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National Board of Pensions Organizational Structure A Blueprint for Change

PREPARED FOR:

**Chairman
National Board of Pensions**

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1 INTRODUCTION

1. INTRODUCTION

The Law

The National Board of Pensions (NBP) is a new entity, created by Law #27/2006 and its amendments. It is an attempt to address organizational needs of the "Legacy" pension system that was suspended during the Iraqi invasion, and replaced with emergency payments until the new law was enacted and took force: The changes identify a:

- New State Pension Fund (SPF) system with different features and benefits to replace the Legacy system for those active government employees and new hires.
- Private sector system the features and benefits of which will be harmonized with the new pension system no later than January 1, 2010 in accordance with amendment #69/2007 to Law #27/2006.
- Legacy pension system for ongoing pensioner/beneficiary payments that will be funded by the Government of Iraq (GOI) general revenues. This will also be true for the existing private sector pensioners when the private sector system is merged by 2010.

Pension system payments will be funded by contributions of active employees commencing with the first of January, 2008. These contributions will exceed the cash requirements to pay new retirees who retired after January 17th, 2006, because of the disproportionate ratio of contributors to retirees from Law #27/2006. The positive cash flow will quickly change, as more active members retire.

Law #27/2006 and its amendments have provided the NBP authority to invest surplus contributions to minimize actuarial shortfalls between the actual cash collected and pension payment obligations, as well as to anticipate the inevitable reduction in the positive cash flow generated from active employee contributions. The investment requirement has provided the fledgling NBP with another serious obligation to the GOI and the working people for which it provides the second Pillar of retirement.

The NBP Board has in effect become a fiduciary serving the best interests of the active employees, and pensioners and beneficiaries. The Board responsibilities of fiduciary and prudent investor are necessary pre-requisites to a sound NBP administration, and the creation and management of the NBP Investment Policy.

With respect to the operations of the NBP, the Board has a fiduciary relationship. By undertaking to act for and on behalf of the active employees, pensioners and beneficiaries with respect to the general administration of NBP, including the investment of employee and employer contributions, to ensure that the NBP is adequately funded, the NBP Board has assumed a fiduciary relationship of trust and confidence. The Board must therefore act solely in the interest of those groups, in the matters affecting investment of their contributions as well as all other NBP duties and responsibilities mandated by the law.

The NBP also assumes the role of "prudent investor" through the mandate to invest employer and employee contributions. As prudent investor, the NBP does not guarantee superior or even good investment results. It is better to incur a modest return with an established Investment Policy, than a superior return without one. Prudent investing is the process that the NBP Board establishes through a comprehensive Investment Policy. By ensuring compliance to the Investment Policy, the NBP Board serves as a prudent investor.

If the process followed in making investment decisions is prudent (based on what is known and not known at that time), then the decisions being made are prudent, regardless of subsequent results

The NBP exists today as a legal entity. It has yet to take organizational shape and function, as well as achieve the fiscal independence from the Ministry of Finance (MoF) that the law mandates. The NBP Organizational Structures Blueprint for Change is an effort to outline the major administrative and operational issues facing the new organizational, as well as provide a blueprint from which to begin the NBP creation.

NBP Mission

Consolidating a nation's private and public employee systems into one organization is not a new or unique concept. Members of the Commonwealth of Independent State (CIS) such as Kazakhstan went about the consolidation in the 1990s. Jordan charted a course to consolidation earlier this century, while Egypt is presently considering consolidation, in an effort in which the author participated in October, 2007.

Consolidation makes little sense unless its ultimate objective is a reduction in government expense, scalability to meet growing retirement demands of a maturing population, and, improved customer service and productivity. While the Government of Iraq (GOI) has indicated the additional objective of harmonizing the features and benefits of the government SPF plan with those of the private sector, such a goal does not require a consolidation of system unless, for no other reason, than to meet the ultimate objectives mentioned above.

For the GOI, legislating a NBP implies a comprehensive re-organization, or creation from the ground up. It does not necessarily imply a reduction in force. However, an organization structured along the international best practice principles for similar self-sustaining pension organizations will at least provide an opportunity to reduce staffing expense through attrition.

One of the first steps to creating NBP as a comprehensive organization comes in articulating its mission, vision, principles, philosophy, etc. The following is a sample taken from the California Public Employee Retirement System (CalPERS) website:

Mission & Strategic Plan

Mission Statement

Our mission is to advance the financial and health security for all who participate in the System. We will fulfill this mission by creating and maintaining an environment that produces responsiveness to all those we serve. This statement was adopted by the Board of Administration to guide us in serving our more than 1.4 million members and retirees. Our mission statement is backed by a Strategic Plan, Business Plan, Guiding Principles, and Core Values.

Vision

Pride in Our Service, Providing Confidence for Your Future

Guiding Principles

The principles that guide us in our daily work.

:

Strategic Plan

The Strategic Plan is our blueprint, defining the CalPERS direction over the long-term.

Core Values

The business values under which we operate all our programs and services.

3-Year Business Plan

The 3-Year Business Plan is our roadmap, providing the business focus through the end of each three year period.

Business Philosophy

This philosophy explains our approach to our work.¹

Toggling on any of the underscored headings from the CalPERS site will take you to more detailed information on the Strategic Plan, Core Values, etc. The above reference is an example of some of the organizational tasks facing the NBP Chairman and Board. They are necessary exercises, and provide the foundation for sound corporate governance and transparency necessary to satisfy the law.

A Sample NBP Mission Statement can be found as *Appendix A*.

Investments

Article 11 of Law #69/2007 amends the Unified Pension Law #27/2006 by providing the authority for the National Board of Pensions (NBP) Board to invest both employer and employee contributions at the rates of 12% and 7% of salary respectively. Article 11 states that the NBP Board (Board) shall “determine its members, tasks, work flow and money investment”. The first step in pursuing this authority and satisfying the mandate is to develop an overall NBP Investment Policy.

New concepts and responsibilities are introduced as the result of the investment mandate. An effective NBP Investment Policy must recognize the broad concept of corporate governance, as well as the Board responsibilities as fiduciary and prudent investor.

The NBP is not per se a corporation. However, it will have both revenue (investment income) and expenses. With the right Board and management execution, the NBP can be a self-sustaining or independent entity. To become such, the NBP must develop a sound corporate governance structure. A corporate governance structure starts with the top, the NBP Board. If the NBP Board establishes a good functioning structure for itself, consisting of comprehensive policies, procedures, and systems to control and manage the NBP activities dedicated to the active employees, pensioners and beneficiaries, then the Board will be in a position to push their structure to each NBP organizational level.

The Investment Policy is a critical component of the corporate governance structure necessary for a self-sustaining organization. The Board responsibilities of fiduciary and prudent investor are necessary pre-requisites to a sound Investment Policy.

¹ California Public Employee Retirement System (CalPERS) website:
<http://www.calpers.ca.gov/index.jsp?bc=/about/mission/home.xml>. CalPERS is the largest public retiree system in the United States with assets in excess of \$240 billion.

The NBP Board is organized and authorized to conduct the business of the NBP solely in the best interests of the active employees, pensioners and beneficiaries. With respect to the investment of employer and employee contributions, the Board assumes the role of “fiduciary” and “prudent investor” with respect to the NBP investment assets.

The ultimate obligation of the NBP is to provide retirement benefits to active employees, pensioners and beneficiaries. With respect to investments, as fiduciary, the NBP must always act in the best interests of the active employees, pensioners, and beneficiaries. All Board decisions must be made from the perspective of that obligation. The best interests of the Government of Iraq (GOI), the Ministry of Finance (MoF), participating State Owned Enterprises (SOE), participating private employers or other such entities or individuals shall be made subordinate to the interest of the active employees, pensioners and beneficiaries.

The Board as fiduciary shall have the authority to delegate investment management and other functions to third parties. While the Board can delegate functions, particularly investment management (discussed later), they cannot delegate or surrender their fiduciary status. Board oversight of delegated functions remains a fiduciary responsibility.

The Board shall: have authority over the NBP’s entire investment portfolio. That portfolio will include, but not be limited to the investment of:

- Employer Contributions
- Employee Contributions
- Gains from liquidated Investments made in accordance with this Policy
- Other Cash or Investments provided to the NBP by the GOI, MoF, or the Central Bank of Iraq (CBI) from time-to-time.

The Board or prudent investor considers an entire investment portfolio when determining the prudence of an individual investment. As such, the prudent investor shall not be held liable for individual investment losses, so long as the investment, whether made by the Board or an engaged investment manager, at the time of acquisition, is consistent with the overall NBP Investment Policy objectives and no fiduciary breach of duty has occurred.

A comprehensive Investment Policy shall be developed and adopted by the Board prior to any NBP investments beyond occasional GOI Treasury purchases, at auction, through the CBI.

Pension Administration Software

The NBP begins its existence without a pension administration and recordkeeping system. While there is a payroll mechanism to automate pensioner payments to the approximately 1.6 million pensioners and beneficiaries, there is no similar contribution tracking system for the approximately 2.9 million active GOI employees. And, in neither case is there much automated information relating to beneficiaries, benefit cut-off for child beneficiaries who reach age 18 and no high school, age 22 if studying at high school, and age 26 if actively studying at a university or higher institution.²

In fact, for pensioner and beneficiaries, detailed information remains paper-based, in files, while the active employee information is maintained by the employer. The ability to research information or monitor provisions of the law such as the child survivor age cutoffs noted above is severely compromised in the present operating environment. This creates an

² Article 13, Section Two, Law #27/2006 as amended by #69/2007

opportunity for payments to beneficiaries that are contrary to the law, which can become a severe situation that impacts the overall NBP funding.

While the NBP, BearingPoint (BE), and the World Bank (WB) work to identify suitable donors and a robust, comprehensive pension and recordkeeping administration system, the paper-based nature of the existing pensioner system continues to present both financial and operational risks to the GOI.

As part of the overall implementation strategy, it will be critical that the NBP become the data collector for both existing pensioners and beneficiaries, and active employees. Article 18, Eighth Paragraph of Law #69/2007 which amended the Unified Pension Law, states that the NBP “from the first year the Fund commences its work, shall establish a database for state employees and retirees covered with the provisions of this law to ensure transparency and to facilitate obtaining accurate estimates of the financial stability of the Fund.” A broad interpretation of this passage suggests that the database should include pensioners from the old Legacy system as well as those who will retire prospectively from both the public and private sectors (when MoLSA Social Security for Workers is merged with the NBP on January 1, 2010.)

The upshot of the passage above is the need to create a short-term data collection project. The data will ultimately be converted to the new system. To eliminate financial risk, and to adhere to the terms of the law, this task is not negotiable.

Organization

Structuring the NBP to effectively and efficiently meet its mission requires a careful examination of at least three critical issues: (1) Legacy GOI staff that will move from the MoF and MoLSA pension directorates to the NBP; (2) Managerial capacity to delegate; (3) Current state operating effectiveness.

