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## **EXECUTIVE SUMMARY**

This document analyzes the current processing environment within the Work and Social Security Directorate of the Ministry of Labor and Social Affairs (MoLSA). The analysis is based on previous World Bank and BearingPoint assessments, an examination of relevant Iraqi Laws (specifically, *Workers Pension and Social Security Law #39 of 1971 and its Amendment*, and *Labor Code #71* dated 7/27/87), as well as extensive interviews with Work and Social Security Directorate staff. While detailed analyses such as this one are more or less works in progress, this analysis attempts a significant photograph snapshot of current processing in the Work and Social Security Directorate as of August, 2005.

Our work focused on identifying immediate to near-term policy and administrative reforms which will help lay the foundation for more complete, but longer term organizational, legislative, and structural change.

In analyzing the current Work and Social Security Directorate operating environment, we have been able to identify short-term improvements that can yield long-term results. In particular, we have helped the directorate begin a database project, which will enable them to capture data critical to their mission and use it to build a modest, but useful database. We have been careful to ensure that this effort does not create substantial, additional work for an anticipated database conversion, once a more robust system, such as Oracle's version 10-G, is selected.

We are also working with our MoLSA counterparts to produce an ER handbook, for distribution at the Business Registry, the point that many businesses first enter into government view. The handbook will help train and inform both new and existing ERs about their legal obligations vis-a-vis MoLSA, while transparently empowering MoLSA through full disclosure and dissemination of its enforcement powers to those it serves.

To help increase the contributions collected, we have identified significant gaps in the ministry's knowledge of registered Employers (ER) and consequently, Employees (EE). These gaps relate to unreconciled numbers of registered MoLSA ERs to those of the Ministry of Trade (MoT), which has approximately 2,000 more ERs registered than MoLSA, and to the number of Iraqi EEs working in the private sector, numbering 2.9 million countrywide, according to a Fafo survey, and approximately 80,000 registered with MoLSA. While we certainly do not expect to find that the substantial difference in EE counts will swell the MoLSA manual database by 2.8 million, considerable database growth, hence contribution income, is expected.



We have also focused on the approximately 152 foreign companies headquartered here in the IZ, in another flank of our battle to increase contribution collection. All of the 152 foreign ERs are not registered with MoLSA, and many have been reluctant to do so, for security reasons related to disclosing the identity of their Iraqi employees. In conjunction with MoLSA, we have established a secure identification convention that should mitigate, if not remove any security concern. Absent security concerns, we plan to focus on the 152 companies employing in excess of 41,000 employees (Iraq Project and Contracting Office website, as of 7/13/05), to ensure that they understand their obligations as ERs with respect their statutory contributions and those they must collect from their Iraqi EEs. In summary, our broad recommendations covering the categories of revenue enhancement and process improvement are:

- Improve data collection by identifying ERs and EEs who are not registered with MoLSA
- Increase contributions by identifying ERs and EEs who are not registered with MoLSA
- Create basic database to serve near-term needs
- Improve Audit and Inspection Process
- Develop an actuarial model to evaluate pension-funding needs and drive reform options
- Recommend and select a suitable pension administration system
- Recommend an operational platform that supports the new pension administration system

A more detailed list of the recommendations derived from this work can be found at the end of the analysis.



## **MINISTRY OF LABOR AND SOCIAL AFFAIRS (MoLSA) WORK AND SOCIAL SECURITY DIRECTORATE PROCESSING OVERVIEW**

The Ministry of Labor and Social Affairs (MoLSA) has one Minister, Idris Hadi, one Deputy Minister, Dr. Noori El-Hilfi, and four directorates: Diwan or Headquarters, Social Welfare, Work and Social Security, and Technical Training and Employment.

The Diwan contains the staff functions such as IT, legal, accounting, public relations, administration, HR, finance, planning and statistics, etc. While the Diwan is the key administrative arm of MoLSA, the focus of our Statement of Work is on the areas of Social Welfare, Work and Social Security, and Technical Training and Employment. This analysis focuses on the Work and Social Security function.

