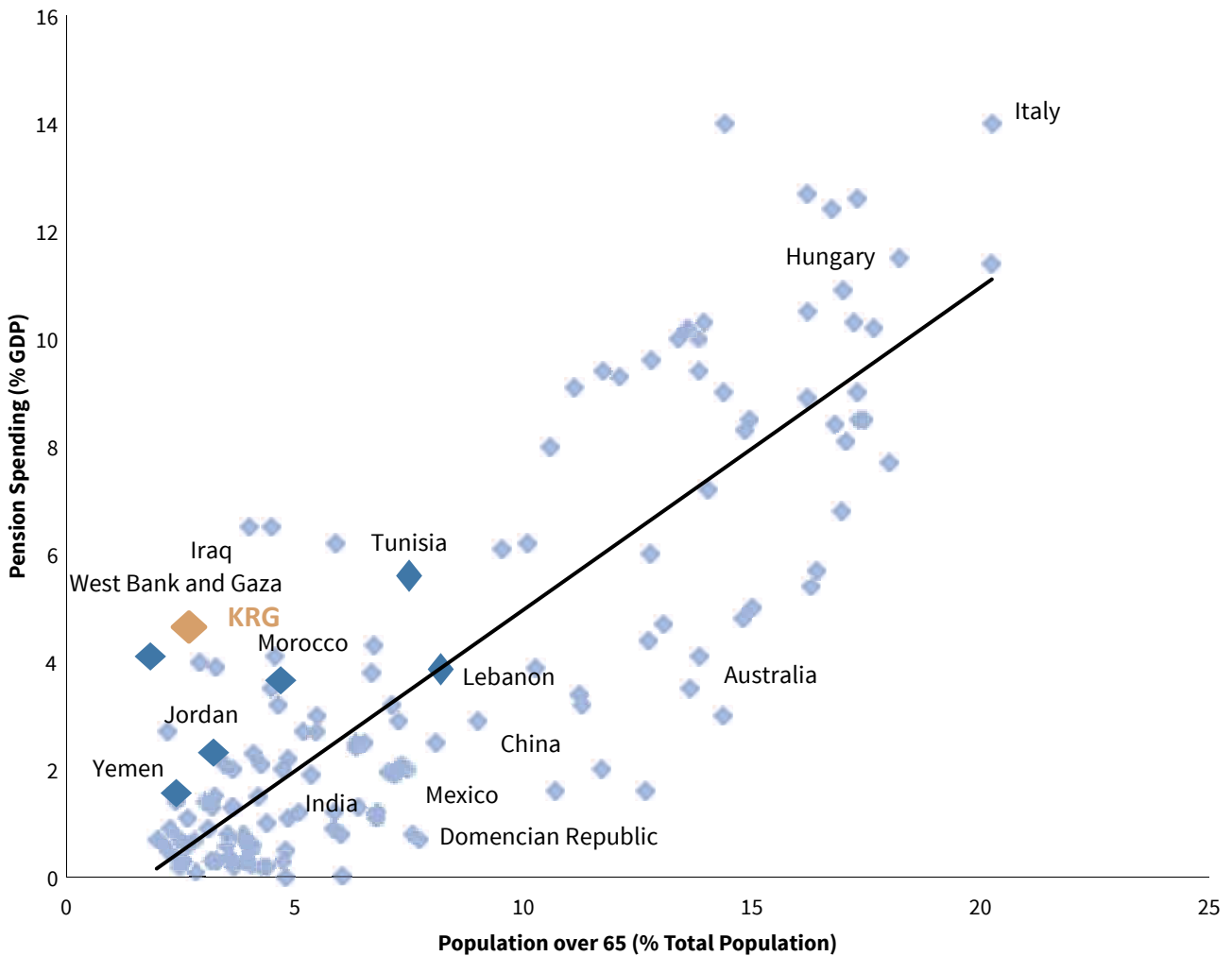
5 Pension spending in KRG is high by international comparisons

6 RAND Corporation estimated that 2014 non-oil GDP was about \$24 billion.

7 System support ratio: number of contributors over number of beneficiaries; System dependency ration: number of beneficiaries over number of contributors.

8 Accrual rate is used in a defined-benefit scheme for a pension benefit calculation relative to earnings per year of service.

**Figure 13. Pensions Spending vs. Old-Age Population**



**There is a high correlation between pension spending and the elderly population in a country. Pension spending in KRG is high by international comparisons**

World Bank Pensions Database

schemes in KRG which requires significant upgrading, and there is need for appropriate databases, record-keeping, and information technology systems. At this moment the administration and assessment of the schemes is very difficult. Neither one of the schemes have adequate financial governance of administrative operations and social insurance benefits;

regardless it is financially unsustainable (eventually revenues from contributions will not be sufficient to cover pension spending). The scheme is also regressive (it penalizes low income earners in favor of high income earners). Unless some reforms are implemented, an increased amount of resources from the general budget will be required in order to maintain such schemes;

ii. Based on the current design and provided information, the public sector scheme is **financially not self-sustainable**. In fact, today the revenues from contributions are already not covering the pension expenditures (in 2014 revenues from contributions were IQD 1.1 trillion while pension expenditures were already IQD 1.2 trillion). The private sector scheme is not yet in deficit,

iii. The system is **fragmented**, the public sector scheme is more secure and generous than the private sector scheme and this creates distortions in the labor market, attracting more employees towards the public sector, and negatively affecting private sector development. Labor mobility is also restricted by the current qualifying conditions of pension benefits, and the lack of pension

portability rights. Basically an individual working for the public sector would need to contribute at least 15 years in order to qualify for a pensions. If the individual leaves public service before this minimum length of service, such right is lost.

iv. The system suffers from **low coverage**. While

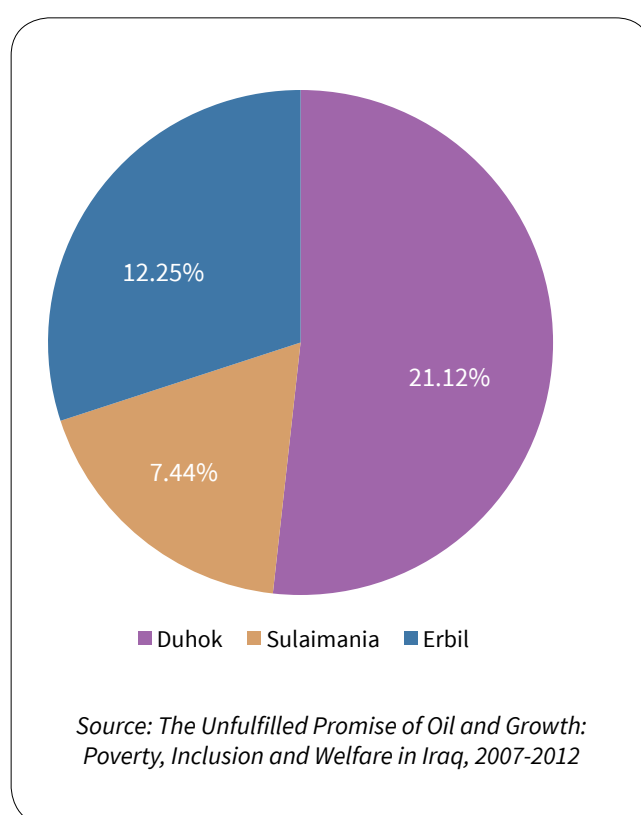
the labor force in the public sector is almost 100 percent covered, around 84 percent of the labor force in the private sector is not covered at all. Also, in the private sector the contribution density is low and irregular, and most contributors receive only returns of contributions and will never be able to qualify for a regular pension.

## Social Safety Nets

**The KRG population benefits from a number of schemes that could be classified under non-labor income: the Public Distribution System (PDS), cash transfers, remittances (internal and external), Zakat, in addition to the government subsidies on some basic commodities and services.** Due to the lack of available data (including number of beneficiaries and related budgets), this assessment focuses on the PDS and cash transfers while touching on the general aspects governing the distribution and efficiency of other schemes.

**The PDS is almost universally distributed, as it covers more than 99 percent of the population and reaches 99 percent of the poor in KRG (see Table 2).** Ration or PDS transfer receipts as a source of non-labor income are smaller in KRG, accounting for less than 20 percent of non-labor incomes on average, and 42 percent of non-labor incomes among the bottom decile. The relatively low share of ration transfers in KRG is compensated by relatively high shares of pension and capital income. The PDS budget allocated for KRG for 2015 amounts to approximately USD 357 million (assuming 17 percent of the Iraq total PDS budget for 2015 of USD 2.1 billion). By simple calculation assuming, based on the results of the IHSES 2007-2012 that the PDS reaches 98 percent

**Figure 14. Share of Recipients Poor (%)**



**Table 2. Public Distribution System: Coverage, Targeting and Leakages**

Governorate	Share of population receiving (%)	Share of poor population receiving (%)	Share of non-poor population receiving (%)
Duhok	99.08	100	98.83
Sulaimania	99.24	99.59	99.21
Erbil	98.56	99.39	98.45

Source: KRG MOLSA 2014



**Table 3. Social Care Provided by KRG MOLSA**

Micro-credit	Women in Shelters	Cases in Homes for Delinquent	Children in KGs	Cases in Institutes for Disabled	Children in Socio-Cultural Centers	Hotline for Child Care (Calls)
7,157	92	844	1,697	930	4,220	3,918

Source: KRG MOLSA 2014

of the total population (about 5.4 million), then it is expected that an amount of USD 68 is allocated per beneficiary. It is important to note that the distribution is not dependent on the size or the poverty level of the household. The share of recipients of the PDS who are poor is shown in Figure 14.

**Zakat and other forms of religious-based assistance to the poor and vulnerable are provided by NGOs and religious organizations.** The *Zakat* transfers, although small, appear to be quite progressive and well-targeted. Though the Ministry of Awkaf (religious affairs) is the main governmental body concerned with this kind of assistance, yet its role is restricted in the distribution of *Zakat*. These transfers are managed by a number of non-governmental organizations (NGOs). Some of these use a developed modality that relies on cross-matching results from community targeting and social workers visits. There, the status of every household is monitored closely over time to allow for graduation of some households and the entry of new ones, in view of the limited resources. However, in the absence of a central monitoring governmental agency, a uniform process is absent and it is left to the NGOs to move according to their mandate. That raises concerns over the equity of the distribution and the transparency and good governance of the targeting and distribution process. The impact of the *Zakat* transfers remains negligible in influencing the consumption levels of the households, as reported by the concerned NGOs and the Ministry of Awkaf.

**MOLSA provides limited institutional care for the elderly, orphans, and physically and mentally handicapped children and adults.** In 2014, MOLSA maintained a number of facilities - including kindergartens, orphanages, institutes for the disabled, elderly homes, and cooperative society workshops - which altogether served approximately 11,701 individuals<sup>9</sup>, as shown in Table 3. However, many of these facilities lack essential equipment and supplies and are not designed to promote independent living or integration into society. In view of the limited

number of beneficiaries and the restricted scope of work of these facilities and programs, their effect on the livelihoods of households and beneficiaries is practically negligible.

**MOLSA is the main agency in charge of providing unconditional cash-transfer (UCT) assistance in KRG.** This program uses categorical targeting in channeling cash assistance to specific groups that are considered vulnerable. The eight categories eligible for the UCT through the SSN Department are: (i) Orphan; (ii) married students; (iii) those with disabilities caused by aging; (iv) those with disabilities caused by illness; (v) the blind; (vi) the paralyzed; (vii) families of the imprisoned and missing persons; and (viii) the unemployed. The Women's Social Care Department covers categories, including children of divorced women, widowed women, and disabled women. The totals are shown in Figure 15. Prior to 2012, a financial assistance of IQD 30,000 per household was given monthly. As of 2012, this allowance was increased to IQD 150,000 per household, and there are now a total of 191,482 households benefiting from both family and disability allowances.

**The categorical targeting of MOLSA does not consider the poverty line nor the size of the household leading to high leakage and inequity.** The transfer of IQD 150,000 is allocated to beneficiary households regardless of size of the households or its poverty level, which increases considerably the risk of exclusion and inclusion errors<sup>10</sup>. As for the cash transfer for disability cases, these are provided based on a medical report issued by a specialized commission. This is subject to lot of controversy, as reported by MOLSA officials. The medical reports leave ample room for interpretation thus the continuous variations and increased number of disability beneficiaries without any consideration for either poverty line or household size. The UCT's use of broad social categories

<sup>10</sup> Exclusion errors refer to excluding eligible (ie. below the poverty line) households, while inclusion errors refer to inclusion of ineligible households in the cash transfer program.

**Table 4: Percent Of Recipients of Non-Labor Income in KRG 2007 and 2012**

		Rations (PDS)		Pension		Social Protection		Domestic Remittances		Zakat		International Remittances	
Percent of Recipients	Quintile	2007	2012	2007	2012	2007	2012	2007	2012	2007	2012	2007	2012
	1	20%	20%	16%	16%	0%	25%	23%	22%	28%	41%	7%	9%
	2	20%	20%	18%	20%	38%	22%	21%	21%	27%	25%	11%	18%
	3	20%	20%	21%	17%	19%	21%	20%	18%	24%	15%	20%	17%
	4	20%	20%	24%	24%	0%	20%	17%	21%	13%	14%	26%	27%
	5	20%	20%	21%	23%	43%	12%	18%	19%	8%	5%	35%	29%

Source: IHSES 2007-2012

instead of more effective targeting mechanisms to determine eligibility (such as Proxy-Means Testing or geographical targeting) helps explain why the majority of the poor do not benefit from this program as shown in Table 4.

