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Evaluation of capacity of Iraqi Federation of Industries to facilitate social security contribution subsidy

(May 05 – 31 July.2022)

Background

The total labour force of Iraq is estimated to be around 9 million workers¹, with a total labour force participation of 49% in Federal Iraq and 40% in the Kurdistan Region of Iraq (KRI)². Significantly, female labour force participation in Iraq is estimated at 20%³. Jobs in the **public sector** are estimated to account for some 39 percent of the labour force, and can be considered as a form of social security due to the strong job security and generous social insurance to which workers in the public sector are entitled. Yet the public sector requires significant federal budget (approximately 40% of the Kurdistan Region of Iraq (KRI) government budget is dedicated to paying worker wages⁴) which is very high by global and regional standards.

The **private sector** on the other hand is estimated to account for roughly 40 to 50 percent of the total labour force⁵, a large share (40%) of which are estimated to be self-employed. In recent years, the private sector has not been able to absorb the large number of young labour market entrants, which results in high levels of youth unemployment levels – indeed, while national unemployment rates stand at 16%, youth unemployment reaches 36%⁶.

In the private sector economy, oil contributes over half of GDP, but employs only 1 percent of the labour force – mainly in the formal sector. Instead, construction represents the largest employment sector, followed closely by agriculture in which many of the 20% percent of economically active women work. Both sectors are largely **informal**. Indeed, the latest World Bank reports suggest that some two-thirds of workers in Iraq are likely to be informal⁷. In particular, women with low levels of education and skills are often self-employed and concentrated in typically informal private sector activities.

Informal work is characterised by decent work deficits, including low wages, limited rights at work, and weak job and income protection. These deficits have been clearly demonstrated by the disproportionate impacts of the COVID-19 crisis, as a recent study found that workers without contracts or on verbal contracts (and therefore likely to be informal) were more likely to have seen a reduction in working hours – and thereby income - than those on written contracts⁸.

One of the decent work deficits relate to the limited social security coverage for private sector workers. Indeed, only some 300'000 private sector workers are registered with the Department of Pensions and Social Security for Private Sector Workers (DPSS), which means that the vast majority of private sector workers are not registered with the social security scheme in the country. Even here, there is a lack of information about the extent to which registered workers and their employers effectively contribute to social security and are therefore entitled to the benefits currently provided under the scheme.

The Social Security Law No. 39 of 1971 establishes the provisions of the Social Security System for private sector workers in Iraq. This currently largely covers wage employees, and provides relatively

¹ European Asylum Support Office (2019), *Country of Origin Information Report Iraq: Key Socio-Economic Indicators*, EASO

² ILO (2017), *IRQ – ILO – ILO Estimates and Projections – ILO Modelled Estimates, July 2017*, ILO and Kurdistan Regional Statistics Office (2018), *Estimated Impacts of the 2014 Twin Crises in Iraq*, KRSO

³ ILO (2017), *IRQ – ILO – ILO Estimates and Projections – ILO Modelled Estimates, July 2017*, ILO

⁴ European Asylum Support Office (2019), *Country of Origin Information Report Iraq: Key Socio-Economic Indicators*, EASO

⁵ IMF (2017), *Iraq – Selected Issues: IMF Country Report 17/252, August 2017*, IMF

⁶ World Bank (2018), *Jobs in Iraq: A Primer on Job Creation in the Short-Term*, World Bank

⁷ World Bank (2017), *Iraq: Systematic Country Diagnostic*, World Bank and World Bank (2018), *Jobs in Iraq: A Primer on Job Creation in the Short-Term*, World Bank

⁸ Kebede et al (2020), *Rapid Assessment of the Impact of COVID-19 on Vulnerable Populations and Small-Scale Enterprises in Iraq*, ILO and FAFO

limited benefits, with employers remaining liable for maternity, work injury and disability, and no unemployment benefit. However, the Draft Social Security Law is currently in parliament which will extend both the provision and legal coverage of the social security scheme. Indeed, the Draft Law envisages to extend coverage not only to self-employed workers (albeit on a voluntary basis), but also informal workers, and will effectively establish maternity and unemployment benefits.

This Draft Law represents a key milestone bringing Iraq closer to meeting the ILO's Social Security (Minimum Standards) Convention. However, de facto coverage of currently unregistered workers will not be achieved without sustained, concerted and proactive efforts. Extending coverage of social security to informal workers is not only crucially important to address the decent work deficit and ensure the income protection for a large share of the Iraqi workforce, it also represents a key instrument in the re-establishment of a social contract to promote future peace and social cohesion. Iraq is also currently experiencing a “demographic window of opportunity”, as youth represent a large share of the population. Extending social security coverage to the large informal workforce can therefore also contribute to bolstering the fiscal position of the social security scheme.

Context of the assignment

The Government of Iraq is strongly committed to extending social security coverage to informal workers, as exemplified by the legal extension of coverage under the Draft Social Security Law. The ILO is dedicated to providing technical support to the Government of Iraq in these efforts, including as part of the *Social Protection Programme: Leveraging Effective Response and Accelerating Reform*.

The ILO office is currently undertaking several activities to better understand the drivers of informality and the barriers faced by private-sector workers and employers in registering with and contributing to social security. However, one barrier that is persistently highlighted across the region (and the globe) is the cost of contributions, especially for workers in small business, and the self-employed. Indeed, it is estimated that a large number of workers earn very low pay (calculated as hourly earnings below 2/3 of the median hourly earnings), where any reduction to their income resulting from social security contribution requirements may not be affordable.