As of December 31, 2004, the Work and Social Security directorate of MoLSA had a total staff of 905, 98 of whom were on leave, etc., for a total of 806 active employees. Of the 905 total, 413 or 46% were employed in Baghdad.

According to data obtained by the Office of Reconstruction and Humanitarian Assistance (ORHA), and the GlobalSecurity.Org website, Social Welfare manages 133 facilities: (1) 20 orphanages; (2) 45 day care centers; (3) 5 nursing homes; (4) 22 homes for the deaf; (5) 3 centers for the blind; (6) 17 facilities for the mentally disabled; (7) 8 disabled employment centers; (8) 4 workshops for the disabled; (9) 5 rehabilitation centers; (10) 2 homes for the severely retarded and; (11) 2 centers for persons with missing limbs.

Social Security manages the Social Security for Workers (SSW) private pension plan, established by the enabling legislation of the *Workers Pension and Social Security and its Amendment*, Law No. 39 of 1971 (hereafter referred to as Law #39).

Since 1989, when an employee is hired for the first time in his work career, he completes an application listing his Employer (ER)/Project #, name, date and address. The Employee (EE) is then issued a worker identification, which the EE will use throughout his work career. **Note:** It is possible for one EE to obtain more than one identity card, because absent any automation, an EE could apply for work with an ER and represent it as his first time, go through the above process and obtain a new identity card. This control weakness has been noted, as well as the urgent need for one, universal identity number for all civic transactions both within a governorate and beyond.

The record layout of the worker identification is 10 numeric spaces: The first two spaces are the governorate, the second two spaces the birth year, and the last six spaces are the sequence number, assigned to the worker by the order in which he joined the labor force.



As of 6/13/05, there were a total of 69 foreign companies, 30 "Non-Arabic", 39 "Arabic". Less than half of the 69 have paid their contributions timely. Presently, there are 24,315 ERs with more than three Iraqis EEs, the minimum subject to the conditions of Law #39, registered with MoLSA. Roughly half of these or 12,177 are active ERs, while the remaining are retained on file, but listed as stopped or no longer functioning entities.

MoLSA also has no information about the 152 companies doing business in Iraq headquartered within the International Zone (IZ). It is our intent to help ameliorate the chief concern of the foreign companies, based in the IZ and employing three or more Iraqis and required by law to make ER and EE contributions on behalf of each Iraqi employee, by working with MoLSA to provide a solution to protect the identities of EEs working for these companies, while withholding the appropriate amounts from their salaries (while the ER makes their tax deductible contribution on the EEs' behalf) and transmitting both the funds and data to MoLSA.

The Technical Training and Employment Center works in the area of vocational skills training and employment services. Using the 18 governorate offices, this directorate attempts to match job seekers with employers, and serves as a public--albeit passive--service employment agency.

Our focus has been on the Social Security directorate, and the various staff functions at the Diwan that provide ministry-wide metrics, legal, budgets, IT, and other staff and administrative support. This report is designed to assess the significant operations processes that support pension registration, contribution collection, payment, audit and inspection, etc., to determine immediate and long-term solutions to an entirely manual pension administration system. A subset of this is our analysis of the "safety net" and other MoLSA payment mechanisms, which, to our knowledge, also operate in an entirely manual environment. Immediate solutions will be considered to the extent that they can reduce any processing times and gain efficiencies in an effort to better serve Iraqis.