**In looking at the distribution of the population of KRG per quintile, and by plotting the number of beneficiaries from the UCT in each of the quintiles, it is noticed that a considerable percentage of beneficiaries are distributed in the richest quintiles.**

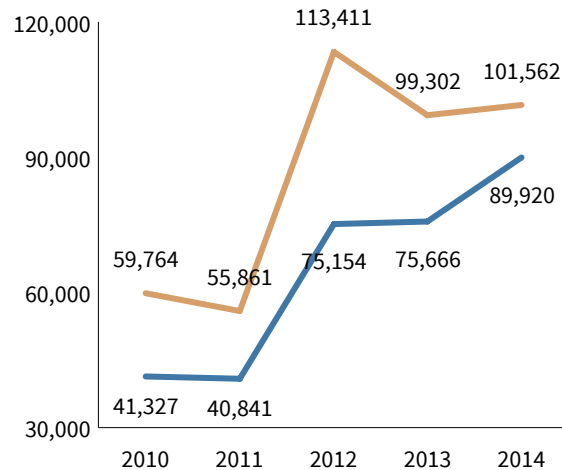
As shown in Figure 16, only 11.3 percent of the population in the lower consumption quintile (i.e., the poorest) are receiving cash transfers from MOLSA. The figure also shows that 75 percent of the UCT recipients are in the highest quintiles while only 25 percent are in the lowest, poorest quintile. It is evident that the UCT program suffers from weak coverage and leakage of resources to the richest portions of the population. These characteristics are consistent with a situation where inefficient targeting mechanisms are used.

**At the same time, the implementation modality differs between governorates.** Though using the same laws and regulations, the processing differs between governorates in terms of collecting applications from households expressing interest to benefit from the UCT, the use of Information Technology, processing for eligibility, selection of beneficiaries, receipt of transfers, and monitoring and evaluation. The distribution of beneficiaries per Governorate is seen in Figure 17.

**The discussion on adequate targeting and distribution of beneficiaries per region comes in**

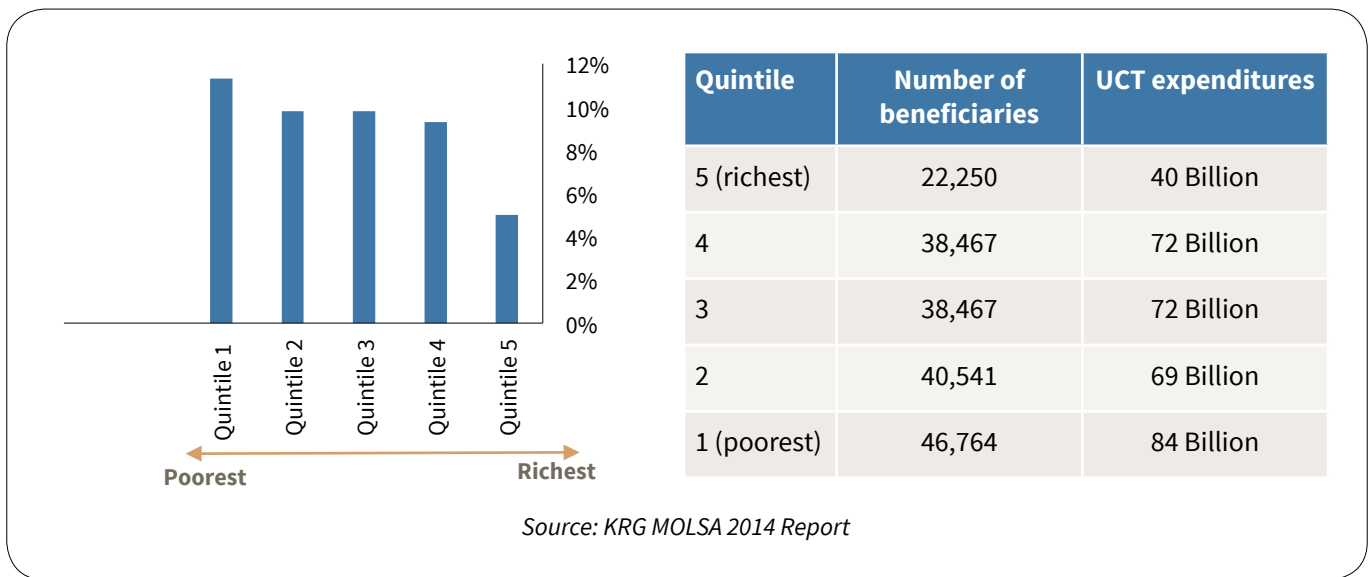
**line with the work undertaken by the World Bank in looking at the poverty map.** The Poverty map is a tool that combines the strengths of the household budget survey and population and housing census to estimate poverty rate at small level of geographical disaggregation. That is why poverty alleviation and targeting are inter-linked. The distinction between poor area and areas where the poor live is an important issue and this is where targeting comes into application. That is why the most obvious use of poverty maps is for targeting of antipoverty programs. “Where are Iraq’s Poor: mapping Poverty in Iraq” highlighted that :

**Figure 15. Distribution of Beneficiaries per Cases in KRG 2010-2014**

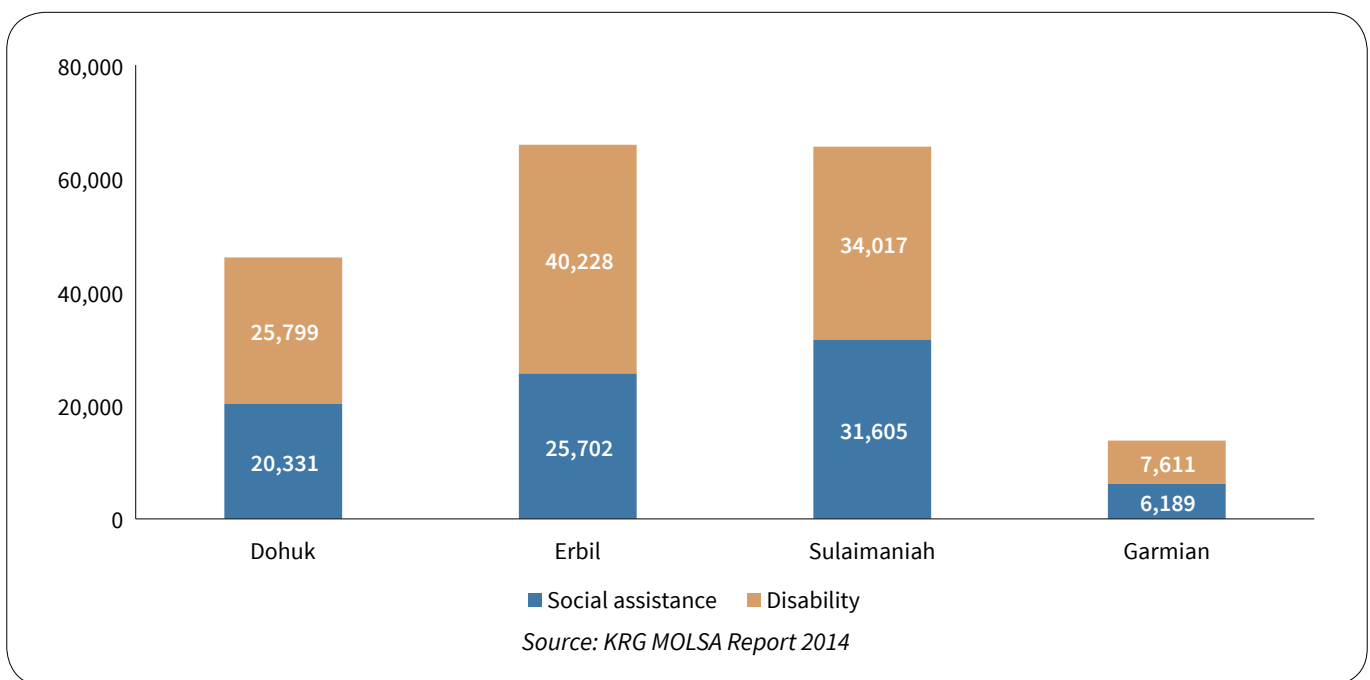


Source: KRG MOLSA 2014 Report

**Figure 16. Schematic Representation of Targeting Inefficiency 2012**



**Figure 17. Distribution of Beneficiaries from MOLSA Assistance by Governorates for Year 2014**

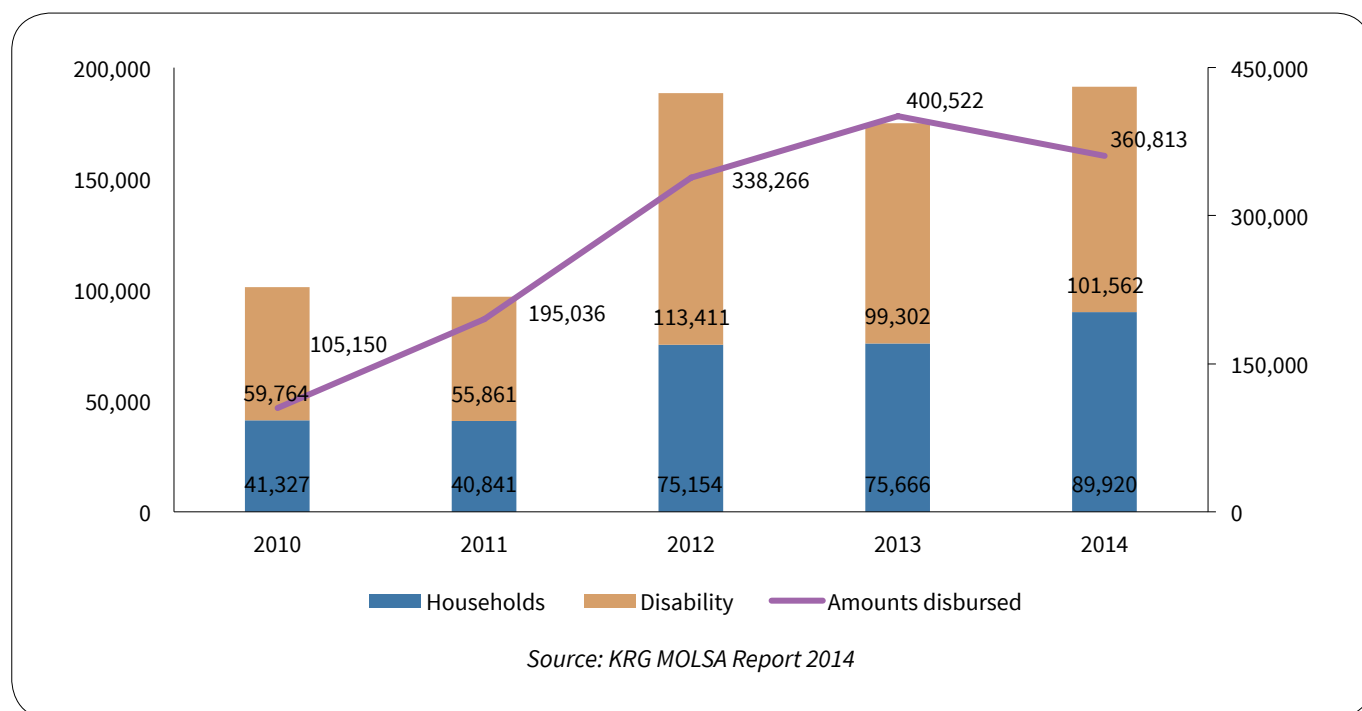


1. Sulaimaniah has the lowest rates of poverty in all of Iraq. In more than two-fifths of its Nahiyas, estimated poverty rates are 2 percent or lower, and all but two Nahiyas have headcount rates of less than 10 percent. However, the number of beneficiaries from MOLSA unconditional cash transfer program is very high.
2. In Duhok the overall poverty rates are low and roughly 6 percent. Estimated poverty headcount rate at the Nahiya level range from 3 percent in some Nahiyas to 10 percent in others. However,

the largest number of poor persons are in two Nahiyas: Duhok qada center (10,600) and Zakho qada center (11,600). These Nahiyas are the largest in terms of population in Duhok. The data looking at number of beneficiaries for the UCT reveals otherwise that Duhok has the lowest numbers. This raises questions about the selection methodology and stresses once more the need to reconsider the techniques used for targeting<sup>11</sup>.

11 Where are Iraq's Poor: Mapping Poverty in Iraq 2015

**Figure 18. Total Number of Beneficiaries from the UCT (Left Axis), and Amounts Transferred 2010-2014 (Million IQD)**



**The role of social workers has weakened due to the changes of laws and instructions, and lack of sufficient staffing.** The process of raising awareness of communities to the program, filling in applications, guiding households through the application all the way to follow up and case management need to be done by trained and dedicated social workers. The role of social workers as part of the administrative structure of MOLSA existed at one point in time, but the changes in laws did not observe well the function. Again, in view of regional differences and the uneven availability of resources and assistance, the role of social workers has been maintained in Duhok to a certain extent, unlike other governorates. Social workers in Duhok do still follow up on households' annual updates. In Erbil and Sulaimaniah, however, households are expected to take the initiative to come into MOLSA offices to fill in their annual update. This remains occasional without any proper means for follow up or validation. That is why the number of households who enter the system and those who are expected to graduate for any reason remains unknown, leading to an additional burden on the resources needed for the program.

**On the implementation level, the transfer amount was increased from IQD 30,000 to IQD 150,000 in 2011 and kept the same since then.** The amount of monthly cash transfer remains very close to the poverty line defined informally for KRG at IQD 142,000. The total yearly budget disbursed over the years is shown in Figure 18. The spending in 2014 on the cash transfer programs amounts to 1.3 percent on non-oil

GDP which is considered relatively high, yet only 11.3 percent of the poorest quintile benefit of UCT.