Issue number one involves steps to:

- Integrate the directorates based on functions, i.e., combine MoF and MoLSA administration, client service, operations, etc.
- Reconcile each position descriptions of both ministries or revise the description based on the implemented pension recordkeeping software
- Determine criteria (seniority, skill level, etc.) for selecting new managers and supervisors below the level of DG, where two or more exist
- Reconcile pay structures for similarly positioned jobs

The managerial capacity to delegate is critical to effective management. The NBP Chairman needs “hands and feet” to work and move at his direction, not “heads” to absorb revenue through their high salaries, producing little value added to effective NBP administration. This is true for every level of employee who will manage staff in the NBP.

To reach an effective organizational structure, and to gain self-sufficiency, the NBP must establish “span of control” targets. Span of control refers to the number of subordinates who report directly to a single manager or supervisor. Higher span of control gives rise to greater employee empowerment. Span of control targets can be established for the NBP overall, to each individual directorate within the NBP, or to each established staff level.

However with job complexity and similarity, staff experience, and training, as some of the factors influencing the span of control, the NBP should establish span of control targets by

directorates. This will be an instructive exercise, the results of which can become an over-riding staffing philosophy.

As an example³, if NBP establishes an organizational structure with a span of control target of five employees under each manager, we find that:

Number of Levels	Number of Managers	Number of Producers	Total Number of Employees	% Employees as Managers
1	0	1	1	0 %
2	1	5	6	16.7%
3	1 + 5 = 6	25	31	19.4%
4	6 + 25 = 31	125	156	19.9%
5	31 + 125 = 156	625	781	20.0%
6	156 + 625 = 781	3,125	3,906	20.0%

However, if NBP targets a span of control of 10 employees per manager, the following results for the same 6 levels:

Number of Levels	Number of Managers	Number of Producers	Total Number of Employees	% Employees as Managers
1	0	1	1	0 %
2	1	10	11	9.1%
3	1 + 10 = 11	100	111	9.9%
4	11 + 100 = 111	1,000	1,111	10.0%
5	111 + 1,000 = 1,111	10,000	11,111	10.0%

³ Example provided by Jack L. Davies, The Business Plan, www.thebusinessplan.info/Organization/Span-of_Control.htm, October, 2004

:

6	1,111 + 10,000 = 11,111	100,000	111,111	10.0%
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Span of control refers to the number of subordinates who report directly to a single manager or supervisor. Higher span of control gives rise to greater employee empowerment. Job complexity and job similarity are some of the factors influencing the span of control.

With a new organization, establishing the number of DGs or direct reports to the NBP Chairman is as critical to achieving the NBP mission as at any other level.

Managerial effectiveness and the ability to delegate responsibility and accountability are key to the DG target number. This author’s experience of GOI ministry operations at both the MoF and MoLSA suggests reluctance to delegate as well as reluctance to accept responsibility. Assuming that this perceived reluctance is the assumed status quo of the NBP, with a new and dynamic organization and substantial project as well as ongoing work to manage, the Chairman will have lines of approval requestors outside his office door each morning, with little opportunity to forward plan.

Finally, current state NBP and SPF operating effectiveness must be considered. Operating effectiveness includes underlying software system capacity. In the case of the NBP, there is only pension register or payroll automation in place, which hampers an effective span of control. A paper-based NBP is an NBP that is slow, inefficient, and labor-intensive.

Duplicate roles and responsibilities is another condition of assessing operating effectiveness. Duplication will produce counter-productive, competing solutions. No pensioner should be required to visit more than one office for one pension, regardless of whether he worked for the GOI and then a private employer, or vice versa.

Long-term NBP success is tied to its effectiveness eliminating current state operating weaknesses and working to adjust or improve them now.

Business Process Redesign

Business process redesign (BPR) is a management approach that focuses on how an organization does business. The business processes are identified, and goals established to attain improvements by means of elevating business process efficiency and effectiveness. This may involve processes that cross organizations, or are contained within one organization. The key to BPR is for organizations to look at their business processes from a "clean slate" perspective and determine how they can best construct these processes to improve how they conduct business.

NBP has determined that they will require a comprehensive pension administration and recordkeeping software system to adequately meet their legal mandate. As part of the software implementation, business processes will be identified for the “To Be” or future state NBP operation. This is the ideal time to begin a comprehensive BPR effort.

To get to the “To Be”, the “As Is” or current business processes must be identified and flowcharted. By compiling an inventory of all NBP As-Is business processes, the software implementation--including testing--will enjoy a higher potential for success without undue delay.

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Similarly, documenting As-Is processes now, will enable the NBP to make short-term adjustments. Short-term adjustments may provide real solutions for the longer-term software implementation, but should not conflict with the ultimate goal of a successfully implemented, comprehensive pension administration and recordkeeping system.

Finally, documenting As-Is processes now enables the NBP staff to better understand their current state, which in turn will enable the NBP to better navigate the road to the “To-Be” processes necessary for successful software implementation.

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2 NBP Organizational Structure: The Board

2. NBP ORGANIZATIONAL STRUCTURE: THE BOARD

The National Board of Pensions (NBP), is organized as a financial and administrative independent government entity with the authority to collect and invest employer and employee contributions for the goal of paying pensions and rewards in accordance with the Law 27/ 2006 (the Law) and its subsequent amendments, including the recent amendment #69/2007.

The Law mandates a merger or combination of the Social Security for Workers (hereinafter SSW) private sector plan administered by the Ministry of Labor and Social Affairs (MoLSA) with the NBP by no later than January 1, 2010. Until that time, the NBP has governing authority over the State Pension Fund (SPF) and the Civil Pension Law No. 33/1966 (Legacy Law) which the Law replaced by its enactment.

At the recommendation of the Minister of Finance, the Council of Ministers (CoM) may approve the participation of employees and companies from some State Owned Enterprises (hereinafter referred to as SOEs) in the pension plan governed by the Law.

The NBP is subordinate to the Ministry of Finance (hereinafter referred to as MoF), although an independent entity with respect to revenues, expenses, investments, administration, etc. On behalf of the MoF, the NBP shall be the sole shareholder of the SPF and the prior Civil Pension Law it replaced, as well as the SSW effective January 1, 2010.

Article 18 of the Law mandates a Chairman with the rank of Deputy Minister, who will organize and manage the Board of Directors (the Board). The Board and Chairman will have responsibility for the SPF, Legacy and SSW (effective January 1, 2010) pension plans, pursuant to the Law.

Based on the latest information we have, the MoF has approved the following Board composition:

1. The Head of National Board of Pensions - Chairman
2. Director General (DG) of Legal Department in the MoF - Vice President
3. DG of Budget Department in MoF - Member
4. DG of Ministry of Planning (MoP) - Member
5. DG of Central Bank of Iraq (CBI)-Member
6. DG of Pension and Social Insurance Directorate of the Ministry of Labor and Social Affairs (MoLSA)- Member
7. DG of Ministry of Interior (MoI)-Member
8. DG of Ministry of Defense (MoD)-Member
9. DG of the NBP- Member and Secretary
10. Investment Lead Manager-Non Voting Member⁴

We recommend that the Board include the Investment Lead Manager, with the status of Non-Voting Member.

The Board composition includes major stakeholders within the Government of Iraq (GOI) who have the largest active employee constituencies (MoI, MoD). While the Board composition has been approved by the CoM as mandated by the Law, it should not be limited to the above representatives. As the NBP grows, and the invested assets

⁴ Recommended. The NBP Board Regulations suggest this. We believe that once investing begins, that the lead investment manager should become a non-voting member of the NBP Board, attending Board meetings no less frequently than quarterly.

accumulate, other members should be considered. However, to avoid an unwieldy Board, there should be a Board membership limit. We would recommend 15 as a Board membership maximum.

A well-organized NBP can produce maximum results in operations and investments. By contrast, poor corporate governance by the NBP could add as much as 1.39 per cent of invested assets.⁵

NBP Board Responsibilities

The Board will ensure that all NBP activities are in accordance with all applicable Iraqi laws and regulations in addition to the Law. The NBP Board shall be the legally mandated oversight body of the NBP. The NBP Chairman and the Board shall work in a manner necessary to ensure that all relevant laws, regulations, policies, procedures and strategies are executed by the NBP solely in the best interest of the all covered pension fund participants (active members), pensioners, and beneficiaries.

In its function as oversight body, the Board shall perform its responsibilities within the context of attendant risk to NBP activities as they relate to: Investments, Operations, Law and Regulations, and Strategies.

As noted above, the Board is presently comprised of 9 officers and members. We recommend that members shall be elected for terms of either two or three years, as directed by the Chairman. To ensure the Board composition as approved by the MoF other DGs from the ministries listed above may be designate for a term on the Board. The Board will meet no less frequently than bi-monthly, although the Chairman may call special meetings of either the entire Board or a specific Sub-Committee at his discretion.

The Chairman, in conjunction with the Board, shall organize no less than five Committees. At the direction of the Chairman, these Committees will receive work related to their Committee. The Chairman shall appoint the individual Committee Chairman, unless he directs another method of appointment. There shall be no set number serving on each Committee but in any case, the Committee membership shall be an odd number to avoid ties on any action upon which they vote, i.e., to refer a matter to the entire Board. Once voted, the Committees will make their recommendations to the whole Board.

Committee work may include but will not be limited to evaluating NBP activity risk by directing periodic reviews and subsequent reports regarding policies, procedures, operations, investments, NBP personnel, strategies, and financial matters (greater detail is provided below).

Once Committee assignments are complete, the Committee Chair will report back to the Chairman and the entire Board. The reporting shall comprise part of the regular NBP Board of Directors agenda, and one of the Board's major duties. Committee meetings may occur

⁵ Keith Ambachtsheer, Crain Boice, Don Ezra, and John Mclaughlin, "Excellence Shortfall in Pension Fund Management: Anatomy of a Problem", unpublished paper, October, 1995. The paper contained survey results related to this potential excellence shortfall as follows:

Estimates of Excellence Shortfall

25 th Percentile	38bp
Median	66bp
75 th Percentile	182bp
Mean (\$ Weighted)	139bp

While this was just a survey, the point is that inefficiency costs.

at the direction of the NBP Chairman, but meetings shall be no less frequently than bi-monthly, with suggested timings to coincide with the sates of the full Board meetings.

NBP Committees in Detail

As the NBP grows, with the integration of the SSW organization, an expanding economy which employs workers and increases the size of NBP coverage, a new pension recordkeeping and administration software, and growing assets under investment, the NBP responsibilities will grow. Without a Board Committee foundation established from the beginning, the NBP Board may lose valuable time.

As the main NBP oversight body, the growth and expansion will make the NBP Board duties increasingly complicated. Without committees of the Board, assigned to specific activities and oversight, Board work will become a full-time responsibility.

To anticipate the growth of NBP Board responsibility, we recommend the immediate organization of at least give committees of the Board. The recommended committees are:

1. Audit
2. Finance and Investments
3. Compensation
4. Strategy
5. Technology

Each Committee will develop a Mission Statement, consistent with the overall NBP Mission Statement, taken from the broad duties outlined for each below. As noted above, Committees will be responsible for reviewing the activities, reports, documents, etc., for the area assigned, recommending to the larger Board any necessary action from approval of the reporting to the recommendation of options for additional action.