In the near-term, or through Q1 2006, it is our intent not to introduce any significant changes that may need to be undone in light of possible long-term changes brought about by our work in actuarially valuing the SSW plan and its public sector counterpart (State Employee Pension or SEP). Long-term changes will involve systems analysis, strategic planning pension re-design, organizational transformation to a customer-focused organization and the consequent reform legislation, as well as automating critical processes. This work is concurrent to this assessment and can be used for future planning as well as immediate implementations



## **BENEFIT PAYMENTS/"CONTRIBUTION PAYMENT"**

This process describes an employee's application for a retirement pension, as well as disability, worker's compensation, and survivors' payments. An EE must apply to an ER to obtain their salary history that is completed on a form prepared and authorized by the ER. This form is a necessary step in the application process. If the EE worked at several ERs, the EE must go to each ER and obtain a form verifying his service and salary, repeating this process as many times as places worked after the eligibility age of 18, although there may be some exceptions for minors working after the age of 15. And if the work locations involve other governorates, an EE must go to those governorates as well, repeating the process in order to get the full pension payment for which he is eligible.

**Note:** The 1% collected for medical covers the employee only, and covers on-the-job injuries, illnesses, etc.

### **WHO**

The central Baghdad office as well as those in the 17 remaining governorates accept benefit applications. **Note:** Data is not collected on the 3 Kurdish governorates of Dahuk, Arbil, and Al-Sulaymaniyah, although MoLSA makes payments to 164 beneficiaries/pensioners in these three governorates, as the payments were begun in 1990, before the Kuwait War and "No Fly Zone" complications.

### **WHAT**

Processing applications for pension, disability, workers compensation, survivor benefits, etc.

### **WHEN**

Payments are presently made quarterly. MoLSA is very interested in obtaining post office agreement to make monthly payments as was done pre-war. The list of current "emergency" payments, as periodically changed by the Ministry Council and Ministry of Finance are:

25 or more years of service:	330,000 I.D.
Less than 25 years of service:	255,000 I.D.
Survivor:	
Family with more than one person:	210,000 I.D.
Sole survivor:	195,000 I.D.
Rewards, Celebrations, Ramadan:	70,000 I.D.

**Note:** The emergency payments for the state employees participating in the State Employee Pension (SEP) plan are significantly more than these which, coupled with the more generous provisions of the SEP plan compared with the SSW, make for disparities that can create or exacerbate social tension. To



compound this, the SEP emergency payments are made monthly, while those to SSW participants are made quarterly. At the very least, we will recommend increases to these payments, compounded by a government-contemplated lowering of rationing subsidies, and work to improve the payment processing cycle to facilitate monthly payments.

#### WHERE

Application process depends on where the employee lives. Applicants must go to their local governorate office.

#### HOW

An applicant must appear in person at the MoLSA governorate office.

The payment application process for retirements, workers compensation, and survivors is essentially the same. ERs complete a form that the employee takes to the MoLSA governorate office. Using the decentralized database of the governorate, MoLSA has the EE complete another form, and with that and evidence of residence and birthdate, verifies the application.

After governorate verification, the documentation is sent to Baghdad to be approved, and payment information entered into the central payment database. Once this process is complete, Baghdad informs the governorate, and a pension identification card is issued locally. The card is the "key" to periodic pension payment collection from the Post Office.

In Baghdad, clerks post to the central payment database all of the governorate payments, adding new retirees, deaths, disabilities, etc., on a regular basis (As noted above, payments are made quarterly. presently, but there is a strong desire and need to return to the pre-war monthly payments through the Post Office).

The difference in this process comes with disability payments. Long-term disability (LTD) applicants must come to Baghdad so that their disability can be assessed and LTD application approved by the High Medical Board.

After the central payment database is edited for changes, payment registers are generated. These quarterly registers are created and sorted by governorate, in turn sorted down to the local post office, based on payee address. These registers are then mailed to the post offices for the quarterly payments, which are paid the first of the month following the end of the quarter.

Concurrently, MoLSA issues checks, made payable to each regional post office, for the cash necessary to fund the cash pension payments. These checks are drawn on a Rafidain Bank account into which the MoF transfers contribution payments. The MoF receives the transfer requests for the 18 MoLSA governorate offices, and moves the money from the contribution deposits account which the MoF controls, into the MoLSA checking accounts to fund the payments. The post offices then obtain the cash from the banks by cashing the checks.