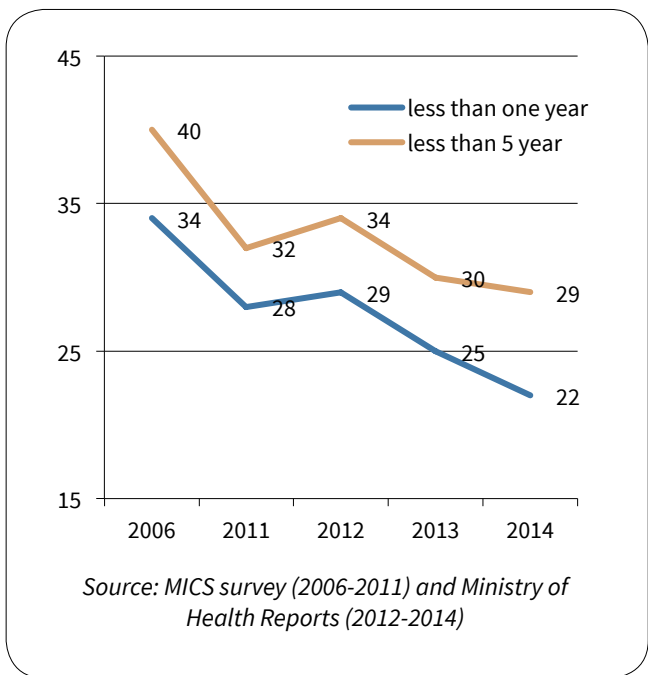
**Looking at poverty necessitates a broad perspective that touches on human development in general bringing the dimensions of both education and health.** These two factors are directly linked to the definition of social protection and how that is applied to the various stage of the life-cycle approach. In KRG, poverty levels show disparities across regions, as well as urban versus rural areas. In education, the results of the study show that the number of out-of-school children of age ranging between 5 and 14 years has reached 127,115 in KRG (69,989 girls and 57,126 boys)<sup>12</sup>. This dimension of school exclusion shows that there are gender-specific differences. On the health front, the population in KRG is relatively young. Although there is considerable reported variability across the governorates, neonatal deaths (<1 month of age) account for about one-third of all infant (0-11 months of age) deaths (1,270 of 3,833), and infant deaths account for about two-thirds of all under-five child deaths (3,833 of 5,776, 66 percent). Both of these ratios are comparable to those for the world as a whole. In contrast, the infant mortality rate (27.09 per 1,000 live births) and the under-five child mortality rate (40.83 per 1,000 live births) in KRG are considerably

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higher than rates in other countries in the region<sup>13</sup>. However, recent studies have shown a significant improvements that needs to be maintained

**The absence of the citizen engagement goes in parallel with lack of transparency and a communication plan that puts MOLSA in close contact with the population.** Citizen Engagement is defined as a two-way interaction between citizens and governments or the private sector, which give citizens a stake in decision-making with the objective to improve intermediate and final development outcomes. In addition, participatory mechanisms are important to make governments and service providers accountable. It is a form of participatory feedback and monitoring by beneficiaries and communities. MOLSA programs as implemented are not designed to account for any feedback. Households are not well aware of the social programs, the conditions for eligibility, and how the selection process of beneficiaries is done. A separate initiative at Duhok, where the SSN department with assistance from USAID, has been able to develop a system of data collection and uses technology made available to the public to ensure a proper follow-up and feedback from beneficiaries. However, a Grievance Redressing Mechanism<sup>14</sup> was not put in place in the initial design of the program. Complaints could be submitted but no uniform processing has been established.

**Figure 19. Infant and Child Mortality Rates at Kurdistan Region for Years 2006-2014**



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14 A Grievance Redress Mechanism is a system by which queries or clarifications about the project are responded to, problems that arise out of implementation are resolved and grievances and grievances are addressed efficiently and effectively.

# SECTION IV

## Labor Market Policies and Programs – Towards Opportunity



### A. Macroeconomic Perspective

**The list of relevant questions in the area of social protection can start by asking, first, how can KRG become a high value added/high productivity economy that can pay high wages and create annual employment at the admittedly high but still required rate of around 4 percent?** The critical issue for job creation would be the employment growth in the private sector. Given that its current size is too small and the rising aspirations of the increasingly educated middle class, this would require to have intensive policies that would move the economy quickly from its “basic stage” whose characteristics include a stable macro environment, effective public infrastructure, good basic education and health, to the interim “efficiency enhancing stage” (before it reaches the advanced and effectively terminal “innovation stage” of high income economies)

**The efficiency stage, which KRG has now entered, not only does it require policies that would counter the negative such so that to avoid high government deficits, rising public debt and increasing inflation.** It would also require the adoption of industrial, trade, investment, and private sector development policies that would promote the efficiency of goods, labor and financial markets and will also expand the technological readiness of the country and increase the size of the market both through increases in domestic demand but mainly through exports.

**Second, how can hiring in the public sector become needs-based (for the State) and merit-based (among applicants)?** The former would result in better targeted and still effective social services. The latter would facilitate the flexible deployment of workers across jobs in the public sector and the private sector. If the macro-economy is depressed, the economy consists mainly of non-tradables and a small

private sector, and both the size of economy and that of the government budget depend on the international price of oil. As a result, a demand-led growth in employment will, at least initially, be anemic. Under such conditions, it is all more important to rely on internal efficiency measures such as an effectively managed public sector (“governance”) and a dynamic private sector (“transparent and level playing field”).

**Third, what are the specific measures that can be implemented to address issues related to employment by MOLSA?** When the drivers of growth are weak (investment in infrastructure, domestic and FDI in tradable - rather than in speculative and zero-sum activities, incomplete goods and financial markets, lack of technological readiness, small market size, significant trade and fiscal imbalances - such as current budget crunch in KRG), even the most carefully designed and well implemented policies and programs by MOLSA will have only a limited impact on the labor market with one exception operating at economy-wide level: The appropriateness of the institutional framework governing the labor market from individual contracts to collective agreements – including dispute resolution. In this respect the provisions of the Draft Labor Law that will be eventually adopted are critical as well as the success of the recently launched National Employment Strategy.

**Active labor programs and projects can help though their effects at regional level might be marginal at least in the short run, given their often significant funding requirements.** Such programs can be scaled up when evaluations show them to be relevant and can be well implemented. They are not a one-off activity but require continuous adjustment as economic and labor market conditions change and, in many countries – as the case is also in KRG - capacity

constraints and lack of statistical information may prove to be as important as funding constraints

**While exploiting every opportunity for direct interventions in the labor market in the form of labor programs, MOLSA in cooperation with the economic ministries can jointly examine the determinants of the size, composition and**

**underlying dynamics of the private sector from a labor demand side.** From a labor supply side it will be useful to examine the interplay of the social safety net with the level of wages and employment conditions in the private sector and therefore assess the right level of benefits in a way that does not unduly discourage the work.

## B. Strategic Directions

**The KRG Vision 2020 to create employment opportunities for the population, and therefore increase self-reliance and reduce dependency on SSN, requires private sector growth and the employment therein.** In turn, this requires job seekers to be employable and employers to be able to attract qualified employees. The former requires a good education and training system. The latter requires good economic policies and a reasonably sized and effective Government. However, at present the majority of the labor force is employed in the public sector that also serves as a *de facto* SSN. This is draining the budget while it creates a duality compared to the private sector where wages, benefits and conditions of employment are inferior to those in

the government sector. This is particularly evident in the case of women workers who tend to be employed in the public sector or not be in the labor force at all.

**Moving away from this unsustainable equilibrium requires measures to increase education enrolments and improve the education and skill level of job seekers and a reduction in the role of Government as an employer.** Both strategies require evidence-based analyses that can inform policy makers and, being objective, reduce misunderstandings and tensions and thus contribute to a productive social dialogue. As such, three strategies will be implemented by KRG to improve labor market outcomes.

### Strategy 1:

**KRG will create an effective labor supply of well-equipped job seekers and skilled workers through the education and training systems and market-driven incentives**

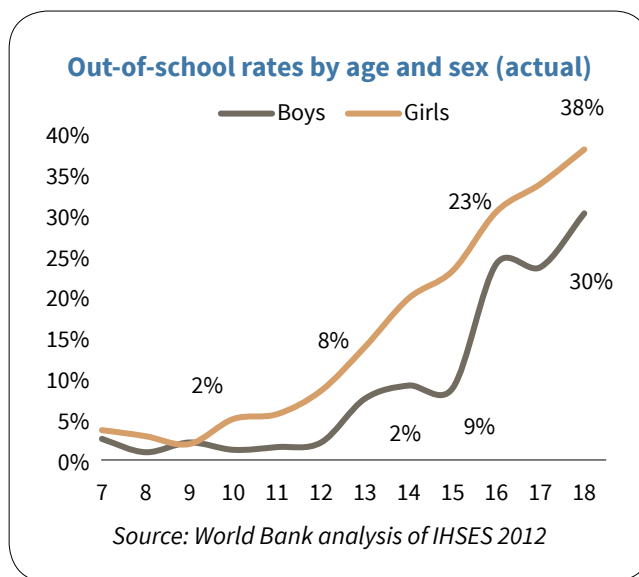
**Despite the recent commendable increase in education enrolment at all levels, especially at post-secondary education, a large share of young people face the prospect of entering the labor market with little education.** One-in-four girls have dropped out by the age of 15 (compared to one-in-ten boys). And nearly one-third of boys and as almost 40 per cent of girls are out of school before they complete secondary education.

**This poses two challenges.** First, early school leavers can barely cope with many of the production requirements even today and the situation will become worse during their lifetimes as technology will advance in unforeseen directions in the next 30 or so 40 years. Second, though neither the per capita incomes of the population nor the oil revenues of

KRG are as high as those in the GCC, there is already a tendency for nationals to be employed in the public sector and for migrants to be employed in low wage jobs. The problems the GCC countries face in the labor market (that have also social implications) are something to be avoided in KRG. The usefulness of using at a minimum a sensible foreign worker admissions management policy with reasonable regulations cannot be overstated. However, economic measures can be more potent and are also socially beneficial: If nationals are well educated and motivated, there will be a natural division of labor between them and foreign workers that would enable them to get high wage jobs, and thus avoid unemployment and dependency on social assistance.

To increase enrolments and retention in the basic school system there should be a coordinated information campaign (especially targeting girls) as well as measures to avoid pupils dropping out of school for lack of family finances (such as CCTs as discussed in the SSN section). Investment in human capital does not stop at the end of the school cycle. New recruits typically need some pre-employment or induction training. Existing workers need lifelong upgrading of their skills, especially in the current era of changing production techniques and job turnover across occupation and sectors. Internships and apprenticeships are critical avenues for enhancing skills at the workplace. Such training should be demand driven, that is, aligned with and sponsored by employers who should be prepared to co-fund such training but also be made part of the governance structure of training.

Figure 20. Out of School Rates by Age and Sex



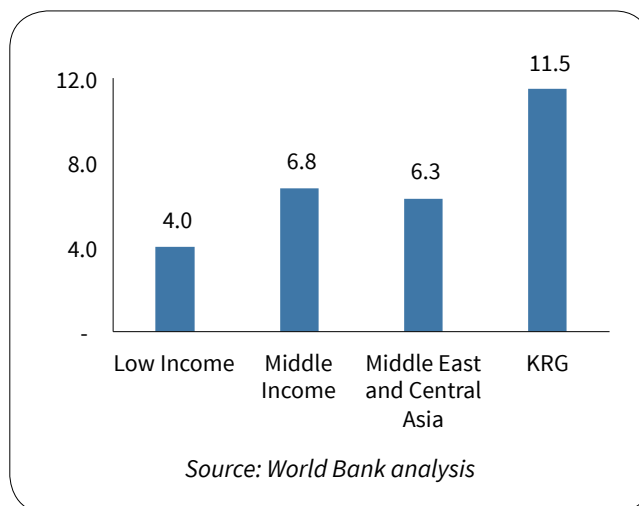
**Strategy 2:**  
**KRG will take measures to reduce the duality between employment in the public sector and private sector and thus contribute to a more dynamic private sector**

This part of the strategy requires a two pronged approach. First, public administration reforms that would: (i) Create a fiscally sustainable civil service; (ii) release funds for public investments; (iii) contribute to private sector growth through better governance; and (iv) decrease the duality in the labor market and the educational credentialism that comes with it.

Second, rationalizing the public sector and cutting government spending must go hand in hand with promoting private enterprises. The aim should be to create a high productivity private sector that would demand more workers and pay high wages. The private sector is small and consists primarily of providers of non-tradable goods and services, for example, in financing and real estate. It is saddled by lack of transparency, an unfavorable regulatory environment, poor infrastructure, trade distortions and investments, local and foreign (FDI), in sectors that recirculate the domestic resources rather than creating new wealth. In effect there are few internal forces that would drive the economy forward in the absence of high prices for oil - as the situation is today.

A cross cutting issue is foreign worker admissions management. This should aim at reducing the numbers of economic migrants taking into account the presence of refugees and IDPs, and be based on long-term social cost-benefit criteria (instead of short-term profit minimization considerations in low wage sectors).

Figure 21. Employment in Civil Service as % of Population





### Strategy 3:

**KRG will develop regulatory and institutional frameworks based on timely data analysis, well-designed employment policies, and constructive dialogue among the social partners**

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**KRG lacks the necessary institutions, statistics and mechanisms that are critical for analyses, design and implementation of evidence-based measures, monitoring and evaluation of policies all to be intermediated through a constructive social dialogue among the stakeholders.** A new labor law has already been drafted whose ratification should be expedited after negotiation and agreement with the social partners. Similarly a KRG Skills Development Strategy is pending approval. And the implementation of a Regional Employment Policy that was inaugurated in May 2015 is lagging.

**Though no substitute for good economic policies and the creation of a healthy private sector and an effective education system, active labor market policies (ALMPs) can help, if properly designed.**

These include employment services, career guidance, job counselling, labor market information (LMIS), support for micro and Small and Medium Enterprises (SMEs) and so on. ALMPs can be useful in countering education and labor market failures, mitigating costs arising from unemployment by facilitating the

reintegration in employment, and promoting efficiency and equity. They can help reintegrate some groups, including youth that have fallen through the net or displaced persons.

**Related to this are necessary improvements in social dialogue and the regulatory environment that would make it easier for businesses, especially small and micro-enterprises – including those in the informal economy – to operate and grow.**

This can be facilitated through a consultative forum for labor, social and economic issues that is the so called “Economic and Social Council” (ECOSOC). It is composed of elected representatives from the relevant constituencies (employers, workers, civil society, and government) who discuss and often publish reports that inform and advise the executive and legislative branches of government. They also serve as a relief valve for tensions that would arise in the absence of a dialogue.