Audit Committee

The Audit Committee will oversee all NBP systems of internal control, to ensure that they provide adequate and effective control for the identified risk. The source of Audit Committee work will be the results of the Audit Directorate activities, including internal audits of individual NBP divisions or sections, and reports of fraud and noncompliance with NBP policies and procedures.

The Audit Directorate will develop and maintain a set of risk parameters for Board approval, which shall be reviewed by the Committee no less frequently than yearly. In addition, the Audit Directorate will present to the Committee, for their review and Board approval, a detailed annual schedule of NBP units for operational and financial audits, to ensure the controls remain adequate and effective.

Audit Directorate responsibility include compliance with governing Iraqi law, as well as NBP policies and procedures. Compliance efforts are part of the operational audit activities of a particular unit, and such audits may occur as needed, if a sudden change in NBP operations dictate it.

Quarterly, the Audit Directorate will report the results of its operational and financial audits to the Committee. Once reported to the Committee, it shall be the responsibility of the Audit Committee to approve the audit results and corrective action, if any. Once approved, the Audit Committee will report the results to the Board for final approval.

Finance Committee

The Finance Committee shall be responsible for all NBP budget, accounting, and investment activities. As the NBP grows, and these activities become more complex, a new committee

for investments may be necessary. Presently, it is our opinion that all financial activities can be addressed within one Board committee.

The Accounting Directorate shall develop “key drivers” to manage the data received. For example, an increase in employee contributions from one month to the next may mean that the January raises are now included, more GOI employees have been hired, etc. To help understand the increase, a “Contribution per Employee” driver should be defined. This driver can be further refined by ministry, employer, etc. Without key drivers, the detail necessary to effectively manage the NBP by the Board will be missing.

The NBP budget shall be reviewed monthly. The Accounting Directorate shall provide the Committee with monthly budget reports, as well as an analysis of any budget variances which exceed XX% (Recommend: 10%). Any excessive budget variances shall have detailed explanations. For example, if contribution revenue is greater than projected for January, an explanation of this variance will be required (E.g., GOI employee headcount was higher than budgeted, since many ministries hired earlier in the cycle).

With respect to the overall NBP profit and loss, monthly Income and Expense, and Asset and Liability statements will be required from the Accounting Directorate. The Accounting Directorate shall prepare a formal report on the budget and finances, including the Income and Expense and Asset and Liability statements no less frequently than quarterly, unless the Finance Committee requests additional information related to the monthly statements routinely provided.

Initially, the investment of contributions--employee and employer--will be small. Cash will be needed to fund the pensioners as they retire. However, the contributions will rapidly accumulate beyond the bi-monthly pension payment needs, and the excess will be available for investment.

Once an Investment Policy is established, and investment professionals engaged to manage the money, the NBP Board Finance Committee will review investment results monthly. The Investment Directorate will provide the proper information and format, as it gathers it from the various investment managers. A “Lead” investment manager shall formally report to the NBP Board Finance Committee as well as the whole Board no less frequently than quarterly. Market conditions, investment results, and future economic and investment prospects shall be among the issues reported to the Committee and whole Board. In addition, the whole Board, and in particular the Finance Committee shall perform duties related to investments as described under the “NBP Board Investment Authority” heading found below.

All prepared reports and oversight provided will be consistent with internationally Generally Accepted Accounting Principles (GAAP).

Compensation Committee

The Law which enabled NBP details its independence and self-sufficiency. NBP must strive to be a profitable organization, if not a breakeven one. While the GOI will make up any shortfalls, a government backstop should be no excuse for fiscal responsibility which drives an efficient and productive organization which delivers excellent customer service to all constituencies.

This means that staff performance will be measured more critically, as if the NBP were a corporation. As an independent, the role of HR in the NBP will be critical. New position descriptions, beyond those of the DGs, contained in **Section 4**, will be necessary. In each position description, metrics shall be identified against which staff performance will be

measured. Performance will be evaluated and salary increases based on merit or performance.

The Compensation Committee will have responsibility to review and approve all HR activities, including the annual HR budget, position descriptions, staff evaluation and promotion, training and development, and terminations, and any potential employee claims resulting from any HR activities.

The Compensation Committee will also be responsible for establishing an overall compensation policy for approval by the Board. The compensation policy will relate to positioning the NBP with respect to salaries. If salaries are not competitive, the NBP will be unable to attract and retain the most qualified employees, as the organization grows and matures. If salaries are too high, the NBP staff expense will affect its fiscal independence

HR shall develop an entire position and compensation plan for the NBP, from entry-level to DG positions. This plan shall be presented to the Compensation Committee for review and approval, and recommendation for action by the Board. The entire NBP position and compensation structure shall be reviewed no less frequently than annually, to ensure that it matches the job market and NBP operating reality.

No less frequently than quarterly, the Compensation Committee shall review the HR staffing budget, terminations, and hires. Any causes for action by an employee shall also be reviewed. Recommendations for all these activities, along with any corrective actions, shall be approved for presentation to the NBP Board.

Strategy Committee

The Strategy Committee will address the implications to the NBP of the Law and its amendments, as well as chart a general course for the NBP to ensure that it remains at an optimum operating level.

The Strategy Committee will supervise the creation of short- and long-term strategic plans for the NBP. The Chairman and his DGs will create the short- and long-term plans to ensure that the NBP is always positioned to anticipate and resolve the challenges of a dynamic organization. The plans will present a vision of the NBP and its role in serving the employees and citizens for Iraq, including staffing, costs, premises, and the latest delivery systems.

The committee will review the plans no less frequently than annually, directing the authors to make revisions and alterations as the result of the review. Once reviewed, the Strategy Committee will present the revised plans to the whole Board. The DG from the MoP is the likely Chair of this Committee, and as such will play an active role in ensuring that the plans are consistent with GOI accepted standards for such documents.

Information and Communication Technology (ICT) Committee

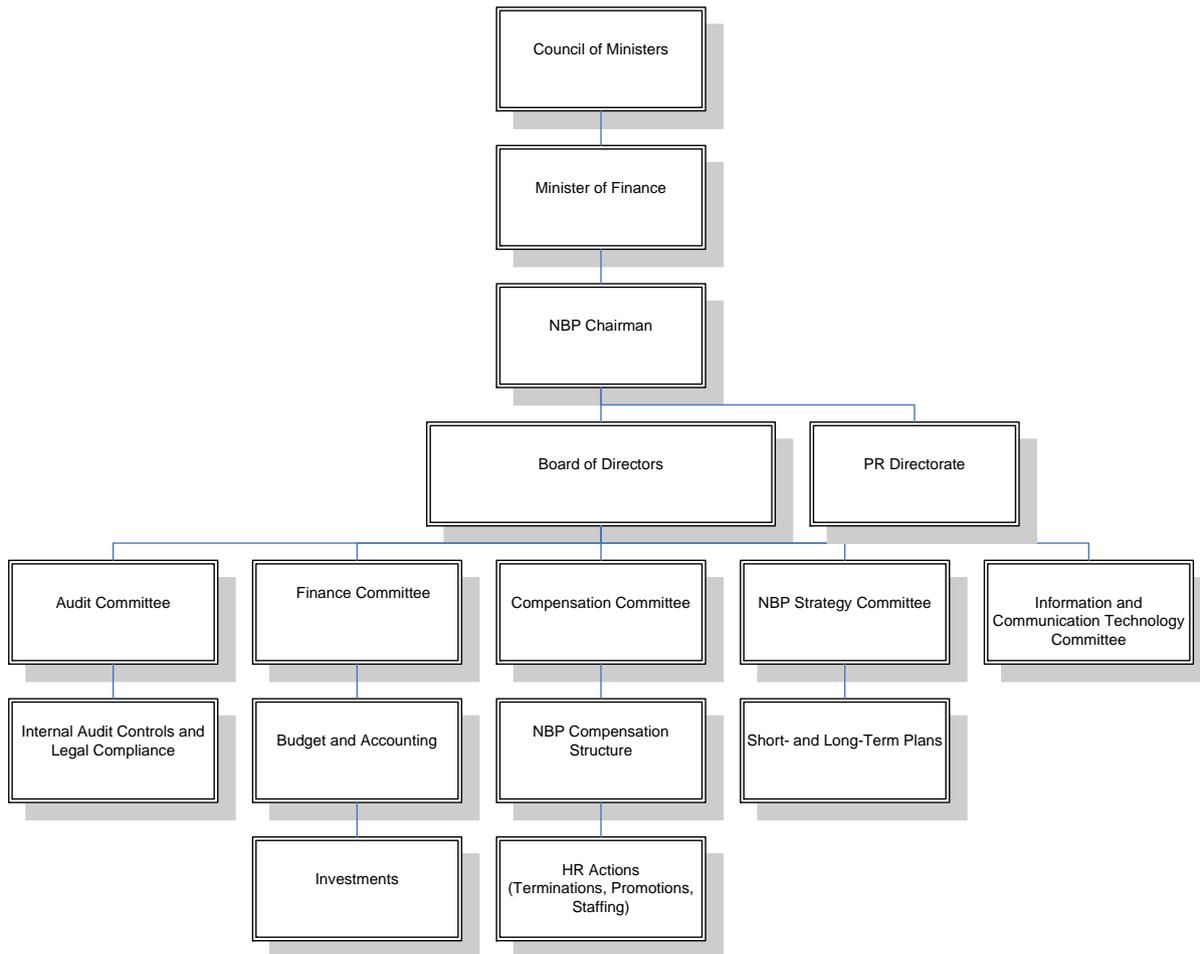
The ICT Committee will oversee the ICT infrastructure of the NBP. This includes the internal NBP network, the governorate network connectivity, the pension administration recordkeeping and software, hardware and software procurement, and web development for a robust client service web site.

Technology involves understanding the NBP vision, so the ICT Committee duties could be assumed by the Strategy Committee. However, in the near term, as the NBP grows and matures, special attention to ICT will be required. The task of organizing the governorate branches, providing them connectivity within their own branches and with the NBP central processing site in Baghdad, will be a major effort in the early stages of the NBP.

The NBP ICT DG shall prepare a quarterly report on the status of the network (downtime, etc.), software, etc. The report should include international metrics for effective IT operations management.

The ICT Committee shall meet no less frequently than quarterly. Presentations of the latest hardware, software, and network systems may be included in their meetings, to ensure that they remain informed of the latest developments in the field of IT.

The organizational chart presented below is structured from the Board Committees above:



The NBP organization must comply with the various laws of Iraq, and particularly Unified Pension Law #27/2006 and its amendments. At the direction of the Chairman, the NBP and MoF Legal Directorates will provide legal advice to the Board regarding any matter affecting NBP, the Board, Chairman, contractors, etc., NBP staff, active contributing employees, and pensioners and beneficiaries.

As mentioned in the descriptions of the Committee above, the duties of the entire Board will include review of management reports related to NBP investments, salaries, contributions, budgets, systems, policies, procedures, and financial audits, as well as Committee recommendations.

Board approval of these reviews, Committee recommendations, and other matters brought before the Board from time-to-time by the Chairman, constitute the general duties of the Board. Once a review, recommendation, or action has been approved by the Board, those

recommendations or NBP actions (approve, reject, require further NBP work) shall become public record, unless, at the direction of the Chairman, the Board information and recommendation must first be reviewed by the Minister of Finance, the Council of Ministers, Council of Representatives, etc., or are deemed confidential (personnel actions such as terminations).