**Note: MoLSA pays the Post Office a .15% commission based on the gross quarterly payments.  
CONTRIBUTION**

#### WHO

ERs employing more than 3 Iraqis, are, pursuant to Article #27 of Law #39, required to make an ER contribution, and withhold an EE contribution, remitting both to MoLSA no later than one month after the payroll period for which they were deducted.

#### WHAT

Remit contributions (income), at a rate of 5% EE, 12% ER. The ER contribution is allocated as follows: (1) 9% to pensions; (2) 2% to workers' compensation and (3) 1% to workers' health care. Engineers, lawyers, and possibly journalist are exempted from these requirements, since pensions and other coverage provided by MoLSA are assumed by their professional unions or associations, with the exception of the ER contribution for workers' compensation and health care.

Both ER and EE contributions are calculated on the EE salary, after exemptions or allowances. There are seven allowances: (1) Housing; (2) Food; (3) Transportation; (4) Ration card; (5) Family members; (6) Hazardous work and; (7) Overtime. For example, if an employee has a gross monthly salary of ID 200,000, and ID100,000 allowances totaling ID25,000 for food, ID50,000 for housing, and ID25,000 for transportation, the 5% EE and 17%ER deductions are applied to the net salary after deductions, or ID100,00.

#### WHEN

Pursuant to Article #29 of Law #39, the contributions due for a month shall be considered payable on the first of the succeeding month, and delinquent if not paid by the end of the month succeeding the contribution date.

#### WHERE

Contributions are accepted at the 15 MoLSA governorate offices. Data is not available for Kurdish governorates of Dahuk, Arbil, and Al-Sulamaniyah, and they have not contributed since the "No FlyZone" restrictions commenced.

Monthly contributions of less than ID 100,000 are paid in cash at a bank. In the case of Baghdad, for example, the main MoLSA office has a Rafidain Bank branch, at which the cash contributions must be deposited. Monthly contributions in excess of ID 100,000 must be paid by a certified check, and are accepted at the Social Security office of the Baghdad MoLSA headquarters.

In Baghdad, the MoLSA Rafidain branch has two primary MoLSA accounts. The first, "Closed Revenue" receives the contribution deposits of both cash and certified check, and is controlled by the MoF. At the end of the month, or the first of the month following, the MoF transfers the balance from



the "Closed Revenue Account" #504 to the "Current Account" #503, which is controlled by MoLSA. Money movements from #503 must have three signatories: Director of Accounting, General Director of Social Security, and an Accountant for the accounting department. There are two alternate signatories who are used when any of the three primary signers are unavailable. We also understand that the procedures for Baghdad described above, are generally applicable to all MoLSA regional, governorate offices.

We also understand that the "Current Account" #503 operates as a general fund for all Baghdad MoLSA operations, including countrywide pension payments.

#### HOW

January, Employer (ER) or ER representative goes to MoLSA office and gives a MoLSA clerk the ER list of employees. A MoLSA clerk writes each name on the MoLSA form, which will record contributions for two years. This form has space for 26 employees, and will be used for two years' of monthly contributions, although salary changes are only made in January of each year. Large companies, with many employees, will stay as long as it takes for the MoLSA clerk to record each employee and starting salary on the form, 26 per form. The forms are filed by company/project.

Monthly thereafter, ER representatives go to a MoLSA office, and submit a monthly form with contributions. Any changes to the annual January register described above (new hires, terminations, etc.) and contribution income, are verified by a clerk who then issues a receipt for the payment submitted. The MoLSA clerk will subsequently enter data on the cumulative two-year form. Employers go to the MoLSA office in their governorate, since all salary and contribution data is decentralized and maintained locally. There is no central database anywhere in MoLSA.