## C. Legislations

### Legislation 1:

**A new Labor Law and related regulations will be needed to improve public sector and private sector employment outcomes and sharpen the focus of existing and new institutions**

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**A Draft Labor Law will be debated among the social partners and be aligned, as needed, with the SPSF.** Its negotiated form will be presented to KRG Council of Representatives for enactment. There will eventually be

a need for new laws and regulations governing public administration that will be guided by the results of the administrative, functional, and expenditure reviews that will be undertaken as part of public sector reforms.

## D. Institutions

**To implement the strategy components in the areas of the labor market, there should be new institutions and arrangements.** They should aim at

the creation of a streamlined but effective civil service, the coordination of economic and employment policies, and the effective dialogue among the social partners.

**MOLSA will be renewed so that KRG can more effectively address economic/labor issues and social affairs issues.** MOLSA will continue to oversee the labor market aspects as the restructured Ministry of Labor (MOL), while the social affairs aspects will be handled by the KRG Social Assistance Institution (see SSN section). The coordination of economic and employment policies, for example, through investments that have a significant employment impact or management of migration through work permits, can be entrusted to a High Level Council for Human Development that would involve the relevant institutions. These include Finance/Economic, Education, Labor and Technical/Vocational Education and Training ministries and authorities. MOL will be the Secretariat for the Council and be empowered to address all issues related to implementation of the new labor law.

**As a starting point for the public administration reform, that typically takes years, the Government will designate a High Level Authority for Civil Service reform (e.g. in the Prime Minister's office) to initiate the process.** This authority must have sufficient capacity to manage and oversee the civil service and its regulation.

**KRG will also create an ECOSOC with elected representatives from the relevant constituencies (employers, workers, civil society, and government).** The ECOSOC would discuss and publish reports on issues economic, employment and social policies in order to inform and advise the executive and legislative branches of government.

## E. Programs

### Program 1: Education Retention and Completion Program

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**This program should ensure that no child stays illiterate or drops out of school for financial reasons, an issue that can be supported by the social safety net component of the Strategy through CCTs.** Moreover, there will be adequate access to education to ensure that enrollment in basic education through grade 9 is universal and there is no gender gap in education. A prerequisite for the implementation of this program is a series of studies that will explore the reasons for non-enrolment. The Ministry of Education (MOE) will lead demographic analysis and education

planning to address this issue and will be supported by social workers and labor inspectors of the MOLSA who can explore other reasons for non-enrolment (such as poverty, norms or child labor). The findings of the study should be submitted to Government for approval for the resource requirements.

### Program 2: Civil Service Reform Program

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**This program consists of reforms that should be sequenced over a long time horizon and be done with a high level of political commitment.** The first step should be obtaining high level agreement to proceed with a series of civil service reforms in the context of labor market and fiscal issues. The committee should develop a civil service reform strategy that confirms the key principles and a central body should be designed as responsible for

implementation and oversight with regular reporting to a high level committee on challenges and progress. The Civil Service Reform Program will proceed in three phases:

- The Sustainability and Establishment Control Phase during which policies and systems will be put in place for controlling the creation and allocation of civil service positions.

- The Civil Service Foundation Phase during which measures will be introduced that would improve the efficiency and effectiveness and build the capacity of the civil service.
- Finally, the Recruitment Practices Phase during which there will be a shift towards more rationalized and merit-based recruitment.

### Program 3: Private Sector Employment Promotion Program

**This program will focus on measures to link economic and social policies, such as investment priorities, foreign worker admissions management, support for SMEs, training and other ALMPs and so on.** It will be led by a High Level Council for Human Development that would involve, on the one hand, the economic and social ministries and authorities and, on the other hand, representatives of key stakeholders. It will:

- Undertake studies that will establish the current baseline in the areas of training, capacity of institutions and actors to perform the tasks expected of them;
- Propose measures that will enhance the labor market intermediation (e.g. labor inspections, wage determination, social dialogue);
- Guide and support the development of labor market information systems;

- Examine how social safety net benefits relate to labor incentives; and
- Monitor and evaluate closely economic policies and employment programs to ensure impact and results.

**The High Level Council for Human Development, or a “labor market working group of ministries (e.g., planning and labor) and private sector leaders” will be established to examine ways of aligning conditions between the public and private sectors.** This will bring public sector pay closer to that in the private sector while it can also assess the challenges to attracting workers to the private sector.

**Table 5. Employment and Pay by Sector, Sex and Multiple Job Holders  
(Monthly Wages in Thousands IQD)**

Average of ALL LFS Wages/Years 2012-2014						
		Employment	% One Job Only	Adjusted Average Wage	% With > One Job	Adjusted Average Wage
Men	Public	457,432	90.8%	795	9.2%	1,314
	Private	526,774	98.3%	727	1.7%	1,416
Women	Public	134,822	99.5%	693	0.5%	1,852
	Private	26,822	99.7%	424	0.3%	657

Source: World Bank analysis of KRG LFS

## F. Administration

### Labor Market Information System (LMIS)

**To effectively support the public administration reforms and also labor market policies there should be a relevant, adequate and timely supply of data.**

These can come from regular surveys (such as labor force surveys or household surveys), administrative data (i.e. registries) as well as ad hoc databases or information collected for other purposes (such on social insurance). The various databases dealing with different aspects of social protection should be linked so they can be jointly analyzed to ensure policy coherence and avoidance of the poverty trap whereby benefits are acting as a disincentive to employment.



# SECTION V

## Pensions and Social Insurance – Towards Resilience



### A. Strategic Directions

**KRG Vision 2020 indicates that reforms will include the creation of a state pension system that will be attractive for the growing private sector.** The Vision also states that the goal is to design and implement a pension system that could provide a fair alignment between contribution rate, retirement age, and pension benefits (based on length of service and wages). Besides being adequate the system needs to be financially sustainable, as well as economically and administratively efficient (particularly allowing public sector employees to move easily to the private sector). This section describes three strategies on social insurance (and pensions<sup>15</sup>) to address the challenges faced by KRG, which are also in line with the policy priorities indicated in KRG Vision 2020.

**The three strategies intend to address such challenges.** Strategy 4 will implement parametric reforms to the current schemes to ensure financial sustainability and move towards integrating public, private and other (occupational) pension schemes. This strategy will address the three first challenges of administrative capacity, pension system designs, and fragmentation<sup>16</sup>. Strategy 5 will design and implement: i) conventional and alternative mechanisms to expand social insurance coverage, and ii) social

pensions; and Strategy 6 will design and implement an Unemployment Insurance (UI) program. Both Strategies 5, and 6 will address the challenges of low coverage in the private sector.



15 Pensions provision can be social insurance (based on contributions on wages, and mostly risk-pooling), but can also be social pensions (non-contributory financed through general revenues).

16 As summarized earlier in the document, the pensions and social insurance challenges are: (i) Low administrative capacity; (ii) schemes are inequitable and financially non-sustainable; (iii) the system is fragmented, leading to distortions in the labor market between the public and the private sector; and (iv) the regional system suffers from low coverage in the private sector.

## Strategy 4: KRG will implement parametric reforms to the current schemes to ensure financial sustainability and will move towards integrating public, private and other (occupational) pension schemes

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**The strategy is to design a new pension system (including disability, survivors and old-age programs) that respects the principles of a well-designed pension system based on international best practices.** While there is no single best way of structuring a public pension system, the choice is by no means arbitrary, and any proposed reforms will be: (i) Considered with respect for KRG's enabling conditions and capacities; and (ii) evaluated using generally accepted principles of pension reform developed from international best practices. Such principles include adequacy<sup>17</sup>, financial sustainability<sup>18</sup>, and coverage, but also fairness, economic and administrative efficiency, affordability, as well as predictability. The system will cover both private and public sector employees. Other current special schemes in KRG (such as occupational schemes for university professors) will also be considered under the same umbrella.

**The strategy is proposed because it will mostly address the following challenges:** (i) The challenges of the current pension scheme designs (including equity/fairness, financial sustainability, and predictability/transparency); (ii) administrative efficiency; and (iii) labor market flexibility. The particular challenges will be addressed as follows:

1. The challenges of the current pension scheme design in KRG are many and some concrete aspects on how to address them are the following:
  - a. *Equity and fairness* will be addressed by this strategy because the new design (for both integrated pension schemes) will highly link the benefits provided by the system to the individual's contributions (and those made on his or her behalf by employers) but at the same

time the system will respect the risk-pooling mechanism, and subsidies will only be as large as is required to attain their underlying social policy objectives. In this respect, one concrete aspect to consider in the newly designed pension benefit formula will be the increase of the base wage for pension calculation. The wage to be used for pension calculation would need to be based on the valorized average wages of the individual's entire career (not only based on the last wages as currently is)<sup>19</sup>, given the fact that having a different base for contributions (lifetime wages) and benefits can be unfair, open to abuse and have perverse incentives<sup>20</sup>. In the public pension scheme the base wage for both pensions calculation, and

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17 Benefits are adequate when they (i) provide sufficient income to protect participants from falling into poverty in the event that they become disabled or after they have retired and (ii) provide a reliable mechanism for smoothing consumption between a participant's working years and his or her old age.

18 A pension system is sustainable only when it has the capacity to pay current – and future – benefits over a long horizon under reasonable assumptions without shifting substantial burdens to future generations and without having to cut benefits, increase contributions, or change qualifying conditions. This can only be accomplished if pension systems are designed and periodically tweaked using careful actuarial modeling.

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19 Today in KRG the pension in the public sector is based on the last wage and in the private sector the three last wages. Basing pensions on a limited sub-set of years – the best or final years in the career – used to be very common around the world. But this is no longer the case. Many countries, including Greece and Italy for instance, have moved from the final five years to the lifetime average. Spain and Sweden will reach the same position from a starting point of 15 years' averaging period while the United Kingdom and Norway started from the best 20 years.

20 For example, basing pensions on a limited number of best or final years (such as the case of the pension schemes in KRG where pension is based on the last salary only in the public sector, and 3 last years in the private one) tends to be regressive, because the people with final or best years substantially above their career-average earnings tend to be those that earn the most. Moreover, given the fact that KRG has a large informal sector, basing the pension on only the last wages gives a large incentive to under-report earnings in earlier years. Also, in the public sector it reinforces distortionary systems of seniority-based pay (people might ask for a salary increase just before retirement). Basing pensions on a subset of years of earnings also tends to encourage people to retire once earnings have peaked rather than move to lower-paid employment. Extra contributions would then reduce rather than increase their retirement income. These are various reasons why to calculate pensions based only on last wages is unfair and produces considerable inequities.

contributions will include all income (basic salaries, plus allowances)<sup>21</sup>.

- b. *Predictability and transparency.* The main reason benefits are unpredictable in KRG schemes is the lack of automatic uprating of pensions in payment. Without regular adjustment, the purchasing power of benefits is eroded and living standards of retirees may fall behind the rest of the population. In the new system pensions in payment will need to be automatically indexed to inflation every year.
- c. *Sustainability and affordability*<sup>22</sup>. Both pension schemes in KRG are financially unsustainable, meaning that expected income flows (from contributions) are not enough (and/or will not be enough) to cover expected expenditures. The public sector scheme is already in deficit (revenues from contributions are not enough to pay pensions expenditures). This is the consequence of a fundamental misalignment between the contribution rate and benefits paid at various retirement ages. The rules that guarantee the financial sustainability of a defined benefit pensions systems financed on a pay-as-you-go basis are not respected<sup>23</sup>. If these schemes are not reformed public resources will end up subsidizing pensions (which is the case in the public sector in KRG) of the formal sector workers (mostly civil servants) which is unfair and very regressive<sup>24</sup>. One particular measure in this respect could be the decrease of the accrual rate (in order to



approach the present value of contributions to the present value of benefits)<sup>25</sup>. Spotting problems of financial sustainability early is vital to enable corrective actions that avoid more painful adjustments later on.

21 Currently in KRG pensions contributions (as well as pensions benefits) are only based on the basic salary, not allowances, making the total replacement rate for retirees very low. By design an individual can expect to have a pension that represents 80 percent of his/her last basic salary, however this would represent only around 40 percent of his/her total earnings pre-retirement.

22 Closely linked to the issue of affordability is that of sustainability. While affordability looks only at the costs of pension benefits, sustainability compares the retirement benefits with the contributions paid to earn the pension rights

23 See further description in the section on programs

24 A best international practice consists of using general revenues only to provide targeted benefits for the poorer or those individuals with low or no savings capacity. But even then, with many challenges to achieve better human development indicators (e.g., job creation, enrollment rates, mortality rates) KRG needs to be very selective in the allocation of the government budget between social protection, labor policies, education, and health programs. In order to avoid such challenges, KRG decision makers will have to think about changing the pension scheme designs.

- 2. The challenge of administrative efficiency is a critical issue to address. The strategy includes meeting reasonable standards for financial governance, service delivery and enforcement at reasonable administrative costs. Particularly during the process of reforming and implementing an integrated pension system, the administrative functions should be the first ones to be merged. Collection, record keeping and payments should be unified (for all employees/ contributors in KRG).
- 3. The strategy will also remove the impediments to labor mobility and reduce unjustified pensions compensation differentials between public and private sectors through the creation of an integrated pension system. Although originally pension funds could be kept separate for private

25 The current pension benefit designs (in both sectors private and public) make the present value of benefits much higher than the present value of contributions

and public sectors<sup>26</sup>, harmonization of rules and portability of rights should be made possible. The primary rationale for integrating separate pension schemes covering the private and public sectors is to improve welfare through better performing labor markets. When distinct pension schemes exist for the public and private sectors, like in the case of KRG, (a situation referred to as *dualism*), labor mobility is typically constrained because workers who choose to move from one sector to the other may sacrifice their rights to any benefits they have accrued (if no mechanisms exist to provide benefit portability) or may see their rights greatly reduced (if mechanisms exist but are not designed to provide *full* benefit portability).<sup>27</sup> Constraints to labor mobility reduce overall economic welfare because they impede an efficient matching of skills and opportunities within the labor market. Limited labor mobility creates welfare losses because it impedes the efficient allocation of human capital (which is one of the key inputs of production) within a market economy. For human capital to be allocated efficiently, employers must be able to freely hire (and fire) employees in response to dynamic changes in the demand for their products

and services. In addition, employees must be able to freely migrate from employer to employer without penalty. This requires a labor force that is not constrained – either by restrictive labor laws or by incentives that discourage mobility – from (i) seeking employment wherever – and whenever – opportunities arise and (ii) leaving jobs without penalty whenever their skills are not needed or are not being fully utilized.