To fulfill its responsibilities described above, and to achieve the goals of NBP, the whole Board, and the Committees with the authority flowing from the Board, shall exercise the following specific duties:

1. Oversee the administration of the system of pensions as stipulated in the Law, as amended from time to time.
2. Approve pension and benefit payment dates as governed by law.
3. Approve the schedule, frequency and deadlines that contributions and related data should be transferred to the NBP from employers and insured persons.
4. Review and approve the income and expenditure budget for submission to the MoF.
5. Approve the grant and subsidy request for the NBP and submit it to the MoF as stipulated in Article 18, Section 6 of the Law.
6. Establish an Investment Policy.
7. Review and approve the investment strategy in accordance with the Investment Policy and plan referred to in Article 7 of this Regulation.
8. Review and approve the investment results of the designated portfolio managers no less frequently than quarterly.
9. Recommend actions based on the periodic reviews of the investment results
10. Approve or Reject recommendations for pension adjustments in accordance with Article 30 of the Law.
11. Approve NBP human resource policies, including hiring, promotion, discipline and dismissal policies.
12. Prepare the strategic business plan of the NBP, setting out the mission, objectives, operational plans, expenditure forecast and performance measurements.
13. Review and approve the NBP risk parameters for conducting business, including investments, operations, payroll, etc. and manage those parameters to insure that risks are effectively identified, quantified, and mitigated or managed.
14. Ratify the annual business work plan of NBP.
15. Approve decisions regarding opening and closing of NBP bank accounts, in accordance with procedures and guidelines approved by the MoF.
16. Ensure NBP administration finances are segregated from collected contributions and investments.
17. Ratify contracts with banks and other service provider institutions, including non-public sector institutions, in accordance with the business requirements of the NBP and in accordance with laws governing such matters.
18. Approve issuance of a quarterly publication that includes statistic reports about contribution collection, pension expenditure, investment revenues, and portfolio of investments that are held by the NBP.
19. Approve issuance of an annual business, financial and statistical report for publication which will be made available to the public.
20. Review and approve proposed amendments to legislation and regulations and submit them, through the NBP and Minister of Finance, to the competent bodies.
21. Approve the NBP Operational Manual.
22. Issue other necessary instructions and directions related to NBP work to ensure compliance, consistency, and productivity and satisfaction of the overall objectives including client services.

The Board shall not be limited to the above duties. The 22 items above merely list the more important duties for which they are responsible. The Board shall have authority to act with respect to any functional aspect of the NBP as mandated in the Law.

NBP Board Investment Authority

As noted above, the NBP shall have the authority to invest and re-invest employer and employee contributions for the purpose of increasing the value of the Fund's assets to pay retirement, beneficiary, and disability payments to current and future beneficiaries in accordance with the Law as amended from time to time.

The following attempts to outline some of the broad requirements of an Investment Policy, consistent with leading international fiduciary and trustee principles, in addition to those related to the "prudent investor". The following is not intended as an Investment Policy, which, in accordance with the requirements stated here, involve a detailed process of determining investment suitability, asset allocation, target rates of return, etc.

Consistent with the concepts of liability driven investment (LDI)⁶, and other investment approaches as may be identified from time to time, the NBP shall rely on the periodic (no less frequent than every five years as mandated in Law #27/2006 as amended) actuarial valuations of the pension liabilities to establish target rates of return for the entire invested portfolio, which are driven by the accrued liability of the NBP. These target rates of return will be consistent with the long-term investment objective of the investment policy, and shall be reviewed in light of changing circumstances, no less frequently than annually.

The overall portfolio strategy should ensure that apart from the opportunity to rebalance on a periodic basis--but no less frequently than yearly-- the total invested assets in any one class do not exceed allocation percentages established in the Investment Policy. These allocation percentages should be set for all asset categories and sub-categories. Some examples of asset classes and sub-classes are listed below:

Iraqi investments (GOI Treasuries, Equities, etc.),
 Bonds
 Real Estate
 Emerging Markets
 International Bonds and Equity
 Foreign Currency
 Real Estate
 Derivatives
 Mutual Funds

⁶ From Wikipedia.Com, http://en.wikipedia.org/wiki/Liability-driven_investment_strategy

LDI is mentioned here because it is a recent investment approach to pension investments. The Wikipedia.Com description provides a good sense of how it is applied in pension management.

"A pension fund following an LDI focuses on the pension-fund assets in the context of the promises made to employees and pensioners (known as liabilities). This is in contrast to an approach which focuses purely on the asset side of the pension fund balance sheet. Typical LDI strategies involve hedging, in whole or in part, the fund's exposure to changes in interest rates and inflation. These risks can eat into a pension scheme's ability to keep their promises to members. Historically, bonds were used as a partial hedge for these interest rate risks but the recent growth in LDI has focused on using swaps and other derivatives. These offer significant additional flexibility and capital efficiency compared to bonds."

(List Continued From Previous Page)
Commingled Funds of Trust Companies or the Trustee
Futures

Investments in single entities made outside of Iraq should be limited to no more than a fixed percentage of the total entity equity or authorized outstanding shares at the time of the investment transaction.

Should the long-term investment strategy require a prudent allocation of assets internationally, those investments should be made in highly liquid, publicly traded markets and countries with single country risk established at a maximum percentage of the total outstanding portfolio.

Periodically, but no less frequently than annually as mentioned above, asset rebalancing of the invested portfolio should occur to ensure that the above asset class maximum investment restrictions are not exceeded. This will be done in conjunction with the investment results and recommendation of timings provided by the engaged portfolio managers.

At the recommendation of the NBP Chairman, the Board shall submit for approval to the MoF a list of competent portfolio managers who shall be engaged to execute the investment policy contained in this Article, in accordance with their particular strategies as presented to the NBP at the time of engagement. Contained in the list shall be a portfolio manager who will be designated as "Lead". The "Lead" portfolio manager shall be responsible for establishing the individual investment targets for each manager, consistent with liability driven investment results, and other benchmarks the Board may establish from time to time. The lead manager shall provide input to the NBP board at their direction, including attendance at meetings, but shall have no voting capacity.

The portfolio managers should be engaged for no longer than three years per contract, although they serve at the discretion of the NBP Board, and may be terminated should investment results prove unsatisfactory based on their strategy and the international benchmarks for such (Value, Growth, Income, Sector, etc.). The criteria the NBP board shall consider with respect to engaging any portfolio manager, shall include but not be limited to their:

1. Ability to provide detailed firm history, including investment philosophy, approach, and results, clients, locations, and at least two recent firm audited financial statements.
2. Representation that firm is operating in good standing with regulators and clients, with no material, pending, or concluded legal actions.
3. Organization as bank, insurance company, brokerage, or other such financial institution with authority to conduct investment management business.

With respect to voting proxies or exercising ownership rights related to the financial instruments in which the investment managers have invested, upon the approval of the Board and the MoF, the Chairman shall direct the Lead to develop a proxy policy that is solely in the best interests of the Government of Iraq and its pension participant, pensioners, and beneficiaries. The lead investment manager shall be responsible for communicating the proxy voting policy to the engaged managers. The proxy policy shall be reviewed annually as part of the overall Board investment management review of performance, target returns, etc.

Each individual manager shall report the results of their investment work quarterly. The report will include a comprehensive accounting of the portfolio, including fees, from the beginning of the period through the close. Annually, each manager shall prepare a report for the past year which consolidates the information of the year, as well as a proposed strategy for the coming year(s). These reports should be coordinated and consolidated by the Lead as part of his duties. At the direction of the Chairman, the portfolio managers may be required to present their annual report to the Board, the MoF, etc., in person.

Annually, at the direction of the Board, the Chairman shall request the Lead to gather audited financial statements from the engaged managers. These statements will cover the NBP portfolios assigned to each engaged manager, and the statement scope will include the operational and financial controls in place at by engaged managers either through their own organizations or as delegated (custodial relationships, etc.).

Enforcement Authority

The contributions payable to the NBP by the employer and the employee, in accordance with the Law, shall be paid to the NBP no later than 15 days after the end of the month in which the contributions were deducted from the employee's pay.

In cases where such contributions are not paid in full and in time, the NBP shall take the necessary actions, in accordance with law, to recover such debt. The NBP shall impose financial penalties in cases where such contributions are not paid in full or in time. The NBP shall also be entitled to recover the actual expenses incurred in recovery of such debts.

If a government entity or participating employer (SOEs, etc.) is delinquent, the NBP can impose penalties of an administrative character, since the government is the source of the contributions in the first place. Administrative penalties can affect employee performance. Repeated problems with proper or delayed contribution reporting and payment by particular ministries should affect individual performance of involved staff.

The range of financial and administrative penalties that can be imposed and the maximum amount of expenses that can be recovered shall be subject to prior approval by the NBP and the MoF. The MoF shall issue regulations stipulating the range of financial sanctions that can be imposed.

The NBP shall, subject to the Law, have the right of litigation to recover debts due to the NBP, and to recover pensions, rewards, monies or assets that were obtained in a fraudulent manner.

The Law appears to provide sufficient the NBP sufficient enforcement authority. Whether it can provide the right incentive for effective and timely contribution reporting, particularly by private employers when the SSW is merged, remains to be seen.

NBP Board Meetings

As recommended above, the Board shall meet no less frequently than once per month, and more frequently if necessary. The President, or the Vice-President if the President is unavailable, shall preside over all meetings of the Board. The Board shall agree on organizational procedures for Board meetings, which shall include:

1. Minutes Procedures, including their adoption, amending, and publication
2. Quorum Requirements
3. Proxy Representatives when members are unable to attend

4. Monthly Schedule
5. Executive Session for NBP personnel issues, including investment manager status, etc.
6. Emergency Session Requirements to include the possibility for conference calls to and email votes on issues requiring immediate attention as determined by the Chairman
7. Use of Roberts Rules of Order or some other meeting blueprint
8. Presentations
9. Required NBP reports (Budget, Staffing, Contributions, Contribution Delinquencies, Etc.)
10. Frequency of required NBP reports
11. Member Terms

The Board may request the presence of any NBP DG or other employee at a meeting to provide information on their area as a subject matter expert.

Minutes shall be taken of the Board meetings, which should be published and circulated to the voting members before the next scheduled meeting. The approval of the minutes shall be a regular agenda item. Upon unanimous approval from the Board, the minutes may be published for public consumption in their entirety.