In response to such financial barriers, one commonly adopted approach is to provide “contribution subsidies”, namely, for Government (or any other entity) to cover the cost of a specified share of contribution rates for specific categories of workers and/or employers. This practice is currently not implemented in Iraq, but has been found to be relatively effective in promoting registration in social security systems in other contexts⁹.

In its support to social security coverage extension, the ILO is planning to pilot social security contribution subsidies for a specified period, to be implemented through the Iraqi Federation of Industries (IFIs). The main objective of this pilot is to create a scheme subsidizing social contribution costs on registered employment in small firms and allow self-employed categories to formalize and join IFI. Ultimately, this pilot will generate evidence for a model for replication as the government is considering the expansion of social security coverage including subsidization for workers in the informal sector. Three sectors are targeted: Agribusiness sector, sewing, and information technology. The agribusiness sector has the potential to grow in Iraq and contribute meaningfully to both the food security and employment. Sewing industry generally has the potential to increase women participation and income independence of female citizens. The two sectors (agribusiness and sewing) can contribute to the effective implementation of the “Productive Families Law” currently high at the national agenda, particularly to support women's employment and opportunities. In addition, the information technology is a low cost, flexible, and can overcome the many barriers to trade in Iraq. It unleashed creativity and

⁹ See for example World Bank (2022), *The Effects of Subsidizing Social Security Contributions: Job Creation or Informality Reduction*

link the Iraqi young people with the global supply chain and innovation movement. A total of 1000 small business including productive families will benefit from this program annually, over two years.

The IFI has a large membership among private-sector employers, and the idea is for the IFI to act as a mediator to identify eligible employers and workers and facilitate the social security contribution subsidy. Before initiating this activity, however, the capacity of the IFI to implement the intervention must be assessed.

Objectives and tasks

The objective of the assignment is to assess the capacity of the IFI to implement social security contribution subsidies as discussed earlier, drawn from IFI membership but also the potential to reach out to non-members for the informal sector to formalize and become part of the IFI. The assessment should cover their HR and IT capacity, financial management, but also include accessing the existing records of members and provide mapping of the characteristics (in terms of firm sector, type of firm, size, registration in social security, and income level of workers in those firms).

Under the supervision of the Chief Technical Advisor for Social Security, the external collaborator will conduct the assessment based on an in-depth review of IFI documentation (as available) as well as key informant interviews with IFI leadership, treasurer, financial managers, staff and other managers, and (at least 5) interviews with IFI members. Some of the overarching questions to be addressed in the assessment include:

1. What is IFI capacity to provide services to members? Which services are provided? How are they advertised? How many members are using services and which services are they using (if possible with stats disaggregated by company size, sector and location). Would IFI (and their members) be interested and able to turn this collaboration into a sustainable pay roll service for members?
2. What is the capacity of the IFI to effectively identify and select eligible recipients of the social security subsidy (including in terms of human resources, business processes, outreach, etc...)?
3. What is the share of IFI membership that has workers registered in social security? what is their profit level and the income level of workers in those firms that are not registered in social security?
4. What is current IFI annual budget? When was the last audit conducted, by whom? Does IFI has a certified financial statement? Any historical records on management of project related funds with UN or other technical cooperation agencies of similar size. What are the internal financial management processes and do they comply with ILO and EU minimum requirement for fiduciary risk management
5. What is the capacity of the IFI to effectively facilitate contribution subsidy payments to the Social Security Fund for Private Sector Workers on behalf of pilot participants, including accounting/bookkeeping?
6. What is the existing level and nature of engagement between IFI and Department of Social Security for Private-Sector Workers?
7. If bottlenecks to the implementation of the pilot are identified, how can these be addressed?

Deliverables

The deliverables for this assignment are as follows:

1. Inception report outlining a detailed methodology for conducting the assignment and a draft assessment report structure
2. Presentation of assignment objectives and inception report to IFI
3. Draft assessment report outlining assessment findings
4. Presentation of the report to ILO and IFI, and any other stakeholders as relevant
5. Finalization of assessment report integrating feedback received by ILO

All deliverables should be in Arabic

Timeframe

The contract would start on **May 05.2022** and end on – **July 31, 2022**.

Contract duration, fees, and travel expenses

The duration of the assignment of this contract is 9 weeks within the period of **May 05.2022** and end on – **July 31, 2022**.

Payment schedule

Payment will be made in three instalments upon submission of agreed deliverables to the satisfaction of the ILO

- First payment: 20% will be paid upon delivery of inception report
- Second payment: 40% will be paid upon delivery of draft assessment report
- Third payment: 40% will be paid upon delivery of presentation and final assessment report

Tentative timeline

Deliverable	Deadline
Inception report	Week 2
Draft assessment	Week 6
Presentation of findings	Week 7
Final assessment report	Week 9

Required experience and competencies

- Advanced degree in business administration, accounting, strategic management, or a field relevant to the job.
- Proficiency in English and Arabic.
- Solid experience in financial management, due diligence processes, and fiduciary risk assessment
- Extensive qualitative research experience, including conducting institutional assessments, in the areas of social security, employment and/or informal economy.
- Very good knowledge of main bottlenecks to social security coverage extension and relevant stakeholders involved in the formalisation process in Federal Iraq.
- Familiarity with the ILO and its mandate, and the ILO's Social Security (Minimum Standards) Convention 102 is an asset

- Proven ability to analyse complex data; to deal with multiple stakeholders and to prepare reports and publications of a high quality, technically sound with policy-oriented conclusions and recommendations.

Your Proposal must be received by the ILO no later than **23:59 time in Baghdad on 20/04/2022**. Late bids shall be rejected.

Your Technical + Financial proposal shall be submitted by:

- **Email to:**
Rabi@ilo.org and alkaram@ilo.org