4. Eliminating such constraints is crucial because the frequent and unimpeded reallocation of human capital lies at the very heart of how market economies thrive and grow. In places, such as in KRG, with large and entrenched public sector, dualism thereby tends to actively discourage private sector job creation because the generosity of public pension scheme helps to enable the public sector to attract the “best and the brightest” and then creates strong disincentives for such persons to even consider leaving public sector employment. Also, in KRG, the private sector scheme allows people to collect lump-sum payments every time the person changes employers, and the minimum vesting period required for a pension is not reached by many people, leaving them with the risk of falling into poverty in old-age. With an integrated pension system in KRG the rules will be the same for all employees regardless of the sector, employer, and/or how often they change jobs, sectors, and/or employers.

26 Based on international experiences integrating different schemes when some (usually covering the private sector) have still reserves and others (usually covering the public sector) do not have reserves and are even already in deficit can lead to the private sector subsidize the public one, making the integration of funds undesirable (particularly for the private sector). There are several ways to overcome such challenge but merging only the administrative functions and converge on the scheme parameters, keeping the funds separately would be recommended. Basically, collection, recordkeeping and payments should be unified while the funds could be kept separate and portability made as easy as possible.

27 In KRG the benefit formula for pensions calculation is more generous in the public sector where pension is based on the last salary only, while in the private sector is based on the three last wages, and people are reluctant to move from the public to the private sector. Also, defined benefit pension schemes are, in a sense, mandatory savings schemes. As workers contribute to such schemes, they accrue rights to benefits in the future. Those rights are typically subject to vesting requirements (i.e., the requirement that workers contribute for a specified period of time before being entitled to benefits, in the case of KRG, 20 years in the private sector and 15 years in the public one). Workers who leave employment prior to meeting these vesting requirements typically sacrifice all of their accrued rights or receive a lump sum payment that is worth less than what those rights would have been worth had the workers remained employed with the same employer until reaching retirement. The absence of mechanisms to provide full portability of benefit rights across employers (or across employment sectors) imposes a similar sort of penalty and thus discourages labor mobility.

**The strategy will address the proposed reform through deep discussions of potential alternatives.**

It must be emphasized that the existence of the principles of well-designed pension system does not imply that they are always in harmony with one another. To the contrary, these principles often exist in tension: steps to raise levels of income replacement in pursuit of benefit adequacy, for example, may undermine a scheme’s financial sustainability over the long-term. The resolution of these sorts of trade-offs is the central – and inherently difficult – challenge that policy makers in KRG will need to face. It is also important to emphasize that any practical discussion on the details of how to go about reforming and merging the current schemes into a new state pension system should be done with an actuarial analysis. For this reason, the proper governance (particularly financial governance) of social security institutions would need to be in place and capacity building on pensions developed in order to have effective discussions and decisions regarding the best reformed and integrated pension system for KRG. During the process of designing and implementing the new system a proper database will need first to be in place and producing financial projections of the pension program will be essential in such process.



**Most countries worldwide are facing considerable challenges on pensions.** Parametric reforms of PAYG defined-benefit type of schemes (such as the type of schemes in KRG) are the most common and happening worldwide. These types of reforms usually involve a combination of increasing retirement ages, increasing contribution rates and/or decreasing benefits. Implementation of Strategy 4 in KRG will result in making a new integrated pension scheme financially sustainable or at the very least will be in place a transparent financing mechanism that would allow a clear understanding of the future financial needs to maintain such type of contributory scheme.

**In 2014 revenues from contributions in the public pension sector scheme in KRG represented around IQD 1.1 trillion, while pension spending represented already more than IQD 1.2 trillion.** The scheme is already in deficit. Considering that the number of contributors (civil servants, and military) has been increasing from 444,350 in 2008 to more than 680,000 in 2014, the implicit pension debt (pension promises to contributors, and pensioners) has also been considerably increasing. Consequently, in the absence of any reform, the current annual pension payments of more than IQD 1.2 trillion (to less than

300,000 beneficiaries at the moment) is expected to exponentially increase.

**Implementation of Strategy 4 will result in considerable cost savings, particularly in the medium and long-term<sup>28</sup>.** In the absence of reform, pension spending is expected to increase to more than IQD 3 trillion in less than five years, this would represent a deficit of the pension scheme of more than IQD 2 trillion. In the medium and long-term pensions spending and deficit are estimated to increase even further. The cost savings of implementing strategy 4 could represent between IQD 2 and 5 trillion in the short term, more than 10 trillion in the medium term and more than 20 trillion in the long term. These cost savings in the pension system could be used for other deserving programs in KRG, such as health, education, etc. Strategy 4 will also result in a clear understanding of a transparent financing mechanism of the pension system. Public and private sector employees will have the same pension rights and consequently this new pension system implemented under strategy 4 will eliminate some of the current obstacles to labor market flexibility.

28 A pension scheme involves long-term promises, and consequently the full effect of any reform will also be in the long-term.

## **Strategy 5: KRG will design and implement conventional and alternative mechanisms to expand pensions and social insurance coverage**

**As indicated in KRG Vision 2020, the new state pension system should be attractive to the growing private sector.** Currently almost 85 percent of the labor force in the private sector are not covered by any type of pension scheme, while almost 100 percent of the labor force in the public sector are covered. In this respect the objective of Strategy 5 is to expand coverage in the private sector beyond the current 16 percent of the labor force to ensure old-age income security for all. It is important to note that such step towards coverage expansion is not recommended to be taken until a well-designed and integrated pension scheme is in place.

**The strategy will address such reforms through the following:**

- i. Incentive mechanisms to contribute (including communication campaigns, education, etc.), and implementation of measures against evasion of contributions;
- ii. Alternative (and some innovative) mechanisms to expand coverage for self-employed and others

not covered, and difficult to cover by traditional type of schemes, such as self-employed, seasonal workers, etc.; and

- iii. Long-term implementation of social pensions (for those who did not contribute, or have not saved enough for old-age income security and are 65 years of age or older).

**It is important to emphasize that most governments in the world are currently facing considerable challenges to expand the coverage of their current social insurance systems.** Implementation of Strategy 5 is expected to result in an increase of thousands of contributors from the private sector. Because of the implementation of social pensions, Strategy 5 will also result in an increase of the number of people receiving pensions above the age of 65. More than 100,000 people above the age of 65 (and an increasing number into the future) that are currently not receiving any pension will be receiving one when Strategy 5 is implemented.

## Strategy 6: KRG will design and implement an Unemployment Insurance program

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**One policy priority indicated in Vision 2020 is the development of a comprehensive unemployment insurance (UI) system.** The system will protect individuals from unexpected job loss, and will raise the security of working in the private sector.

**Based on international experiences, markets alone cannot provide adequate protection against the risk of unemployment.** Private UI fails because of informational problems: the so-called moral hazard (changes in behavior in the presence of insurance that are impossible or very costly to detect) and adverse selection problems (high-risk workers make insurance unattractive to average and low risk workers), hence the mandate for social policy. A recommended UI program will be designed as a mix social unemployment insurance/assistance program, which will basically: (i) Provide “safety net” for those who find themselves without jobs; (ii) provide cash benefits

to employees for a set duration of time; and (iii) the system will be self-financing through contributions for the most part.

**The private sector scheme in KRG allows people to collect lump-sum payments every time the person changes employers, and the minimum vesting period required for a pension is not reached by many people, leaving them with the risk of falling into poverty in old-age.** This mechanism works more as a type of severance payments for unemployment than as a pension (which should be an annuity, not a lump-sum payment). If a proper unemployment insurance is in place, the option of receiving lump-sum payments in between jobs could be cancelled, hence allowing more people to reach the required minimum length of service for receiving a regular pension.

## B. Legislations

### Legislation 2: A new KRG pensions and social insurance law (covering both public and private sector employees), covering pensions and other social insurance programs, will be designed

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**Given the lack of clarity of the current legal framework on pensions and social insurance in KRG, the new pensions and social insurance law will be clear and well communicated to all stakeholders.**

Given the current lack of clarity of the legal framework on pensions and social insurance in KRG, the new pensions/social insurance law will be clear and well communicated to all stakeholders. The law will be simple and articles will not invite to ambiguity and/or potential adverse manipulation by the implementers. Articles will not include any currency nominal value. The law will include, on the other hand, the requirement of the system to be periodically tweaked using careful actuarial modeling.

**The new legislation will put into different articles the social insurance policies indicated earlier, and it will:**

- Clearly indicate the composition of the social insurance governance mechanisms;
- Governance of administrative operations (including management structures, databases, and record-keeping);
- Financial governance (including budget, financial controls, and actuarial valuations); and
- Governance of investments and planning functions.

## C. Institutions

**A new social insurance institution, KRG Social Insurance Authority (KSIA) will be established, covering both public and private sector, and programs other than pensions.** The new institution will administer all social insurance (including unemployment insurance), will be created by effect of the social insurance (and pensions) law, will include a board that represents government, employers, and employees, and it will be staffed with the necessary human resources to implement the social insurance policies.

## D. Programs

### Program 4: Integrated Old Age Pensions Program for Wage Earners

**The purpose of this program is to provide old-age, disability, and survivorship pensions for wage earners (both from the private and public sector).** The design of the program will still be contributory and defined-benefit which means that individuals will contribute to the scheme and pensions will be calculated according to a prescribed formula. However, careful consideration will be given to the alignment between the contribution rate and benefits (accrual rate, and retirement age). The rules that guarantee the financial sustainability of the program will be respected. These parameters (contribution rate, accrual rate, and retirement age) will be adjusted to guarantee such sustainability. In this respect financial projections of the pension program will be essential.

**Policy makers must also recognize and respect the essential fact that all the social objectives included in this program (old-age, disability, and survivorship) have costs associated with them.** Enhanced protection for dependent survivors, for instance, will require higher contribution rates, lower benefits, or other cost-saving measures if a pension scheme is to be held in fiscal balance. The resolution of such trade-offs is the central – and difficult – challenge that policy makers will need to face.

**Despite the multiple options for designing such program, there are two concrete measures that need to be respected (based on international best practices):** (i) the benefit formula will be based on the valorized entire career of an individual wages, and (ii) pensions in payment will be automatically indexed to inflation.



## Program 5: Old-age Pensions Program for Other Categories (not yet covered wage earners, self-employed, seasonal workers, etc.)

**The purpose of this program is to provide a package of mechanisms that would extend the coverage of old-age (and in some cases survivorship and disability as well), either by contributory or noncontributory means.** Despite the interesting innovations introduced by certain countries on expanding coverage, it remains clear that most countries worldwide still have a long way to go before achieving universal coverage. Policy makers in KRG should keep this in mind.

**A good alternative to expand coverage for KRG would be a combination of:**

a. Expansion of coverage through the new state integrated pension system (earnings-related defined benefit), that will include mechanisms

to create incentives for contributions, and other mechanisms to avoid/reduce evasion;

- b. Design and implementation of alternative mechanisms for self-employed, and low and/or irregular income earners, seasonal workers, etc. (income related, micro-insurance, micro-savings, etc.)
- c. Universal social pensions for those who do not receive a pension from the mandatory contributory earnings-related scheme/s.



## Program 6: Unemployment Insurance

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**This program links closely with labor market programs (i.e., training and other active labor market programs).** The program will be contributory and will include a sustainable fund for unemployment benefits, with specific eligibility criteria. It will help mitigate risks of layoffs in the private sector, and create more dynamism in the labor market.

**The coverage of this program will include employees (including foreign nationals) aged 18 or older working under a service contract in the public or private sector and certain other specified groups.** On the other hand civil servants, workers in agriculture and forestry, household workers, military personnel, students, and self-employed persons will not be covered by such program, although some type of voluntary coverage will be available.

**The sources of funds will include a small contribution rate from the monthly earnings of**

**the employee (around 1 percent), and another small rate from the employer (around 2 percent of monthly payroll).** Government might also contribute 1 percent of monthly earnings up to a maximum. In order for an individual to qualify for an unemployment benefit, the individual must have paid contributions in the last days (number should be specified by law) of employment and have at least a number of days (also should be specified by law) of paid contributions in another number of years (around 3 but should also be specified by law), before unemployment. The minimum unemployment daily benefit will be a percentage (around 30 percent to 40 percent) of the average daily earnings in the last four months, up to 80 percent of the gross legal monthly minimum wage. The benefit will be paid for a number of days to an insured worker with at least a higher number of days of contributions; etc.

## E. Administration

### A robust management information system and administrative capacity for social insurance and pensions

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**A robust management information system and administrative capacity will need to be put in place for social insurance and pensions.** The system will need to manage contributions as well as administer the overall pension system. It must be based on latest information technology, linking governorates together, and must be able to link with the KRG Unified Registry. The system will require extensive capacity building on: (i) Administration of social insurance system; (ii) social insurance/pension system designs, parametric reforms, and integration of pension schemes; and (iii) development and implementation of social insurance policy analysis and actuarial work.

# SECTION VI

## Social Safety Nets – Towards Equity



### A. Strategic Directions

**KRG Vision 2020 states “our aim is to improve living conditions of the poor, address the causes of poverty and foster upward mobility, and redesign our programs so that by 2020, assistance is targeted to those in need and creates economic opportunities for all”.** The current situation in

KRG requires reformative efforts to get aligned with the aims of the vision, including enhancing social care services. Strategies 7 and 8 will support implementation the Vision 2020 principles of better targeting, better care, and overall inclusion.