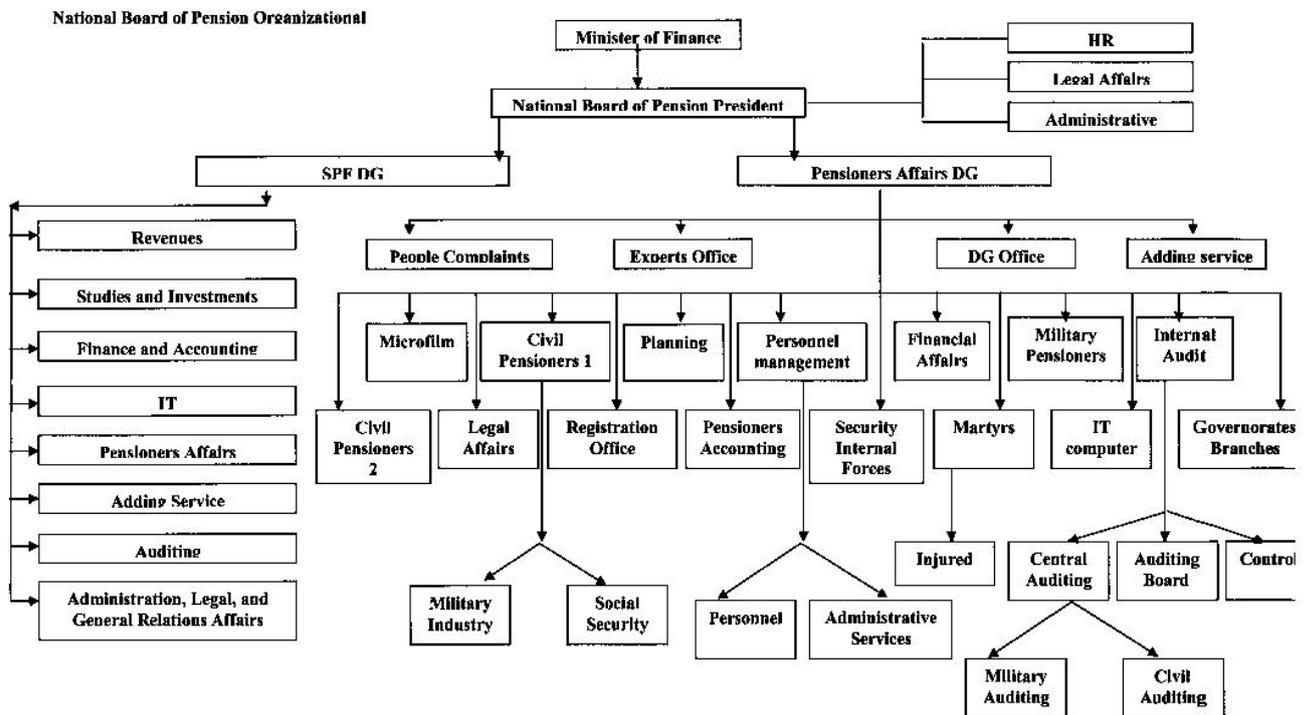
3 NBP Organizational Structure: Directorates

3. NBP ORGANIZATIONAL STRUCTURE: DIRECTORATES

NBP Directorates

To create the State Pension Fund (SPF), the first fully functioning entity resulting from the creation of the NBP, and combine the MoLSA Social Security for Workers, while simultaneously implementing a new and comprehensive pension administration and recordkeeping system software is a major undertaking.

The organizational chart below represents the current structure. The most important reporting line in the chart is that for the SPF Directorate (“SPF DG”), since it is the only operational group within the NBP at present.



Notwithstanding the SPF DG, the organizational chart above looks like an unassimilated conglomeration of the directorates that were already identified when the NBP was legally separated from the MoF. And, the above organization chart does not recognize the MoLSA Social Security for Workers (SSW) DG which will merge into the NBP on January 1, 2010.

Also, the span of control is too broad for the NBP Chairman to effectively manage the entire merged organization (See Span of Control, **Section 1**). As noted in **Section 1**, span of control refers to the number of subordinates who report directly to a single manager or supervisor. A higher span of control gives rise to greater employee empowerment. Job complexity and job similarity are some of the factors influencing the span of control. But in a new, evolving organization such as the NBP, too broad a span of control, particularly over the complex jobs and functions of the NBP DGs as proposed, will frustrate the Chairman in both the day-to-day (tactical) and long-term (strategic) NBP management.

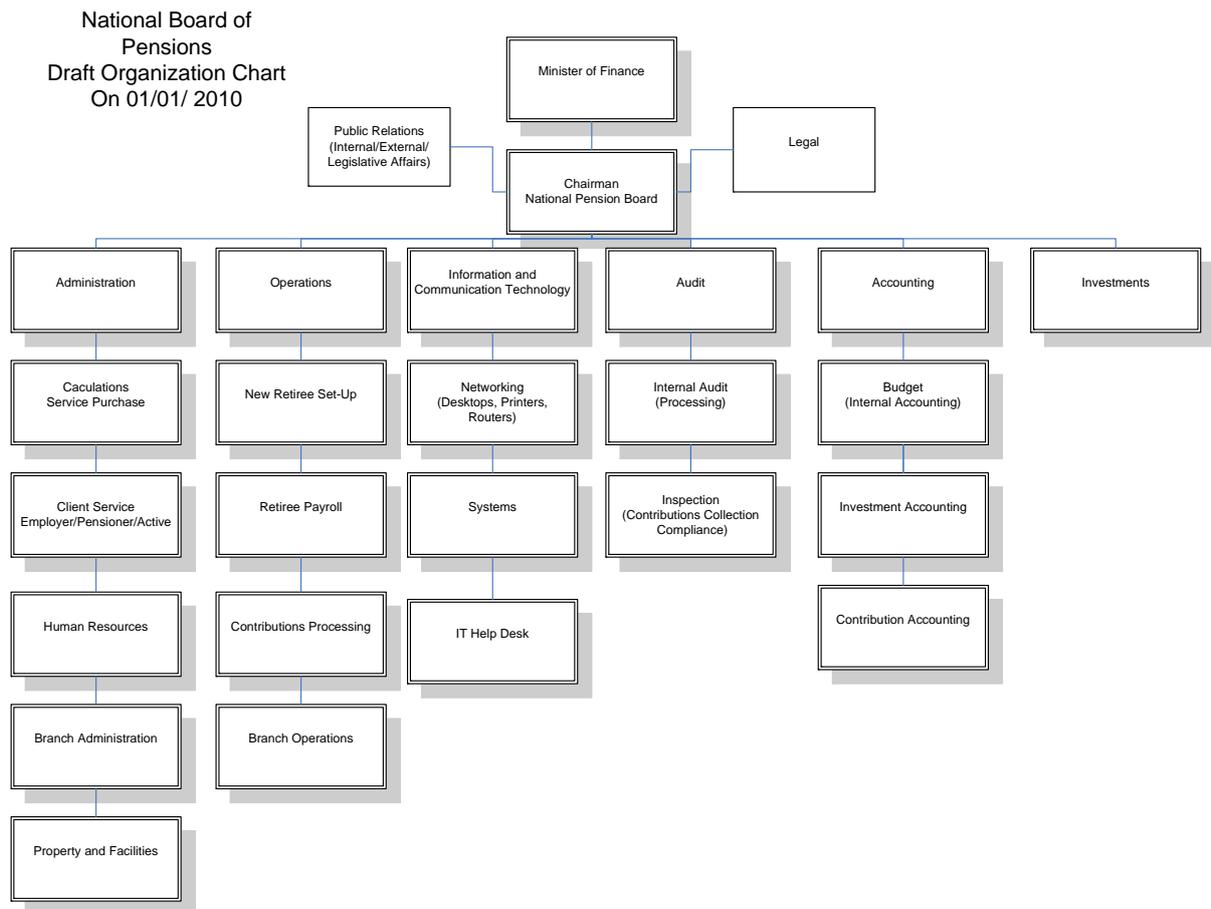
To achieve the objectives of providing improved accounting and recordkeeping, delivering improved client service (active employees and pensioners/beneficiaries), while improving productivity, bold action is required. Mapping phases for re-organization and business

process improvement, while necessary, must result in an organization that is efficient, scalable, with improved productivity.

To achieve this end result, the NBP organization must be functionally structured, along functional process lines with a Chairman to DG span of control no greater than 10. Using best practice in the arena of financial institutions and pension organizations, the NBP Directorates should be organized along the following functional process lines.

1. Administration
2. Operations
3. Information Technology
4. Audit
5. Accounting
6. Investments
7. Public Relations
8. Legal Affairs
9. Human Resources
10. Governorate Branch Administration

The organizational structure substantially streamlines the NBP entities as noted in the first organization chart. A suggested reporting structure is below:



The 10 DG functions are described in the pages which follow.

Administration

Administration is the directorate responsible for the establishment of new employers (government, SOE, and private sector) and, counseling of new/future retirees to ensure that they understand what they will receive when retired. Administration also performs the calculations related to purchasing additional service in accordance with Chapter 3, Article 4, Section Two of the Unified Pension Law #27/2006 as amended by Law #69/2007.

The Administration directorate will establish a **Customer Service** division to assist active employees and pensioners or eligible survivors receiving payments. The **Customer Service** division will be responsible for addressing any questions received by visits to NBP offices, mail, etc. Any questions that cannot be addressed by Customer Service will be forwarded to the **Legal** directorate after all the necessary documentation is gathered for a **Legal** review. **Customer Service** will be the point of contact for the public with the NBP

In addition, **Customer Service** will authorize beneficiary deletions and additions--including active member and pensioner deaths--if they meet the required documentation by Law and NBP established policies and procedures.

Also, the Administration DG will be responsible for similar functions described above in the Branches. Branch Administration will ensure consistency of approach in accordance with NBP policies and procedures, and consistent and quality **Customer Service**.

Human Resources (HR) can report to either the Administration DG or directly to the Chairman. Since Administration is the NBP focal point for administrative policies and procedures, we recommend that the Human Resource DG report to the Administration DG. The **HR** DG is described in greater detail below.

The **Property and Facilities** activities of a widespread organization such as the NBP requires a full-time division to ensure that property and facilities are adequately maintained, space allocated efficiently, and vendor and service provider contracts related to the property and facilities are managed effectively.

NBP Administration directorate functions outlined here will also occur in the branches. Those functions will be managed by the DG **Administration**. The DG **Administration** may wish to appoint a liaison to coordinate and monitor branch administration activities, but regardless, accountability for branch operations is a function of the **Administration** directorate.

Key Performance Drivers

- Number and time to process a completed retirement application
- Number of visits by pensioners, beneficiaries, and active employees
- Number and time to respond to a pensioner inquiry
- Number of monthly beneficiary updates
- Number of requests to purchase past service before retirement

Operations

The Operations directorate is the engine of the NBP. It is the directorate where “transactional” processing occurs. It is the “gateway” to the pension administration and recordkeeping system providing more data input and output than any other directorate. Operations will input NBP data (new retirees, beneficiary deletions or additions, address or bank changes, employee transfers etc.) in the future pension system, as well as processing payrolls for both the legacy and new system.

Net Retiree Set-Up shall be accountable for retiree set-up in the pension and administration recordkeeping system. This process is more than establishing a payment amount. It involves detailing retiree demographic information, known beneficiaries and ages, address, etc. The demographic data entered will enable the NBP to better track all payments and beneficiary ages.

Since payroll processes are generally identical, particularly if NBP uses one payroll system to process all payrolls, there is little if any reason to create an entire directorate devoted to legacy pension payments as in the present NBP organization chart. This is all the more true since the payroll will shrink over time, or with beneficiary additions, remain static. The maintenance staffing necessary for the legacy payroll are small, compared with the ongoing system. So, it makes sense that all payrolls are processed together, and the **Operations** directorate has the responsibility of transactional processes such as payroll, located in the **Retiree Payroll** division.