The receipt that is issued at the time the ER representative presents the monthly salary data to the MoLSA clerk, is, in effect, a "due bill" which the ER must present to the MoF/Treasury when he makes the contribution payment. The due bill is then stamped, and a receipt is sent back to MoLSA. This stamped receipt will be attached to the contribution transmittal documents, and a copy mailed to the ER.

Local inspectors, who are part of MoLSA, audit contribution records twice a year. They may go out to ERs sites to verify the salary and contribution data and report any delinquencies, or they may note them from their review of the contribution forms. They have an annual collection quota based on the prior year's delinquencies and new data, from which to establish a prospective quota. However the inspection function is based largely upon what is known, i.e., the 24,315 companies registered with MoLSA.

MoLSA has no record of at least another 2,000 or so ERs who are part of the total businesses registered by the Ministry of Trade (MoT), under its Business Registry directorate, which numbers approximately 26,000. Reconciling these two ER lists is an urgent priority for MoLSA, and the basis for a special inspection process that should commence before the end of December 2005.



Also unknown to MoLSA, are approximately 2.9 million private sector employees identified by a December 2004 Fafo Institute for Labour and Social Research study. While it is conceivable that these EEs are employed by the 2,000ERs in the MoT database that are not among the employers registered with MoLSA, that is unlikely, given identified Iraqi labor patterns. Moreover, some of the 2.9 million may be employed at ERs with less than 3 employees and therefore ineligible to participate in the SSW. Regardless, MoLSA's database of 80,000 EEs in 24,315 companies represents less than 3% of the total private sector EE universe. Obtaining information on these private sector EEs is consistent with the mission of MoLSA, but will be a lengthy process. However, it can begin with reconciling the MoLSA and MoT databases, and increasing inspections of business areas, as opposed to known business, which is not inconsistent with the governing pension law.

The contributions are deposited in MoF account(s), centrally or in the governorates depending upon the company location. Prior to issuing payments (see below) MoF will transfer the amounts into the MoLSA accounts upon which the payments are drawn.

If a quarterly payment is not claimed within the quarter, the money is returned to MoLSA, and the pensioner must go to local MoLSA governorate office to receive payment. Unclaimed payments for three quarters will result in a payment STOP, requiring the pensioner to restart his payment.

## **BENEFICIARY APPLICATION/CHANGES**

### **WHO**

Beneficiaries must obtain the necessary application, following a triggering event, like death, address change, etc.

### **WHAT**

The beneficiaries must make an application for survivor pension payments, and anyone receiving payments must notify MoLSA of their current address.

### **WHEN**

The applications are completed after the triggering events noted above.

### **WHERE**

At one of the 15 MoLSA governorate office closest to their home and where the employee worked.

### **HOW**

Obtaining an employer salary and service verification form, going to the local MoLSA governorate office, filling out another EE form, providing a death certification, and having these forms verified and then sent to Baghdad for approval and addition to the payment list.



## **DISABILITY**

**Note: While this function is not strictly within the purview of the Work and Social Security Directorate, we were able to establish the basic processing flow, which is not inconsistent with those involving contributions, payments, etc.**

### **WHO**

Those who are disabled, for less than one year secure eligibility and payment from the Work and Social Security Directorate while those disabled longer or permanently, secure eligibility and payment through the Social Welfare Directorate.

### **WHAT**

A covered EE makes an application for disability at the governorate office closest to his ER.

### **WHEN**

The application is made at the point of EE disability.

### **WHERE**

In addition to the other steps to receive payments, applicants for disability payments must come to Baghdad to undergo a MoLSA medical evaluation by their medical doctor.

### **HOW**

An applicant must complete forms locally, but go to Baghdad with the completed package to obtain a medical evaluation and obtain final MoLSA approval.



## RECONCILIATIONS

### WHO

The Interior Verification Department in Baghdad performs payment reconciliations, while contribution reconciliations are performed during the Audit and Inspection process described below.