#### Strategy 7:

**KRG will use poverty as a main determinant of eligibility for its Social Safety Net Programs (including the PDS) and provide effective social care for vulnerable and disadvantaged groups**

**KRG relies currently on the provision of cash transfers that use broad social categories instead of more effective targeting mechanisms to determine eligibility (such as Proxy-Means Testing (PMT) or geographical targeting) which helps explain why the majority of the poor do not benefit from this program.** While PDS is almost universal in distribution, the inefficiency of the current categorical selection had helped create a form of a welfare-style dependency resulting in negative incentive and pay insufficient attention to impact or quality. This had failed to meet the purpose of social assistance and has led to inefficient use of resources. That is why the policy priorities in Vision 2020 and the comprehensive Poverty Reduction Strategy set by KRG in 2009 should focus towards more targeted eligibility of beneficiaries.

**KRG will adopt poverty levels as a dimension in the selection of beneficiaries from social assistance program.** This will allow to have a broader perspective in linking vulnerability to the economic variations which in turn affects the livelihoods and consumption of all. Household welfare levels will be the determinant

of whether a household is eligible for assistance or not. Adequate targeting mechanisms allow for adequate coverage thus greater impact in more equitable and effective manners.

**KRG will restructure its social care services to meet the objectives of providing planned coordinated and effective services with a systematic outreach to beneficiaries.** Social assistance programs at MOLSA suffer fragmentation and un-coordination. This has implications in terms of limited and scattered coverage, and increase the likelihood of inclusion and exclusion errors, weak referral systems and limited awareness among staff and beneficiaries about other programs and benefits which become key obstacles to children’s, families’ and communities’ access to essential benefits and services.

## Strategy 8:

### KRG will protect its human capital by providing incentives for better health and education

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**Poor child health (stunting and child underweight rates) has the highest prevalence among the poorest quintiles in KRG compared to regional figures.** Same as health, education remains one of the strongest correlates of poverty, which is why the lack of access to schools, the pressure to support the family by working and the unaffordability of schooling mainly for girls and social norms about the value of girl's education all contribute to poor educational outcomes.

**Although KRG had taken since 2008 serious steps towards improving basic and secondary education to reach international standards including increasing the number of students enrolled and the number of teachers, yet the number children leaving schools to work and support their families have increased.** Conditional Cash Transfers (CCT) will be started as a mean to enhancing human capital of poor families by incentivizing them to utilize education and health services. The purpose of CCTs is to contribute to poverty reduction by smoothing consumption and by promoting more equal opportunities in terms of access to and use of education and health services.

**At the level of the individual, CCT programs can help build and protect human capital through preventing malnutrition and underinvestment in education and health, and invest in productive assets.** At the level of the local economy, they can enhance community assets and infrastructure, and have positive spillovers onto non-beneficiaries. At the overall economy level, they act as stabilizers of aggregate demand, improve social cohesion and make growth-enhancing reforms more politically feasible (Alderman and Yemtsov, 2012).

**Preserving human capital requires creating fair opportunities to all.** Poverty reduction is an important means to preserve human capital rather than an end by itself. Preserving the human capital requires giving people more freedom and opportunities to live lives they value. To develop people's ability and giving them a chance to use it requires that the individual be healthy, educated and knowledgeable and has access to resources needed for a decent standard of living.

## B. Legislations

### Legislation 3:

#### A new KRG social assistance law to bring equity and better targeting of social assistance

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**Setting the legal framework for any reform is essential to ensure political and legal validation of any undertaking as well as ensure sustainability within operating institutions.** KRG will adopt a new Social Assistance law that would look at: (i) Prioritizing interventions that ensure the preservation as well the adequate investments in human capital; (ii) adopting poverty targeting as a means of selecting the poor and vulnerable to benefit from social assistance programs; (iii) ensuring the availability of supervision and control on service and assistance delivery through a well-structured monitoring and evaluation mechanism; (iv) establish a citizen engagement pathway by developing a reliable GRM reaching out to other stakeholders be it in the private sectors or civil society actors; (v) improving the structure among stakeholders and

providers through the development of a unified registry; and (vi) focusing on institution building. This law will guarantee that the newly reformed social assistance is appropriate, adequate, equitable, cost-effective, market-friendly, sustainable, and dynamic.



## C. Institutions

**The KRG Social Assistance Institution (KSAI) will be established as a regional institution to:**

- (i) Implement the vision of Social Protection in KRG;
- (ii) lead the dialogue between all stakeholders; and
- (iii) ensure coordination between implementing

agencies and ministries. KSAI will report directly to the Prime Minister's Office. This will ensure the political backing for smoother and more effective operations across the multiple agencies that will participate in implementing Strategies 7 and 8.

## D. Programs

### Program 7: KRG Poverty Targeting Program

**KRG will use PMT as a main targeting methodology to increase coverage while reducing to the minimum the rates of inclusion and exclusion errors.** The database of beneficiaries that result of the PMT will allow focusing resources where they are the most needed therefore leading to a higher impact. The PMT framework is a method of targeting that uses observable and verifiable household or individual

characteristics derived from the household surveys, in a formal algorithm to proxy household welfare. These variables are selected based on their ability to predict welfare. In addition, to maximize targeting effectiveness, a combination of targeting methods will also be used to include geographical targeting and community-based targeting.



### **The main advantages of such a method are to:**

- Maximize coverage of the poor and minimize resources that are transferred to the non-poor.
- Minimize leakages, currently 75% of the allocations, to the non-poor, to ensure that a greater share of resources spent on programs that use the household targeting systems reach the poor.
- Cost efficiency, by making efforts to minimize the cost of interviewing families while ensuring the integrity of intake efforts.
- Transparency in all aspects to enhance credibility and reduce fraud, minimize subjective component in distribution of the social assistance. This would be strengthened through a good citizen engagement plan including a communication strategy and the development of a sound GRM..
- The targeting mechanism should be flexible in term of adjustment of coverage and allowing targeting of different programs.

**KRG will ensure the effectiveness of good targeting through transparency and consistency.** MOLSA and

MOP will develop a clear and consistent application that builds on centralized criteria. This will reduce the level of political interference by frontline officials and beneficiaries. Abiding by the transparent system and the technically sound criteria will ensure maximum inclusion of the poor. This will be strengthened further by a communication campaign that invites all who think are eligible to apply. The most important element in setting up the mechanism remains in the financial and logistical abilities of KRG to reach all those in need and secure the needed budget that sustains the program.

**The database generated by this targeting methodology will be used by other social assistance and social care providers.** This PMT database will be the starting point of a unified registry which could be very useful in case of shocks to allow government agencies to channel assistance to the most vulnerable. MOP, MOLSA, MOE, the Ministry of Health (MOH) and KRG Region Statistics Office (KRSO) may be involved jointly in this program. The database generated out of this program could be used by all.

## **Program 8: Conditional Cash Transfer Program**

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**KRG will launch the implementation of a CCT Pilot program.** This program is meant to highlight the importance of investing in human capital through adopting CCT to ensure that covered social services in education and health, which requires enrollment and attendance in school and primary health care for the mother and family, are well utilized. This makes it easier to break the cycle of intergenerational transmission of poverty and is supportive of the incomes of families that suffer from chronic poverty.

**KRG CCT program will start with a pilot in a specific geographic area that displays high rates of poverty and gaps in education and health.** The program will involve a number of measures which include:

- i. Identify sectors for the implementation of the experiment (as a sector health and education sector) to reduce the mortality rate and the dropout rates;
- ii. Identify geographic area where the health and education requirements are met and both health centers and schools are available;

- iii. Identify the challenges expected as a result of implementation and related customs and traditions of the community for residents of the experimental environment;
- iv. Increase awareness to ensure the creation of generations to break the cycles of poverty;
- v. Improve overall service delivery for education and health services.

**At the initial pilot phase, the CCT pilot program will target poor households with children 0-6.** The CCT pilot program will feature elaborate implementation architecture, including a beneficiary identification and update system, compliance verification system, payment system and GRM. The impact evaluation will investigate if the pilot CCT program will have an impact on health and education of poor children and that it has a significant effect on poverty and inequality, particularly among the beneficiary households.

**The Ministries of Labor and Social Affairs, Health,**

**Education, Planning, Finance and KRSO will be involved in this program.** That is why institutional arrangements will have to be made to facilitate inter-sectoral coordination and linkages. The pilot would benefit from at least the following: (i) a process evaluation, which will allow extracting lessons learned from the pilot implementation at an operational and institutional level (identification of bottlenecks for delivery; agility of the process; clarity of roles and responsibilities); and (ii) an impact evaluation.

**Civil Society Organizations (CSOs) and Non-Governmental Organizations (NGOs) can play a very important role both at the level of targeting and the implementation of a CCT pilot Program.** Their ability to connect with households and communicate the programs and the plans of MOLSA could be pivotal. For this, it is imperative that MOLSA establishes working mechanisms with these structures through an adequate communication plan that disseminates the messages of MOLSA and builds on the resources available within these agencies.

## E. Administration

### KRG Unified Registry

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**The lack of coordination and communication between the different governmental agencies, and even between the departments of a single ministry have led to inequity and low coverage of services.**

The absence of a reliable Management Information System (MIS) has restricted the effectiveness of the social protection programs by limiting understanding of the most appropriate options to operationalize systems, especially where social assistance programs have been established for long periods of time. Most of these programs use manual rather than systematized operations, lack sophisticated information management, and use limited technology. These need to be reformed and restructured to allow towards setting up the baseline for a unified registry.

**KRG will proceed towards the establishment of a unified system to initiate a basic reform in the setup of databases as well as cross-checking and validation among concerned agencies in social protection.** Instead of having numerous databases for each program, it is essential to set up a Single Registry as a central database. Reducing fragmentation and increasing the overall efficiency of Social Protection programs becomes possible. A unified registry maintains household profiles, providing and managing information on households' needs, benefits, and enrolment information in one place. As a result, household information can be cross-referenced by programs and easily referred to by complimentary programs, or updated. In addition, a single registry facilitates the harmonization of SSNs across sector and ministries; induces coordination, reduces waste

and duplication as a result of sharing the same registries of beneficiaries; and helps ensure that a package of Social Protection services is provided to the vulnerable population (Blank & Handa, 2008) . With social information consolidated under one database, the intention is that the KRG Unified Registry would be utilized, by mandate of the KRG, by all government institutions in provision of social transfers (cash, in-kind), etc., as well as other benefits (i.e., subsidies).

# SECTION VII

## Strategic Communication

**Successful reforms require strong support of key stakeholders and deep understanding by the general public.** They can be messy, dynamic, and unpredictable. It is not uncommon that even successful ones experience ups and downs, challenges, and reversals. Even well intended and in general accepted reforms could fail if there the expectation and understanding of the different stakeholders are not well managed.

**Often, reform programs encounter resistance for the following reasons:**

- Poor understanding by stakeholders of the issues and how it affects their interests.
- Lack of ownership by those implementing the changes (other governmental institutions, employees, and other partners).

- Strong resistance by those who might be at disadvantage from the reforms (the losers), or who perceive themselves as such.
- Lack of institutionalized feedback mechanisms between decision-makers and the stakeholders.
- Any change in the status quo is hard, even if the changes are positive ones.

**The KRG population is quite diverse, consisting of identities such as Kurds, Turkmen, Chaldeans, Assyrians, Syriac, Yazidis and others coexisting in peaceful manner despite the ongoing unrest in Iraq and neighboring countries.** This diversity is reflected in the government coalition, through the formation of several political parties. In order to maintain this harmony and coexistence, the Government of KRG has committed to a consensus building approach to



deciding on national issues. This commitment is even more critical during reform time, to ensure all parties and stakeholders understand the reasons, benefits, potential risks and their own role in the reforms. How the reforms are launched and implemented will be critical to demonstrate the government's commitment of *Putting People First*, accountability and transparency.

**The SPSF calls for multiple wide-reaching reforms that will require legislative changes, establishment of new institutions, and rollout of multiple programs.** The reforms will require changing the way the MOP, MOLSA, MOE, MOH, and MOF operate, collaborate and communicate. It will require close collaboration between the different ministries and other critical stakeholders such as Parliament, Donors, CSOs, Unions, Private Sector, and the media. It will also require extensive outreach to clearly and simply explain the changes while managing the concerns of the dissentients. Communication by the ministries implementing the reforms need to be consistent and aligned in order to present a unified and cohesive front to minimize the possibility of misunderstanding or misperception. Building widespread understanding and support will be critical to the successful implementation and sustainability of the SPSF reforms.

**In this local context and given the complexity of the proposed social protection reforms, three level of stakeholder engagement will be required:**

- Sufficient and effective leadership support in order to build and maintain the political will which will need to be distributed, collective and coordinated, based on the impact on the different institutions and their role in the reforms.
- Sufficient support within the relevant institutions where several departments must support and implement the reforms in collaboration.
- Broad public support and understanding.

**This type of stakeholder engagement requires different strategic communication approaches depending on the stage of the reforms and related programs.** Strategic communication is a managerial tool that is critical to generate support and buy-in for reforms, policies and programs. It is a planned,

analytical approach for determining who the project must engage to achieve reform objectives, for what purpose they must engage, when they must engage, and how.

**To date, most of the communication approaches adopted by the government of KRG consist of one way communication such as media outreach, web and social media outreach.** Strategic communication goes beyond this traditional one-way flows of broad messages, by building proactive, planned engagement strategies, and designing strategic and credible approaches to communicate with them.

#### *Overall communication activities*

**By incorporating strategic communication in the early planning stages of the SPSF reforms, the government of KRG can understand its citizens and stakeholders' perspectives on the proposed reforms and uncover their lack of information or misinformation about the prevalence or importance of the development problem.** It can also support building consensus, cooperation and support among key stakeholders and identify and address barriers. This type of stakeholder engagement will be required throughout the lifecycle of the reforms. As the government or KRG prepares for the implementation, different types of communication efforts will be required. These would include:

- i. Building support and buy-in from key partners and stakeholders
- ii. Advocacy for public support and engagement in a consultative effort to better understand the nature of the problem prompting the adoption of the new programs and policies.
- iii. Employee engagement to prepare the government workforce for the implementation of the reforms, and strengthening of the capacity to implement and communicate the new policies and programs.