Retiree Payroll will ensure that the retiree payrolls are balanced and retirees and beneficiaries added or deleted according to established deadlines and approved documentation as directed from **Administration** (See **Administration** above).

Operations also communicates with banks related to pensioner direct deposit payments, wire transfers to fund the payroll or as money for an investment manager, balancing, receipt and processing of contribution payments, etc.

Contributions Processing will manage the receipt and posting of employer payroll information to the pension administration and software system in a timely manner.

Contributions Processing functions will include, among other tasks, employer payroll to pension software reconciliation, employer payroll to contribution monies received in the bank account(s), new employee record creation on the pension software, and identification and communication of delinquent contributions.

Finally, to maintain processing consistency the **Branch Operations** division will be responsible for all governorate activities. Similar to the **Branch Administration** function, the **Operations** DG may elect to appoint a liaison with the branches, but **Operations** will have the responsibility for all **Operations** directorate activities in the branches.

Key Performance Drivers

- Number of monthly unresolved payroll reconciliation items
- Amount of unresolved reconciliation items
- Age of unresolved reconciliation items
- List of reconciliation items "charged" as losses per period
- Pension payroll totals, including number of recipients
- Employee contributors
- Monthly changes in pension recipients and employee contributors
- Number of returned unclaimed pensioner payments

Information and Communication Technology (ICT)

ICT maintains the hardware and software for all systems within the NBP, as well as any website developed for employer and member access. These functions include the internal network and processing, worker desktop computers, the pension system software, interfaces (banks and NBP, NBP and the MOF, etc.).

Accordingly, **ICT** should have an internal **ICT Help Desk** to serve NBP employees, a **Systems** division to maintain all systems and hardware, a **Networking** division to maintain

the necessary connectivity within the NBP, its branches, and the main pension and database systems, and a **Production** group to ensure all reports, mailings, shipments, etc., are processed according to schedule.

ICT would also be responsible for testing new software releases whether for a Microsoft Office Suite or the pension recordkeeping system. **ICT** testing would be conducted prior to a User testing and a general implementation of a release to the live environment of operations and desktop networking.

ICT should develop NBP policy and procedures related to procurement, use of new desktop and other software releases, etc. This will help ensure that all NBP units and governorate branches run their systems on consistent platforms that can be supported by **ICT**. The policy and procedures should establish a clear process for obtaining approval to add software or hardware that is outside the approved vendor list contained in the policy and procedures.

Perhaps the most important responsibility of an **ICT** directorate is the management of **ICT** strategy. An **ICT** strategy together with the business goals and strategies will make the overall NBP vision. Such a unified strategy of the business should be developed around one, three, and five year plans, reviewed annually by the NBP and Chairman, MOF and COM.

Key Performance Drivers

Number of NBP contacts to ICT Help Desk

Percentage of pension recordkeeping downtime to uptime

Number of ad hoc report requests from management

Audit

An organization as large as NBP needs an Audit function to ensure that controls are adequate and effective, while proportionate to the identified risks. Risk can be both financial and systemic. What, for example, is the risk to the NBP should the entire system become incapable of processing the NBP pensioner payroll for several days? Is there a back-up alternative, a "disaster recovery" plan in place to address this possibility? The absence of any plan that can effectively address such a risk presents both service and financial risks.

For the NBP overall, the **Audit** directorate should develop a comprehensive risk policy. The policy would include identifying areas of risk, and assigning appropriate classification to each risk. Risk is part of any operation, and pensions, with its investments, contributions, and payments has many. But many risks can be mitigated by internal controls developed through sound policies and procedures. It is the responsibility of the **Audit** directorate to develop a comprehensive risk matrix for the entire NBP organization, **Investment** directorate included.

The Audit directorate should address Internal auditing to ensure that effective financial and operational controls are in place within the NBP. In addition to an **Internal Auditing** division, there should be the **Inspection** division within the **Audit** directorate to ensure proper and timely contribution collection from State Owned Enterprises (SOEs), the GOI, and private sector employers, as well as compliance with labor laws and regulations.

Inspection results will be reviewed and submitted to the **Customer Service** division of the **Administration** directorate for review. If a new employer has been identified, the employer will be established in the **Customer Service** division, and when the contributions are submitted with the employee documentation, the **Contributions Processing** division of the

Operations directorate will input the information into the pension system as part of the regular contribution processing cycle work.

Key Performance Drivers

Number of internal audits conducted

Status of audit follow-up to recommendations

Number of controls requiring a risk reassessment

Accounting

Accounting involves all aspects of the NBP operation including the budget, contributions received, investments, and bank accounts, i.e., the overall reconciliation of the monies received against those paid out and applied to both active contributors and employers. Accordingly, the Accounting directorate will consist of **Budget, Investment, and Contribution Accounting** divisions.

If the NBP is to become an independent organization, **Accounting** will play a key role in that goal. Developing critical financial performance metrics and effectively tracking investment results, so that a portion of the annual investment gains can be used to defer NBP operating expenses will be major efforts, as a new comprehensive financial accounting system takes hold in the fledging organization.

Assuming the goal of independence, the **Accounting** directorate will be involved in more than just monthly reporting and budget preparation. **Accounting** will ensure that everything is in balance and properly posted, and will be the financial control of the NBP. The NBP accounting effort includes Investment and Contributions, as well as internal accounting (budget).

Internal accounting monitors the NBP performance against the approved budget. Monitoring a budget includes providing timely and informative reports to management to ensure that the Board and DGs alike know how the NBP is running from week to week. Without such information, NBP will not be able effectively manage its costs, which include staff, premises, furniture and equipment, etc.

Contributions received by employers must be posted to the proper employer. Delinquent contributions must be monitored to ensure that the delinquencies are reported to NBP management, and that the proper delinquent penalties are assessed and collected.

Contribution accounting also includes ensuring that the NBP bank accounts are reconciled monthly. The contributions reported by employers for a particular period should reconcile to those posted to the NBP bank accounts for the same period. Any delays related to timing should become outstanding items reconciled during the next period, aged, and reported to the Board until cleared or charged (losses) as expenses.

Investment accounting begins with the process of wiring contributions money from the reconciled NBP bank accounts to the investment managers appointed by the NBP board. Similarly, as money is requested from the investment managers to fund monthly contributions, the investment accounting will ensure that those monies are sent and accounted for in a timely manner. **Accounting** will monitor control the financial reporting of these processes.

Finally, given the flow of contributions from employers and employees, and the monies needed to fund the pension payroll, a monthly cash projection will be needed from the investment accounting staff. A monthly cash projection will ensure that invested money is not liquidated unless it is necessary. By using the current contributions or available cash in

the reconciled NBP bank account to fund the payroll, NBP may avoid unnecessary liquidations of investments.

Key Performance Drivers

Per participant cost (active employee + retiree/beneficiary)
 Number of DGs reporting either positive or negative budget variances
 Number/Amount of unreconciled items
 Age of unreconciled items
 Number of items charged off to expense
 Contributions received vs. pension payments made

These are just a few of the key performance drivers that the NBP **Accounting** Directorate can track. Regardless, the accounting metrics should be driven by overall NBP profitability, cash flow, and the ability to fund payments and NBP operating expenses.

Per participant (active employee + retiree/beneficiary) record cost is a generally accepted metric for complete pension organizations, managing investments, retiree payroll, customer service, IT, etc. It is a simple metric, dividing the total annual budget by the number of active and pensioner records. A slight variation on this metric would be separating the retiree from the active member processing. With a comprehensive financial management system, this effort is relatively straightforward, and would allow NBP management an opportunity for greater detail.

Tracking the per participant cost from the January effective date of the NBP and SPF creation will enable NBP management to determine their per participant cost benchmark. From the benchmark, they can work to manage the per participant cost effectively, reducing it over time while making the entire NBP operation more effective and efficient.

Investments

Managing the contributions received to ensure that they produce a respectable return against international best standards of portfolio management, ensuring less of a funding short-fall for the GOI to fill, the **Investment** Directorate will take on one of the most important and visible functions in the NBP. While an **Investment** directorate may be somewhat new in terms of pensions in Iraq, it is a common and highly visible organization within similar structures elsewhere.

Contribution money management in the world of pensions is an important instrument to producing a fully sustainable and independent NBP. Since money management is a relatively new function within the pension world of Iraq, after defining an effective Investment Policy, the NBP would be prudent in considering the identification and appointment of money management firms so that in effect the **Investment** directorate is “managing” managers against well defined investment objectives developed by the NBP and approved by the MOF.

Managing managers ensures that the NBP gets the best professional help in structuring bond, equity, real estate, and short-term cash portfolios, along with the latest financial instruments (derivatives, mutual funds, etc.). As such the **Investment** directorate should, as mentioned elsewhere, engage a Lead manager to manage the managers.

While the key investment management work will be done by the Lead and other managers hired by the NBP, the **Investment** directorate can build itself over time, expanding its investment management expertise from that of merely a reporting and monitoring role, to taking on investment duties, particularly in the area of GOI Treasuries.

Key Performance Drivers

Total money under investment by investment manager
 Monthly investment return by investment manager
 Asset allocation percentages by investment manager and consolidated
 Total investment return

Public Relations

Public Relations (PR) serves as the communication function of the NBP. It helps shape the message of the organization. Whether the message involves communicating with the clients (pensioners and active employees participating in one of the GOI pension schemes) about pension increases, or internal NBP changes, the **PR** function should be involved.

The NBP **PR** directorate would include **Internal** and **External** divisions and possibly a **Legislative** division to interact exclusively with lawmakers. The **Internal** division would focus on communicating with NBP employees. For example, using monthly newsletters, the NBP **PR** directorate could communicate NBP events and news, with feature stories about a particular directorate, staff member, etc.

For immediate, ad hoc communications of urgent policy changes, etc., the internal **PR** function could use flyers, items posted on bulletin boards, and other methods of quick distribution. The monthly newsletters could be used to reinforce such communications made between editions.

The **External** division would include coverage of all media (print, television, radio, and internet). A designated NBP **Spokesman** would be included in this division. The **Spokesman** would be a senior staff member who could effectively communicate the NBP position in interviews with the media, make public announcements, etc.

Finally, a good **PR** department for an organization like NBP would include a **Strategic** division. The **Strategic** division would be responsible for developing communication campaigns as well as working on crisis management issues (Delay in NBP pensioner payments, etc.) to ensure that what the spokesman says is on message and effective. The **Strategic** division would include the most talented **PR** staff, capable of thinking creatively and reacting quickly to events both within and beyond the NBP.

Key Performance Drivers

Number of positive NBP articles or reports
 Number of negative NBP articles or reports
 Number of interviews arranged (radio, television, newspaper)
 NBP survey results from an independent polling group

Legal Affairs

Legal Affairs monitors both the laws, and legal issues encountered by the Pensioners' Case Scrutiny Committee. The **Legal Affairs** directorate may also be involved in preparing committee reports and minutes, as well as submitting legal questions or regulations to the, Minister of Finance (MOF), Council of Ministers (COM), etc.