The Interior Verification Department must review and verify the governorate check amounts before payments can be issued. After review and verification, the interior verification department instructs MoF to transfer the payment amounts from the MoF controlled contribution accounts, in to the MoLSA payment accounts.

As noted above, the audit and inspection department is involved with reconciliations. This group, within the Social Security directorate, verifies the contributions received by reviewing the ER monthly and bi-annual registers, and making semi-annual visits to the ER/Project to audit their records against those maintained by MoLSA. The inspectors visit both the "Secured" ERs, with more than 3 EEs, and "Unsecured" ERs, with less than 3 employees.

### WHAT

The Interior Verification Department verifies financial data prior to pension payment register release. As described later in this analysis, the Audit and Inspection auditors review ER contribution records maintained at the ER's place of business, and audit them against MoLSA contributions records.

### WHEN

Since emergency payments are made quarterly, the Interior Verification Department reconciles governorate check amounts quarterly.

The Audit and Inspection staff performs semi-annual site reviews of ERs to verify employer contribution records by comparing them with those at MoLSA.

### WHERE

The reconciliations are performed at MoLSA, as well as at the ER/Project sites.

### HOW

Verifying input contribution data with payment data, reviewing documentation for payment additions, deletions, etc. While the process appears to be thorough, the inspection function is largely applied to what is known. The 98% of private sector EEs unknown by MoLSA can only be identified through a robust inspection process that focuses on business areas, and perhaps businesses that are NOT registered but who employ Iraqi, an inspection routine which is not inconsistent with the existing pension law.



## AUDIT AND INSPECTION PROCESS

When someone wishes to commence business, they must first apply to the Ministry of Trade (MOT), if there are Iraqi laborers involved. If the company has 3 or more EEs, the Social Security inspection unit of MoLSA will perform a site inspection prior to or shortly after the business begins operation. This inspection will become the baseline for future monitoring.

The inspectors who perform the semi-annual site inspections complete a checklist for each visit. There are 64 total inspectors Iraq-wide 28 for the Baghdad region or governorate. Their ER inspection base is divided according to the region, and by units, i.e., Arabian/Foreign, Contractors, Private. The other governorates are also "sectorized" in a similar manner. There has been a recent introduction of an annual training seminar for the inspectors, which involves updates on the law, processing, etc.

The clerks posting contribution receipts are similarly divided into 4 sectors: Arabian/Foreign, Contractors, and Two Private Sectors. The clerks are assigned to ERs and the ERs know whom to contact with respect to the contributions, reflecting a relationship management structure that has great potential in focusing MoLSA on its clients (ERs and EEs). There is some segregation of duties between the clerks and the inspectors as the division of accounts is not the same. An inspector, for example, may need to visit four sectors and several clerks to look up posted contribution information.

An inspector has complete authority to review all ER information related to the Social Security for Workers plan. There is at present, no "statute of limitations" preventing an inspector from going back to records several years old. The inspector reviews the ER records, makes notes, and records employee changes on a standard Audit and Inspection form. If there are new EEs, the inspector writes their name, salary, etc., on the inspection form, and has the EE verify the information by signing next in a form column next to his information. When the inspection is complete, and employee changes are noted on the form, the form is presented to the ER representative for signoff, indicating that they agree with the information noted.

Next, the inspector takes the information obtained from the EE inspection for reconciliation with the information on record at the MoLSA Contributions Department. If there are discrepancies, the Contribution Department Head issues a form letter indicating the necessary corrections in delinquent contributions, etc. The inspector returns to the ER and presents the letter to the authorized representative. From the point of receipt of the letter, the ER has 7 days to show up to the nearest MoLSA office to dispute the findings. If the ER has not presented himself to the nearest MoLSA office after 7 days, MoLSA assumes he has not disputes and that he must pay any remedies within 30 days, the timing of which began on the day he received the form letter.

Delinquent contributions are assessed 2% per month delinquent. The fee is not compounded, and if the delinquent contribution payment is made before the monthly penalty, the ER will still owe the penalty that does not accrue interest.