**Each phase of the reforms will require a set of communication activities that is integrated, systematic and consists of a comprehensive process which would be carried out, along with all components.**

**Table 6. Communication Program for the SPSF**

	Strategic Framework Development	Public launch of SPSF	Implementation of Reforms	Ongoing Programs Management
Strategic Communication approaches	<ul style="list-style-type: none"> <li>• Consultations to identify issues</li> <li>• Extended engagement to develop solutions</li> <li>• Consultations to build consensus</li> <li>• Development of communication strategy</li> <li>• Preparation of dissemination plan</li> </ul>	<ul style="list-style-type: none"> <li>• Establish centralized communication function</li> <li>• Implement the dissemination plan</li> <li>• Monitor and evaluate</li> <li>• Internal communication</li> <li>• Ongoing stakeholder engagement</li> <li>• Consultations to Media training</li> <li>• Awareness building campaign</li> </ul>	<ul style="list-style-type: none"> <li>• Develop communication operation institutional capacity</li> <li>• Ongoing research including opinion</li> <li>• Ongoing stakeholder engagement</li> <li>• Internal communication</li> <li>• Employee engagement and training</li> <li>• Crisis communication and media monitoring</li> <li>• Citizen engagement and two way feedback loops</li> <li>• Behavior change campaigns</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing communication support</li> <li>• Ongoing management of stakeholders</li> <li>• Internal communication</li> <li>• Ongoing citizen engagement</li> <li>• Behavior change campaigns</li> </ul>
Guiding products	<ul style="list-style-type: none"> <li>• Dissemination plan</li> </ul>	<ul style="list-style-type: none"> <li>• Communication Strategy</li> <li>• Communication Operation Manual</li> </ul>	<ul style="list-style-type: none"> <li>• Program level communication strategies</li> </ul>	
Expected outcome	<ul style="list-style-type: none"> <li>• Political will and buy-in for reforms</li> <li>• Stakeholder support and engagement</li> <li>• Institutional partnerships and collaborations formed</li> <li>• Institutional readiness to launch reforms</li> <li>• Clear roadmap for communicating the reforms</li> </ul>	<ul style="list-style-type: none"> <li>• Management of resistance to reforms</li> <li>• Potential roadblocks and barriers identified</li> <li>• Stakeholders supportive of reforms</li> <li>• Public understanding and support for the reforms</li> <li>• Relevant institutions has adequate communication structure and resources to implement the communication strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Management of resistance</li> <li>• Management of roadblocks and barriers</li> <li>• Ongoing stakeholders support</li> <li>• Public acceptance of reforms</li> </ul>	<ul style="list-style-type: none"> <li>• Program goals met</li> <li>• Ongoing support and acceptance</li> <li>• Transparency and accountability to the public</li> </ul>

### *Strategic Communication during the Development of the SPSF*

**The SPSF was developed through a consultative and engagement process that captured the views, inputs and concerns of all key stakeholders such as the ministries impacted by the reforms, senior management and councils within each ministry, Parliament members, NGOs, donors and other important stakeholders.** This process created the governmental political will and buy-in for reforms, ownership by each ministry, and inter-ministerial coordination and collaboration necessary for the success of the reforms. During this phase, multiple consultations and engagement sessions were conducted with the different stakeholders. In addition, a Dissemination Plan was developed to prepare for the launch of the SPSF.

### *Strategic Communication during the launch of the SPSF*

**The public launch of the SPSF is critical to ensure the public and those impacted by the reforms understand the needs for the upcoming changes.** It will also aid in identifying the potential roadblocks and barriers. The Dissemination Plan supports this phase. The objectives are:

- Raise awareness about the urgency, opportunity, benefits and relevance of social protection reforms in delivering pressing individual and national priorities.
- Support understanding that leads to wide and deep support with key stakeholders.
- Build network of support from the key constituencies to strengthen local ownership of the reform process and facilitate management of the political economy.

**A stakeholder power matrix and analysis supports the development of communication products and the needs of each stakeholder in the most appropriate outreach tool, whether public event, media, social media or forums.** Main messages are developed to demonstrate the urgent need for the reforms, alignment across the ministries, and support from all key stakeholders. These messages reinforce the Government of KRG's commitment to its people in providing better services, protecting them from the oil price crises and creating a more competitive economy by reforming the social safety net, pension and insurance and labor market sectors. Another important activity during the launch of the SPSF is ensuring all ministries' employees understand the need and

purpose of the reforms. Ministry employees often interact with the public and different stakeholders. Their understanding of the SPSF will minimize any misperception of the upcoming changes. More detailed information is provided in the Dissemination Plan accompanying the SPSF.

### *Strategic Communication during the implementation of the SPSF*

**During the implementation phase of the reforms, ongoing communication support is necessary especially feedback mechanisms to identify potential barriers.** In addition, the knowledge and capacity of the ministries' employees will need to be strengthened to prepare them for the implementation. Furthermore, behavioral change communication campaigns will be support shifting the current mindset and promoting new positive behaviors such as female's participation in the labor force, conditional cash transfers, and motivating government employees. SPSF calls for reforms in multiple sectors, social safety net, social insurance and pension, and labor market. Each new law, administration and program will require its own communication strategy and activities, and include clear responsibilities for the design and implementation, as well as ongoing monitoring and evaluation mechanism to measure the impact and success of the programs (Figure 22).

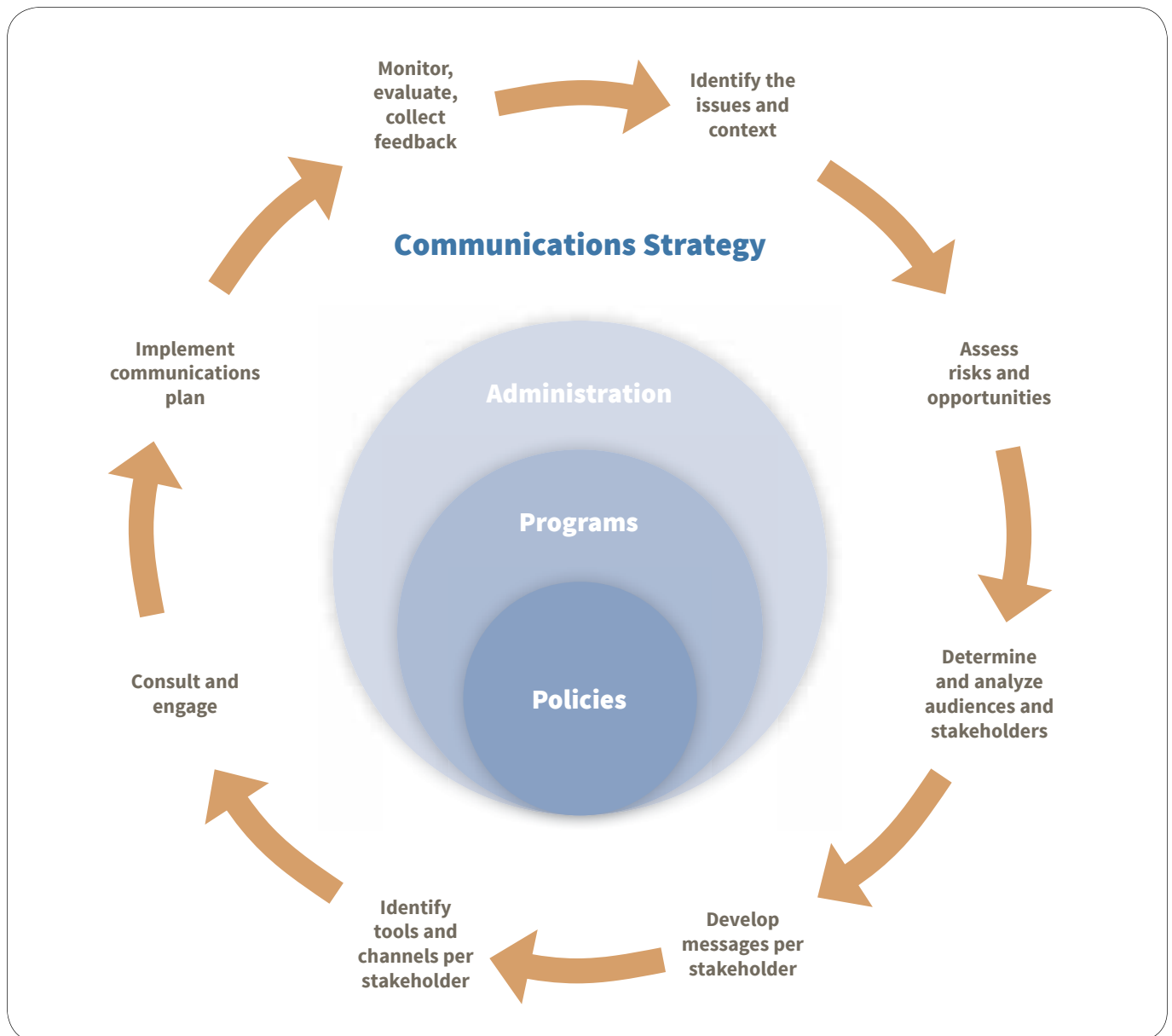
**A Communication Strategy has been developed to provide guidance and direction on all communication activities and ensure alignment across the different reforms and implementing institutions.** It also provides the basis for all communication strategies developed for the new legislations, institutions, and programs. The Communication Strategy is built on the following principles:

- i. Ministries will coordinate all communication activities to ensure consistent messaging and present a unified front for all the reforms.
- ii. Messages will be crafted clearly, using simple language, consistently, and tailored for each audience.
- iii. Two way communication with stakeholders and with their feedback integrated when possible.

### *Ongoing Communication Support for Programs*

**While the implementation of the reforms will require resource intense communication activities, it is critical that once the programs are established,**

**Figure 22. Communication Strategy Lifecycle**



**ministries continue to communicate regularly with the beneficiaries and the different stakeholders.**

*Management of the Communication Strategy*

**The SPSF reforms will require tools, skills and staffing to analyze and prepare what key stakeholders need to know, how to reach them, when, and with what information at each stage of the reforms.** While each ministry will implement its own communication plan based on their role in the reforms, a national mechanism for coordination can facilitate collaboration between the different ministries. It is therefore recommended that a Communication Hub be established in the Ministry of Planning to ensure a consistent and cohesive messaging, provide clear division of roles and











responsibilities and identify areas for collaboration in the implementation of SPSF reforms. The Communication Hub will be responsible for the implementation of the Communication Strategy, identification of the communication needs, capacity building and strengthening of each communication and public relations entity in the different institutions in order to ensure smooth implementation of communication activities in a coordinated effort.









# SECTION VIII













## IMPLEMENTATION ROADMAP





Year	Level	Labor Market Reform	Responsibility
2016	 Strategies	<ul style="list-style-type: none"> <li>• Expedite implementation of the Regional Employment Policy</li> <li>• Develop KRG Skills Development Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• MOLSA</li> <li>• MOLSA</li> </ul>
	 Legislations	<ul style="list-style-type: none"> <li>• Discuss the draft labor law and align it with the SPSF</li> </ul>	<ul style="list-style-type: none"> <li>• MOLSA and social partners (employers and workers)</li> </ul>
	 Institutions	<ul style="list-style-type: none"> <li>• Establish the High Authority for Civil Service Reform</li> <li>• Establish the High Level Council for Human Development that will ensure coherence between economic and employment policies and oversee implementation of the KRG SPSF</li> </ul>	<ul style="list-style-type: none"> <li>• Prime Minister's office</li> <li>• Prime Minister's office, MOP, MOLSA, economic and social ministries (trade, finance, industry, education, etc.) and social partners</li> </ul>
	 Programs	<ul style="list-style-type: none"> <li>• Undertake demographic analysis in the context of education planning leading to universal enrolment till age 15</li> </ul>	<ul style="list-style-type: none"> <li>• MOE in cooperation with KRSO</li> </ul>
	 Administration	<ul style="list-style-type: none"> <li>• Initiate preparatory work for developing the LMIS</li> <li>• Review of existing labor market databases and indicators</li> <li>• Stocktaking of existing labor market programs and policies</li> </ul>	<ul style="list-style-type: none"> <li>• KRSO with relevant agencies (that can provide LM data: MOP, MOLSA, MOI, MOF)</li> </ul>



Year	Level	Labor Market Reform	Responsibility
2017	 Strategies	<ul style="list-style-type: none"> <li>Develop admissions policy</li> <li>Approve KRG Skills Development Strategy</li> </ul>	<ul style="list-style-type: none"> <li>MOP and MOLSA/MOL</li> <li>MOLSA/MOL</li> <li>MOLSA/MOL</li> </ul>
	 Legislations	<ul style="list-style-type: none"> <li>Enact the New Labor Law</li> </ul>	<ul style="list-style-type: none"> <li>MOL and Parliament</li> </ul>
	 Institutions	<ul style="list-style-type: none"> <li>Establish the ECOSOC</li> </ul>	<ul style="list-style-type: none"> <li>MOP with economic ministries, social partners and civil society</li> </ul>
	 Programs	<ul style="list-style-type: none"> <li>Start implementing measures for universal education access with link to CCTs as needed</li> </ul>	<ul style="list-style-type: none"> <li>MOE with MOLSA (for CCT)</li> </ul>
	 Administration	<ul style="list-style-type: none"> <li>Final requirements for and start implementation of the LMIS</li> </ul>	<ul style="list-style-type: none"> <li>KRSO with relevant agencies (that can provide LM data: MOP, MOLSA (MOL/KSAI), MOI, MOF)</li> </ul>
2018-2020	 Strategies	<ul style="list-style-type: none"> <li>Implement the three policies: Employment, skills development and admissions</li> </ul>	
	 Legislations	<ul style="list-style-type: none"> <li>Implement the new Labor Law</li> </ul>	
	 Institutions	<ul style="list-style-type: none"> <li>Operationalize the new institutions</li> </ul>	
	 Programs	<ul style="list-style-type: none"> <li>Continue implementing measures for universal education access with link to CCTs as needed</li> </ul>	
	 Administration	<ul style="list-style-type: none"> <li>Continue implementing and updating the LMIS</li> </ul>	