The **Legal Affairs** directorate can be divided into specialty areas of the law. For example, one or more lawyers could be assigned to each of the three pension laws of the NBP (Unified, Pre-2006, Social Security for Workers), handling only those cases or issues which affect those specific areas of the law. Or, the lawyers could specialize in functional areas of all the laws: benefits, beneficiary claims, delinquent company contributions, etc.

Legal Affairs would also have the responsibility of reviewing all vendor and service provider contracts. This may involve actual contract negotiations or simple reviews of contracts presented for execution by the directorates or branches. But without one central review for contract review, the NBP exposes itself to potential service and vendor risk, as well as inconsistently negotiated contracts which may cost more long-term.

Also, the **Legal Affairs** directorate would be responsible for assembling documentation and arguments for submission to the MOF, COM or High Court regarding vague points of the law to seek guidance about how to proceed, etc.

Key Performance Drivers

Retirement applications appeals
 Disability application appeals
 Potential cases of legal action against NBP

Human Resources (HR)

HR has been identified in the organization chart below as a directorate reporting to a directorate under **Administration**. Alternatively, **HR** could maintain a direct reporting line to the NBP Chairman. Either way, the NBP needs a single HR directorate controlling all NBP **HR** issues from compensation, promotions and terminations to leave processing, transfers between NBP directorates, and hiring.

HR can be more than a “guardian” of NBP personnel files. It can establish rules and regulations based on the Labor Law, and monitor compliance within the NBP and all governorate branches. Effective **HR** work can mitigate the job risks due to poor sanitation, minor epidemics, undocumented promotions, etc.

As mentioned elsewhere, since **HR** is essentially a staff position, the day-to-day management is best accomplished through the DG Administration. This reduces the Chairman’s span of control, while allowing him direct access to the HR skills and resources.

Key Performance Drivers

NBP Staff turnover
 New NBP hires
 Transfers between NBP departments
 Change in NBP salary expense
 Training Classes Presented and NBP staff trained
 Number of NBP employee complaints

Governorate Branch Administration

Lastly, the NBP Chairman is responsible for managing the governorate pension offices. **Branch Administration** is more of a “liaison” function. In a nationwide network, the policies and procedures of each NBP office are the same as those of the main NBP. Ideally, branch processing of retirement applications, beneficiary changes, and contributions collection and inspection efforts should be no different than those similar functions conducted at the NBP headquarters in Baghdad. However, the branch offices need contacts in both operations and administration, to ensure that their work is managed in accordance with the overall NBP standards.

Key Performance Drivers

The key performance drivers for administration and operations apply to the individual governorate offices.

There are of course many variations on the overall NBP structure presented. For example, a separate **Branches and Governorates** directorate could be established with a direct reporting line to the Chairman. This may make sense if the work in the branches and governorates is distinctly different from the work at the NBP headquarters. If the branches and governorates process retirements and payrolls using separate systems, this reporting alternative may make sense. But since post-implementation access will be to one system processing for all NBP organizations, a separate directorate for **Branches and Governorates** seems inefficient.

Another variation might be to make the **HR** directorate report directly to the Chairman. This makes the span of control for the Chairman increase by one organization, reducing his management time. It is as much a judgment call, as placing the **HR** directorate under the **Administration** DG.

The major point, in pursuing an organizational structure that is based on international best practice, is to remember that the NBP should be organized along functional lines. For example, there is no need to have two **Audit and Inspection** divisions, or more than one payroll processor. The expense in duplication, whatever the reason, is not just in staff and overhead but efficiency as well.

Functional organizations are organizations that function!

4 NBP Organizational Structure: Director General Position Descriptions

4. NBP ORGANIZATIONAL STRUCTURE: DG POSITION DESCRIPTIONS

DG Administration

REPORTS TO

Chairman, National Board of Pensions

JOB DEFINITION

At the direction of the Chairman, the DG of Administration will be responsible for all administrative aspects of NBP client service and delivery. This includes the delivery of customer service for employers, pensioners and beneficiaries, and active employees, as well as responsibility for NBP Human Resources and NBP Governorate Branches. While the DG Operations shall be responsible for the specific NBP governorate branch operations activities, the DG Administration will have total responsibility for the branches. Consistent with this structure, the DG Administration will also have responsibility for all NBP property and facilities.

RESPONSIBILITIES

- Manage unit manager performance against pre-established objectives and deliverables.
- Recommend staff promotions or disciplinary action as necessary.
- Promote a customer-focus regarding service to all clients by developing ways to improve the delivery and processing of contributions, retiree applications, purchases of past service (pursuant to the provisions of Law #69/2007).
- Establish division and branch metrics and benchmarks so that directorate performance can be monitored and improved.
- Ensure that all NBP property and facilities are adequately managed, maintained, and space allocated appropriately and efficiently.

DUTIES

10% Monitor the directorate budget to ensure it remains within established variance parameters.

30% Determine the key directorate metrics and performance benchmarks and manage divisions against them

30% Proactively promote a directorate environment of proactive, customer-focus through development and implementation of new ways to improve the experience.

15% Research and resolve the most complex client issues by providing positive solutions that ultimately improve all aspects of NBP administration

15% Develop and implement 1-, 3- and 5-year strategic plans for Administration including budgets, staffing, training, and technological enhancements to office automation and client service delivery.

KNOWLEDGE AND SKILLS

- Familiarity with all Iraqi laws governing pensions, including Law #27/2006 as amended by Law #69/2007, labor laws, and accounting requirements
- Fundamentals of Pension Administration, including pension recordkeeping
- Proven management experience

OTHER

Duties assigned by the Chairman

DG Operations

REPORTS TO

Chairman, National Board of Pensions

JOB DEFINITION

At the direction of the Chairman, the DG of Operations will be responsible for all NBP operations or transactional processes. This includes establishing new retirees on the pension administration and recordkeeping system, and responsibility for the legacy and new retiree payrolls, contributions processing, and branch operations.

RESPONSIBILITIES

- Manage unit manager performance against pre-established objectives and deliverables.
- Recommend staff promotions or disciplinary action as necessary.
- Promote operational efficiencies across all areas of responsibility, looking for and encouraging new ways to process that improve productivity, accuracy and which support improved customer service.
- Establish division and branch metrics and benchmarks so that directorate performance can be monitored and improved.

DUTIES

10% Monitor the directorate budget to ensure it remains within established variance parameters.

30% Determine the key directorate metrics and performance benchmarks and manage divisions against them

30% Proactively promote a directorate environment of customer-focus through development and implementation of new ways to improve the processing experience that make NBP work more productive, and employer work more efficient.

15% Research and resolve the most complex operations and processing issues by providing positive solutions that ultimately improve all aspects of NBP operations

15% Develop and implement 1-, 3- and 5-year strategic plans for Operations including budgets, staffing, training, and technological enhancements to office automation and customer service delivery.

KNOWLEDGE AND SKILLS

- Familiarity with all Iraqi laws governing pensions, including Law #27/2006 as amended by Law #69/2007, labor laws, and accounting requirements
- Fundamentals of Pension Administration, including pension recordkeeping
- Proven management experience

OTHER

Duties assigned by the Chairman

DG Information and Communication Technology (ICT)

REPORTS TO

Chairman, National Board of Pensions

JOB DEFINITION

At the direction of the Chairman, the DG of ICT will be responsible for **all** NBP ICT functions. This includes the implementation of software, hardware configurations sufficient to support installed software, testing and scheduling releases, and internal customer service and support for NBP staff for the pension software and NBP network.

RESPONSIBILITIES

- Manage unit manager performance against pre-established objectives and deliverables.
- Recommend staff promotions or disciplinary action as necessary.
- Promote a positive ICT customer-focus regarding service to all NBP areas by developing ways to improve ICT delivery.
- Establish division metrics and benchmarks so that directorate performance can be monitored and improved.
- Maintain the web-based solution used in the installed pension administration and recordkeeping software
- Maintain an internal ICT support center for issues related to pension software and office automation.

DUTIES

10% Monitor the directorate budget to ensure it remains within established variance parameters

30% Determine the key directorate metrics and performance benchmarks and manage divisions against them

30% Proactively promote a directorate environment of customer-focus through development and implementation of new ways to improve the experience.

15% Research and resolve the most complex client issues by providing positive solutions that ultimately improve all aspects of NBP administration

15% Develop and implement 1-, 3- and 5-year strategic plans for ICT including budgets, staffing, training, and particular technological enhancements to office automation and client service delivery.

KNOWLEDGE AND SKILLS

- Familiarity with all Iraqi laws governing pensions, including Law #27/2006 as amended by Law #69/2007, labor laws, and accounting requirements
- Fundamentals of pension administration, including pension recordkeeping
- Substantial management experience in ICT and pension administration software
- Strategic vision about ICT in the 21st century

OTHER

Duties assigned by the Chairman

DG Audit

REPORTS TO

Chairman, National Board of Pensions

JOB DEFINITION

At the direction of the Chairman, the DG of Audit will be responsible for coordinating with the Supreme Audit and other authorized entities all external audits of the NBP. Also, the DG will conduct internal audits of the NBP system of internal controls, to ensure ongoing risk is identified and mitigated reasonably and cost effectively.

RESPONSIBILITIES

- Manage unit manager performance against pre-established objectives and deliverables.
- Recommend staff promotions or disciplinary action as necessary.
- Promote a customer-focus regarding internal audits by developing ways to improve the system of internal controls, while maintaining efficient processes.
- Create and maintain an audit certification checklist for each directorate, and determine the frequency of the certification process
- Conduct random audits of internal functions based on identified weaknesses and risk factors. Report results to the Chairman
- Produce a monthly Audit Report for the Audit Subcommittee of the Board
- Establish division metrics and benchmarks so that directorate performance can be monitored and improved.
- Conduct investment manager audits at their processing and trading centers at the request of the DG Investments

DUTIES

10% Monitor the directorate budget to ensure it remains within established variance parameters.

30% Determine the key directorate metrics and performance benchmarks and manage divisions against them

30% Proactively promote a directorate environment of customer-focus through development and implementation of new ways to improve the experience.

15% Research and resolve the most complex client issues by providing positive solutions that ultimately improve all aspects of NBP administration

15% Develop and implement 1-, 3- and 5-year strategic plans for Audit and risk reduction, including budgets, staffing, training, and technological enhancements to office automation and client service delivery.

KNOWLEDGE AND SKILLS

- Familiarity with all Iraqi laws governing pensions, including Law #27/2006 as amended by Law #69/2007, labor laws, and accounting requirements
- Fundamentals of Pension Administration, including pension recordkeeping
- Experience is auditing and systems of internal controls for financial organizations

OTHER

Duties assigned by the Chairman

DG Accounting

REPORTS TO

Chairman, National Board of Pensions

JOB DEFINITION

At the direction of the Chairman, the DG of Accounting will be responsible for NBP budgeting and reporting, as well as NBP investment and contributions accounting.

RESPONSIBILITIES

- Manage unit manager performance against pre-established objectives and deliverables.
- Recommend staff promotions or disciplinary action as necessary.
- Promote a customer-focus regarding service to all internal clients by developing ways to improve the delivery of accounting information (budgets, etc.) and the NBP annual budget preparation process.
- Serve as an accounting resource to the NBP and employers.
- Prepare periodic accounting reports at the direction of the Chairman.
- Establish division metrics and benchmarks so that directorate performance can be monitored and improved.