However, if after the 30 days the ER has not made the necessary payment to correct the contributions past due, MoLSA sends his "case" to their Legal Department. The Legal Department drafts a "demand letter" indicating that the amount noted in the remedy letter is immediately due, and if not paid within 15 days, can result in liens on bank accounts (first) and, ultimately corporate property. To date, the seizure of property has not occurred.

During the contribution process, if a secured ER is found to be abusing the Labor or Pension rules, the inspector has the authority to refer the alleged abuses to the court system, where a court can assess as much as 5x more than the outstanding contribution amount.



## **REQUIRED DOCUMENTATION FOR STARTING PENSION PAYMENTS**

### **WHO**

Both the ER and EE are involved with the EE's application for retirement.

### **WHAT**

Acceptable documents for making a complete request for pension, disability, survivor, etc., payments.

### **WHEN**

An applicant must provide the required information at the time of submitting an application for retirement, disability, etc.

### **WHERE**

Applicants must go to the local MoLSA office or, in the case of disability applications, to Baghdad.

### **HOW**

EE obtains an ER-completed application, takes it to MoLSA, and completes another form submitting evidence of address and age. Salary and contributions sections of the application package are verified, and the package approved sent to Baghdad for final approval and entry into the quarterly payment register.

This application process presently takes up to one year to complete. This is somewhat mitigated by the use of emergency payments. Long term as a more efficient and computerized process takes effect, using concepts of Straight Through Processing (STP) described elsewhere, this application process should be cut from 12 to two months representing an 83% time process reduction.



## **INVESTMENT OF ER/EE CONTRIBUTIONS**

Since 1989, MoLSA has invested some of the EE/ER contributions in private and mixed (private/government owned) businesses ranging from cement makers to hotels. As necessary, the investments have been liquidated to fund pension contributions. As of 06/22/05, MoLSA had 38 equity investments involving ID 5.6 billion with a market value (valuation date?) of approximately ID 25 billion or \$17.24 million. According to the Director General of Social Security at MoLSA, Mr. Ibrahim, no real estate is involved in the current portfolio of investments.

Documents indicated that there may be approximately ID 20 billion in MoLSA contribution deposits in the Rafidain according to MoLSA pre-conflict records. These deposits are presently under the control of the MoF.



## **BUDGETING**

This section will attempt to explain the budget process for 2006 as described by MoLSA accounting staff. In general, the process is not unlike that of other governments and corporations. The budget control unit (Chief Financial Officer Office, Ministry of Finance or "MoF", etc.) issues a list of budget categories for which it expects budget information to be delivered within a specified period of time. After the initial submission, there is a negotiation process between the entity and the budget unit regarding changes. Then the budget is finalized and approved by the Board, the Government, etc.

During the course of the accounting period, in those cases in which the budget proves insufficient for the expenses of the organization, MoLSA must request the MoF to provide additional funding for ongoing operations and payments. This frequently happens, which suggests that the entire budgeting process could benefit from closer scrutiny, and a more disciplined budgeting cycle.

The 2006 budgeting process will begin in August 2005. At that time the MoF will issue a list of budget categories for which it expects budget information from MoLSA with a deadline set for October. We understand that the United Kingdom's Department for International Development (DFID) is working on the budget chart of accounts that will be by the MoF in the 2006 budgeting cycle, issued in Excel spreadsheet format, for each ministry to enter budget information. This information will then be consolidated by ministry, into the overall Iraqi government budget, and entered into the Financial Management Information System (FMIS).



## MANAGEMENT REPORTING

### WHO

MoLSA planning department receives pension department information. Statistics are gathered weekly, monthly, quarterly. Some of the reports are used by MoF for check issuance (see above), and are available to the minister and his deputies as requested. Other reporting relates to contribution collection, project (Employer registrations, Baghdad only), staff training, leaves, etc.