Year	Level	Social Insurance/Pensions Reform	Responsibility
2016	 Strategies	<ul style="list-style-type: none"> <li>Work on a well-designed pensions system (old-age, disability, survivorship)</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>
	 Legislation	<ul style="list-style-type: none"> <li>Start drafting new Pensions and Social Insurance Law</li> </ul>	<ul style="list-style-type: none"> <li>MOF, MOLSA</li> </ul>
	 Programs	<ul style="list-style-type: none"> <li>Design a capacity building program for senior directors and teams involved in social insurance tasks, on the basics of social insurance and pensions economics, international trends on pensions, and financial governance of social security institutions</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA and social security offices, and MOP</li> </ul>
	 Administration	<ul style="list-style-type: none"> <li>Start developing the appropriate Pensions Administration System (PAS) incl. IT systems, databases, collection mechanism etc.</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>
2017	 Legislation	<ul style="list-style-type: none"> <li>Enact new Pensions and Social Insurance Law</li> </ul>	<ul style="list-style-type: none"> <li>Parliament</li> </ul>
	 Institutions	<ul style="list-style-type: none"> <li>Initiate the establishment of the KSIA (draft structure, TOR, by-laws)</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>
	 Programs	<ul style="list-style-type: none"> <li>Continue the capacity building program on pensions economics</li> <li>Initiate a capacity building program on pensions policy analysis and actuarial capacity</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>
	 Administration	<ul style="list-style-type: none"> <li>Start implementing the PAS</li> </ul>	<ul style="list-style-type: none"> <li>MOF</li> </ul>

Year	Level	Social Insurance/Pensions Reform	Responsibility
2018	 Strategies	<ul style="list-style-type: none"> <li>Expansion of coverage (actives and beneficiaries)</li> </ul>	<ul style="list-style-type: none"> <li>MOF</li> </ul>
	 Legislations	<ul style="list-style-type: none"> <li>Issue unemployment insurance regulations</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>
	 Institutions	<ul style="list-style-type: none"> <li>Operationalize the KSIA</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>
	 Programs	<ul style="list-style-type: none"> <li>Continue the previous capacity building programs, and alternative mechanisms to expand coverage</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>
	 Administration	<ul style="list-style-type: none"> <li>Implement the PAS</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>
2019	 Strategies	<ul style="list-style-type: none"> <li>Introducing Unemployment Insurance</li> </ul>	
	 Legislations	<ul style="list-style-type: none"> <li>Issue new social pensions regulations</li> </ul>	<ul style="list-style-type: none"> <li>MOF and Parliament</li> </ul>
	 Programs	<ul style="list-style-type: none"> <li>Continue the previous capacity building programs</li> <li>Start producing actuarial studies/analyses</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>
	 Administration	<ul style="list-style-type: none"> <li>Continue implementing PAS</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>
2020	 Legislations	<ul style="list-style-type: none"> <li>Implement social pensions</li> </ul>	
	 Programs	<ul style="list-style-type: none"> <li>Implement the unemployment insurance program</li> <li>Continue implementing the capacity building programs</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>
	 Administration	<ul style="list-style-type: none"> <li>Maintain the PAS</li> </ul>	<ul style="list-style-type: none"> <li>MOF and MOLSA</li> </ul>

Year	Level	Social Safety Net Reform	Responsibility
2016	 Strategies	<ul style="list-style-type: none"> <li>Initiate dialogue at the policy level on the need to reform the sector. Focus on targeting and preservation of human capital. The need for a legal framework highlighted</li> </ul>	<ul style="list-style-type: none"> <li>Parliament and Council of Ministers</li> </ul>
	 Legislations	<ul style="list-style-type: none"> <li>Start the discussion on Social Assistance law</li> <li>Build on the momentum gained by the proposal under study at Parliament.</li> </ul>	<ul style="list-style-type: none"> <li>Parliament, MOLSA, MOE, MOH, MOP, KRSO</li> </ul>
	 Institutions	<ul style="list-style-type: none"> <li>Design of KSAI. Composition and TOR</li> </ul>	<ul style="list-style-type: none"> <li>MOLSA</li> </ul>
	 Programs	<ul style="list-style-type: none"> <li>Start the design of the PMT methodology (completing the questionnaire and agree on a design)</li> <li>Finalize the design of CCT pilot program. Complete the technical set up. Form the steering Committee</li> </ul>	<ul style="list-style-type: none"> <li>MOLSA, MOP, MOH, MOE, KRSO</li> <li>CCT Technical Committee (representing relevant agencies)</li> </ul>

Year	Level	Social Safety Net Reform	Responsibility
2017	 Legislations	<ul style="list-style-type: none"> <li>Enact KRG Social Assistance Law</li> </ul>	<ul style="list-style-type: none"> <li>Parliament</li> </ul>
	 Institutions	<ul style="list-style-type: none"> <li>Operationalize the KSAI</li> </ul>	<ul style="list-style-type: none"> <li>MOLSA</li> </ul>
	 Programs	<ul style="list-style-type: none"> <li>Questionnaire of PMT in use. Collection of questionnaires</li> <li>CCT pilot program started</li> </ul>	<ul style="list-style-type: none"> <li>MOLSA, KRSO</li> <li>MOLSA with relevant partners (MOE, MOH, KRSO)</li> </ul>
	 Administration	<ul style="list-style-type: none"> <li>Start the design of KRG Unified Registry</li> </ul>	<ul style="list-style-type: none"> <li>MOLSA, KRSO, MOF</li> </ul>
2018	 Institutions	<ul style="list-style-type: none"> <li>Establish the KSAI to implement the law</li> </ul>	<ul style="list-style-type: none"> <li>MOLSA</li> </ul>
	 Programs	<ul style="list-style-type: none"> <li>PMT used as a targeting methodology</li> </ul>	<ul style="list-style-type: none"> <li>MOLSA, KRSO, KSAA</li> </ul>
	 Administration	<ul style="list-style-type: none"> <li>Put in place a GRM</li> <li>Building of beneficiaries database</li> <li>Building blocks for a unified registry</li> </ul>	<ul style="list-style-type: none"> <li>MOLSA, KSAI</li> </ul>
2019	 Institutions	<ul style="list-style-type: none"> <li>KSAI overlooks the implementation of the law and the various programs</li> </ul>	<ul style="list-style-type: none"> <li>KSAI</li> </ul>
	 Programs	<ul style="list-style-type: none"> <li>CCT pilot completed. Scaling up in process</li> </ul>	<ul style="list-style-type: none"> <li>Steering Committee, KSAI</li> </ul>
	 Administration	<ul style="list-style-type: none"> <li>Database developed</li> </ul>	<ul style="list-style-type: none"> <li>KSAI, KRSO</li> </ul>
2020	 Programs	<ul style="list-style-type: none"> <li>Complete scaling up of CCT in KRG</li> </ul>	<ul style="list-style-type: none"> <li>Steering Committee</li> </ul>
	 Administration	<ul style="list-style-type: none"> <li>Unified registry in place</li> </ul>	<ul style="list-style-type: none"> <li>MOP, KSAI, MOF</li> </ul>

# SECTION IX

## Results Framework

Strategy	Program
<p><b>Strategy 1</b></p> <p>KRG will create an effective labor supply of well-equipped job seekers and skilled workers through the education and training systems and market driven incentives.</p>	<p><b>Program 1</b></p> <p>Education Retention and Completion Program.</p> <ul style="list-style-type: none"> <li>• Universal basic education achieved.</li> <li>• Private sector demand-driven skills development.</li> <li>• University education increasingly linked to job market requirements.</li> </ul>
<p><b>Strategy 2</b></p> <p>KRG will take measures to reduce the duality between employment in the public sector and private sector and thus contribute to a more dynamic private sector.</p>	<p><b>Program 2</b></p> <p>Civil Service Reform Program.</p> <ul style="list-style-type: none"> <li>• Public sector size rationalized.</li> <li>• The numbers of migrant workers contained.</li> <li>• Adoption of an admissions management policy.</li> </ul>
<p><b>Strategy 3</b></p> <p>KRG will develop regulatory and institutional frameworks based on timely data analysis, well-designed employment policies, and constructive dialogue among the social partners.</p>	<p><b>Program 3</b></p> <p>Private Sector Employment Promotion Program</p> <ul style="list-style-type: none"> <li>• Improved regulatory framework with emphasis on women’s employment, and enhanced labor administration, and capacity building..</li> <li>• LMIS developed and integrated.</li> </ul>
<p><b>Strategy 4</b></p> <p>KRG will implement parametric reforms to the current schemes to ensure financial sustainability and move towards integrating public, private and other (occupational) pension schemes.</p>	<p><b>Program 4</b></p> <p>Integrated Old Age Pensions Program for Wage Earners.</p> <p>Transparent financing mechanism of social insurance is in place, increasing fairness, and equity.</p> <ul style="list-style-type: none"> <li>• Establishing an Information and Communication Technology (ICT) system to ease the management of data.</li> <li>• Extensive capacity building activities.</li> </ul>

Strategy	Program
<p><b>Strategy 5</b></p> <p>KRG will design and implement conventional and alternative mechanisms to expand pensions and social insurance coverage.</p>	<p><b>Program 5</b></p> <p>Old-age Pensions Program for Other Categories (not yet covered wage earners, self-employed, seasonal workers, etc.).</p> <p>Financial sustainability of social insurance schemes are improved and maintained.</p> <p><i>This is accomplished through:</i></p> <ul style="list-style-type: none"> <li>• Actuarial modeling.</li> <li>• Sustainable pension system.</li> </ul>
<p><b>Strategy 6</b></p> <p>KRG will design and implement an Unemployment Insurance program.</p>	<p><b>Program 6</b></p> <p>Unemployment Insurance.</p> <p>Social insurance coverage has expanded for wage earners and beneficiaries. This is accomplished through:</p> <ul style="list-style-type: none"> <li>• Improvement of the collection of contributions through incentives mechanisms, and evasion control.</li> <li>• Implementation of innovative mechanisms to cover those groups of workers that are difficult to cover through the traditional programs (such as casual workers, and others).</li> <li>• Expansion of pensions coverage for beneficiaries will be done through the design and implementation of universal social pensions.</li> </ul>
<p><b>Strategy 7</b></p> <p>KRG will use poverty as a main determinant of eligibility for its Social Safety Net Programs (including the PDS) and provide effective social care for vulnerable and disadvantaged groups.</p>	<p><b>Program 7</b></p> <p>KRG Poverty Targeting Program.</p> <p>Poverty rates in KRG decline through application of better targeting and conditional cash transfers. This is accomplished through:</p> <ul style="list-style-type: none"> <li>• The application of adequate targeting mechanism, MOLSA aims to achieve good coverage and mitigate for the risks of exclusion and inclusion.</li> <li>• The Introduction of the CCT to poor households will help develop human capital in poor households by improving the education levels of their children; have better commitments and outcomes.</li> </ul> <p><b>Short term:</b></p> <ul style="list-style-type: none"> <li>• Poverty map updated to identify poverty rates per nahia in KRG Regional Iqlim.</li> <li>• PMT Questionnaire fully developed and ready to be launched after pilot testing completed.</li> <li>• CCT pilot program started.</li> </ul> <p><b>Medium Term:</b></p> <ul style="list-style-type: none"> <li>• PMT database completed.</li> <li>• Complete the evaluation of the CCT pilot program.</li> <li>• Evaluation of pilot CCT. Scaling up of CCT pilot program in place.</li> </ul> <p><b>Long Term:</b></p> <ul style="list-style-type: none"> <li>• PMT is the main targeting method</li> <li>• Unified Registry developed</li> <li>• Unified registry started.</li> </ul>

Strategy	Program
<p><b>Strategy 8</b></p> <p>KRG will protect its human capital by providing incentives for better health and education.</p>	<p><b>Program 8</b></p> <p>Conditional Cash Transfer Program</p> <p>Social care programs are in place to provide inclusive support to all vulnerable individuals and groups. KRG will restructure Social care programs to ensure efficiency and effectiveness of service provision</p> <p><b>Short term:</b></p> <ul style="list-style-type: none"> <li>• Stocktaking of existing services and programs completed</li> <li>• Evaluation of the services provided under social care completed</li> <li>• Set up the Terms of Operation for each of the services listed under social care</li> </ul> <p><b>Medium Term:</b></p> <ul style="list-style-type: none"> <li>• Structure a referral and coordination mechanism based on a well-established case management and monitoring of beneficiaries households.</li> <li>• Grievance redress mechanism put in place as a key element in a citizen engagement plan that builds also on communication strategy.</li> </ul> <p><b>Long Term:</b></p> <ul style="list-style-type: none"> <li>• Administrative and operational set up in place to ensure complementarity between social assistance and social care in MOLSA</li> </ul> <p>A database is in place to ensure financial and administrative efficiency and support reduction in inclusion and exclusion errors. This is accomplished through:</p> <p><b>Short term:</b></p> <ul style="list-style-type: none"> <li>• Initiate the development of a database building on PMT as a targeting methodology</li> <li>• Launch the implementation of the Pilot Conditional Cash Transfer</li> <li>• Initiate citizen engagement programs for the dissemination of knowledge and instigate dialogue</li> </ul> <p><b>Medium Term:</b></p> <ul style="list-style-type: none"> <li>• Database developed ensuring adequate coverage and mitigating for inclusion/exclusion errors</li> <li>• CCT pilot evaluated. Scaling up to KRG level is finalized</li> <li>• Grievance redress mechanism put in place as a key element in a citizen engagement plan that builds also on communication strategy.</li> </ul> <p><b>Long Term:</b></p> <ul style="list-style-type: none"> <li>• Administrative and operational set up in place using PMT to ensure a full-proof database that is used across-programs.</li> </ul>