DUTIES

10% Monitor the directorate budget to ensure it remains within established variance parameters.

30% Determine the key directorate metrics and performance benchmarks and manage divisions against them

30% Proactively promote a directorate environment of customer-focus through development and implementation of new ways to improve the experience.

15% Research and resolve the most complex client issues by providing positive solutions that ultimately improve all aspects of NBP administration

15% Develop and implement 1-, 3- and 5-year strategic plans for Administration including budgets, staffing, training, and technological enhancements to office automation and client service delivery.

KNOWLEDGE AND SKILLS

- Familiarity with all Iraqi laws governing pensions, including Law #27/2006 as amended by Law #69/2007, labor laws, and accounting requirements
- Fundamentals of Pension Administration, including pension recordkeeping

OTHER

Duties assigned by the Chairman

DG Investments

REPORTS TO

Chairman, National Board of Pensions

JOB DEFINITION

At the direction of the Chairman, the DG of Investments will be responsible for managing the lead and specialty investment managers. While not responsible for actual NBP investments, the DG of Investments will coordinate the work of the investment managers engaged by the NBP Board, and ensure that they are reporting their results and delivery in accordance with their engagement contracts and related documents.

RESPONSIBILITIES

- Manage unit manager performance against pre-established objectives and deliverables.
- Ensure that the lead manager receives NBP cash projections and requirements in a timely manner.
- Coordinate with the lead investment manager with respect to aspects of the investment process

DUTIES

10% Monitor the directorate budget to ensure it remains within established variance parameters.

35% Monitor investment manager performance between reporting periods.

10% Develop investment risk and liability driven investment policies and monitor lead investment manager against those policies

20% Develop and maintain investment contacts, periodically reporting to the NBP Chairman and Investment Subcommittee the latest investment strategies and techniques

15% Develop and implement 1-, 3- and 5-year investment plans for the NBP, taking into account cash flows, investment returns, and the periodic actuarial valuation results.

10% Represent the NBP in investment manager contract negotiations

KNOWLEDGE AND SKILLS

- Familiarity with all Iraqi laws governing pensions, including Law #27/2006 as amended by Law #69/2007, labor laws, and accounting requirements
- Familiarity with Pension Administration, including pension recordkeeping
- Familiarity with Pension financing
- Substantial experience with investments, both equities and bonds

OTHER

Duties assigned by the Chairman

DG Public Relations

REPORTS TO

Chairman, National Board of Pensions

JOB DEFINITION

At the direction of the Chairman, the DG of Public Relations will be responsible for all NBP communications both internal and external. The DG Public Relations will work to ensure that in all communications, the NBP message, as established by the Chairman and the Board, is consistently communicated. As the key point of contact or “NBP ambassador to the public”, the DG Public Relations will represent the NBP publicly.

Internal and external communications will include speech writing for key NBP figures, media relations, internal newsletters, public outreach, and serving as the designated media spokesmen who will represent the NBP at seminars, on television, etc.

RESPONSIBILITIES

- Manage unit manager performance against pre-established objectives and deliverables.
- Recommend staff promotions or disciplinary action as necessary.
- Promote a consistent NBP message to all stakeholders (internal staff, GOI, employers, pensioners and beneficiaries, etc.)
- Establish division metrics and benchmarks so that directorate performance can be monitored and improved.

DUTIES

10% Monitor the directorate budget to ensure it remains within established variance parameters.

30% Monitor media reporting of NBP and its activities. Proactively respond to reports (News feature of a pensioner complaint) as necessary

30% Proactively promote NBP through various media campaigns.

15% Research and resolve the most complex public relations issues by providing positive solutions that ultimately improve all aspects of the NBP organization

15% Develop and implement 1-, 3- and 5-year strategic plans for public relations including budgets, staffing, training, and technological enhancements to office automation and client service delivery. Include a media outreach program of training active employees and retired pensioners and beneficiaries on issues related to retirement and personal savings.

KNOWLEDGE AND SKILLS

- Familiarity with all Iraqi laws governing pensions, including Law #27/2006 as amended by Law #69/2007, labor laws, and accounting requirements
- Fundamentals of Pension Administration, including pension recordkeeping
- Experience as a Public Relations or media officer for either a public or private entity with several, diverse customer bases

OTHER

Duties assigned by the Chairman

DG Legal Affairs

REPORTS TO

Chairman, National Board of Pensions

JOB DEFINITION

At the direction of the Chairman, the DG of Administration will be responsible for NBP legal affairs. This includes legislative affairs, monitoring new and proposed NBP laws, resolutions, regulations, etc.

RESPONSIBILITIES

- Manage unit manager performance against pre-established objectives and deliverables.
- Recommend staff promotions or disciplinary action as necessary.
- Provide analysis of the legal impact to NBP related to any pension law amendments, resolutions, regulations, etc. The legal analysis shall identify any potential areas in which existing NBP policies, procedures or processes may need to be change.
- Provide legal analysis and representation for NBP before the courts of Iraq. Representation would include any actions related to any retiree or beneficiary pension appeals, employer litigation, etc.

DUTIES

10% Monitor the directorate budget to ensure it remains within established variance parameters.

20% Represent NBP before the courts of Iraq

30% Provide legal analysis of pending and passed legislation to ensure a timely and proactive response by NBP through potential changes to policies, procedures, or processes.

10% Conduct legal compliance audits, to ensure that the NBP directorates are conducting their retirement business in accordance to the laws of Iraq.

10% Represent the NBP at Parliament in the absence of the NBP Chairman

10% Represent the NBP at seminars, on television, etc.

10% Review all NBP contracts prior to their execution by NBP.

KNOWLEDGE AND SKILLS

- Familiarity with all Iraqi laws governing pensions, including Law #27/2006 as amended by Law #69/2007, labor laws, and accounting requirements
- Fundamentals of Pension Administration, including pension recordkeeping
- Certified Lawyer

OTHER

Duties assigned by the Chairman

DG Human Resources

REPORTS TO

Chairman, National Board of Pensions

JOB DEFINITION

At the direction of the Chairman, the DG of Human Resources (HR) will be responsible for all NBP personnel policies and procedures. This includes reviewing and establishing the grading, compensation, title, etc. of every NBP job position below DG. The HR directorate will process leaves, terminations, and transfers in accordance with established policies and procedures consistent with Iraqi law.

RESPONSIBILITIES

- Manage unit manager performance against pre-established objectives and deliverables.
- Recommend HR staff promotions or disciplinary action as necessary.
- Promote a customer-focus regarding service to all HR internal clients by developing ways to improve the delivery and processing of HR related activities.
- Establish division metrics and benchmarks so that directorate performance can be monitored and improved. Such metrics will include turnover and transfer statistics.
- Develop and maintain NBP HR policies and procedures consistent with Iraqi laws.

DUTIES

10% Monitor the directorate budget to ensure it remains within established variance parameters.

30% Determine the key directorate metrics and performance benchmarks and manage divisions against them

30% Proactively promote a directorate environment of customer-focus through development and implementation of new ways to improve the HR experience for all NBP staff.

15% Research and resolve the most complex HR issues, providing positive solutions that ultimately improve all aspects of NBP HR.

15% Establish a training function within HR that promotes staff training and encourages staff development through computer, accounting, and software user skills.

15% Develop and implement 1-, 3- and 5-year strategic plans for HR including budgets, staffing, training, and NBP staff development.

KNOWLEDGE AND SKILLS

- Familiarity with all Iraqi laws governing pensions, including Law #27/2006 as amended by Law #69/2007, labor laws, and accounting requirements
- Fundamentals of Pension Administration, including pension recordkeeping
- Proven HR management experience

OTHER

Duties assigned by the Chairman

5 Conclusion

5. CONCLUSION

By enacting the Unified Pension Law #27/2006 and its subsequent amendments contained in Law #69/2007, the GOI has announced a radical departure from “business as usual” in pension administration and recordkeeping nationwide.

Gone are the days of paper-based records, which created an environment of non-compliance with beneficiary age exemptions, poor contribution collection rates, and lengthy retirement application steps. With a comprehensive database of active employees and pensioners and beneficiaries, the NBP will be able to control and manage the delivery of service to all constituents, including the employers. Better delivery will help control expenses, while a comprehensive Investment Policy will ensure that the investment revenue can be used to offset NBP expenses, while ensuring a fiscally responsible investment return that will minimize GOI subsidies.

At the same time, the GOI has, in its mandate for the NBP to invest employer and employee contributions, created a sovereign wealth fund (SWF). An SWF is a state-owned investment fund composed of financial assets such as stocks, bonds, property or other financial instruments. Sovereign wealth funds have gained world-wide exposure by their sheer size (see *Appendix B*), and investing in several Wall Street financial firms including Citigroup, Morgan Stanley, and Merrill Lynch which needed a cash infusion due to losses resulting from the credit crunch.

SWFs can be managed solely by central banks, which accumulate the funds in the course of their fiscal management of a nation's banking system. Or, SWFs can be managed as simply the state savings which are invested by various entities for the purposes of investment return, and which may not have significant role in fiscal management. The NBP SWF is more akin to the state savings types, in a manner similar to the Norwegian SWF, which has both oil revenue and pension components, although its specific mandate is pension system funding, and, as accumulated, will have a significant role in the GOI fiscal management.

The GOI's desire to end paper-based pension administration, while, at the same time creating an entity charged with investing employer and employee contributions as an SWF, creates substantial challenges and risks. Addressing the challenges and mitigating the risk will require careful planning, organizing, documenting, software implementation, and BPR to ensure a successful transformation of the past pension practices and mechanisms to the 21st Century.

6. APPENDICES

6. APPENDICES

Appendix A – Sample NBP Mission Statement

The NBP is committed to providing employers, active employees, and pensioners and beneficiaries the highest quality of service. Our responsibility is to serve the active employees, pensioners and beneficiaries. Every effort we make is based upon serving these individuals in the best ways possible.

NBP will invest employer and employee contributions under the strictest of guidelines, following an established process which ensures the best possible investment results within reasonable risk parameters.

With the new and comprehensive pension and recordkeeping system, NBP captures important individual data for active employees, tracking them throughout their working careers and into retirement. This process will provide a quicker NBP response time to customer requests, changes, and retirement application processing. The NBP recognizes the importance of maintaining all data on individuals with the strictest system security provisions and confidentiality policies.

NBP is at your service!

Appendix B – Largest Sovereign Wealth Funds

Largest 11 sovereign wealth funds, 2006

Country	Year established	Assets under management (US\$ bn.)
United Arab Emirates	1976	688
Norway*	1990	316
Singapore (GIC)	1981	215
Kuwait	1976	174
Russia	2004	122
Singapore (Temasek)	1974	108
China	2003	66
Qatar	2005	50
Algeria	2000	43
United States (Alaska)	1976	40
Kuwait	1961	39

Sources: Peterson Institute for International Economics, August 2007, and OECD Secretariat.

* SWF classified by OECD Global Pension Statistics as pension reserve fund.