### WHAT

Planning statistics as they relate to annual contribution quotas, and other metrics related both to budget and individual department performance.

**Comment:** Ensuring statistical credibility is an absolute requirement. But even more important is identifying the data to drive the statistics necessary to effectively and efficiently manage MoLSA. To this end, we will introduce the concept of key business drivers as a method of quantifying the analysis of MoLSA operations.

### WHEN

Management reporting happens weekly, monthly, and quarterly. The key reporting metrics are: (1) Staff turnover by; (2) Staff training; (3) Salaries; (4) Contributions; (5) Number of identified work projects by governorate; (6) Number of employees per project; (7) Employee gender information; (8) Inspection reporting; (9) Retirees and; (10) Health claims and amounts paid out.

### WHERE

The Management Reporting is prepared in the Social Security Department for submission to the Diwan or administrative arm of MoLSA.

### HOW

In reviewing annual plan and reporting data, MoLSA develops statistics to help quantify the operations, i.e., number of retirees paid through the register, etc. An example of a metric related to the management reporting relates to contribution collection. For Baghdad, the 2004 projected contribution collection was 1 billion Iraqi Dinar. Since MoLSA was able to hire more inspectors and provide them with cars for site visits within the Baghdad governorate, the actual total was 2.9 billion Iraqi Dinar, nearly 300% of quota, while the amount delinquent from the known ER/Projects was 30 million Iraqi Dinars or less than 1%. The projection contribution collection variance was due to the augmented inspection staff and vehicles for inspections. For the reporting year ending 12/31/2004, the Baghdad governorate/area reported a 95% ER secured site inspections, visiting 11,774 of the 12,367.

Other determinants of contribution amounts include, particularly, prior year's contributions, new cars, results of inspections, etc.



## RECOMMENDATIONS

The recommendations necessary to achieve Social Safety Net and Pension Reform as envisioned by the ECON-II mandate will take several years to complete. In those years, deliverables can be organized along short-, medium-, and long-term activities. The scope of this task, identification of "as is" processes and recommendations towards their remediation, focuses on short-term activities but anticipates the longer term.

### **Immediate Recommendations for MoLSA (Under six months)**

Create a robust data entry unit in Baghdad headquarters to collect and maintain critical employer and employee data

Install MoLSA presence in Business Registry offices (like Tax Commission) to train and assist new and prospective employers in establishing a proper understanding of applicable Social Security for Workers and Labor laws

Develop MoLSA new employer handbook for distribution at Business Registry and other locations

Create an acceptable identity convention and process to protect the identity of Iraqi workers employed by Foreign Companies

Identify and commence contribution collections from the 152 Foreign Companies with headquarters in the International Zone (IZ)

Identify, account, and control pension contribution assets (pre -conflict ID 20 billion in Rafidain Bank, investments in 144 companies, and cash)

Join other ministries in a concerted push for one unified Iraqi citizen identification number

Reconcile Business Registry list of 26,000 registered businesses with MoLSA 24,315

Commence program to expand MoLSA EE registration from 80,000 to 2.97 million noted in the December 2004 Fafo survey

Implement a special inspection program to accelerate the ER registry reconciliation and 2.97 million private sector employee identification

Identify training needs related to IT (database, programming, pension and HR systems) and pension administration



Develop actuarial model to evaluate SSW funding needs and assist the development of pension reform options

Collaborate with MoF on contribution collections and enforcement to ensure taxes and pension contributions are collected timely

**Medium-, Long-Term Recommendations for MoLSA (6 months or more)**

Introduce "key business driver" concept as a way of determining critical data for collection and reporting

Use Straight Through Processing (STP) concept to organize MoLSA operations for the anticipated future growth, fostering efficiency and constraining expenses

Present MoLSA various pension reform and funding options based on the actuarial valuation results

Recommend and select a suitable pension administration and recordkeeping system based upon contemplated enacted pension reforms

Transform MoLSA into a customer-focused organization serving all Iraqis