Iran Socio-Economic Developments
Vulnerabilities and New Opportunities

UN-RCO Iran
Economist

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in-house analysis and estimation

Global COVID-19 Shock :
Large Scale and Long Term Impact

Global Economy Projections :
Huge Fall in Income

- Expected to contract by 5% at least
  - developed countries by 5%
  - developing countries by 0.7%
  - world trade by 15%

- Possible loss of $8.5 trillion in GDP in 2020/21
  - Will wipe out income gains of previous four years.

- Global trade values fell 3% in the first quarter of 2020; an estimated quarter-on-quarter decline of 27% is expected in the second quarter;
  - Commodity prices fell by a record 20% in March, driven by steep drops in oil prices; oil prices remain subdued trading (circa 40% lower than the start of the year);
  - Tourism is probably hardest hit with potential loss of 1 billion international tourists, loss of $1.2 trillion and 120 million jobs at risk.

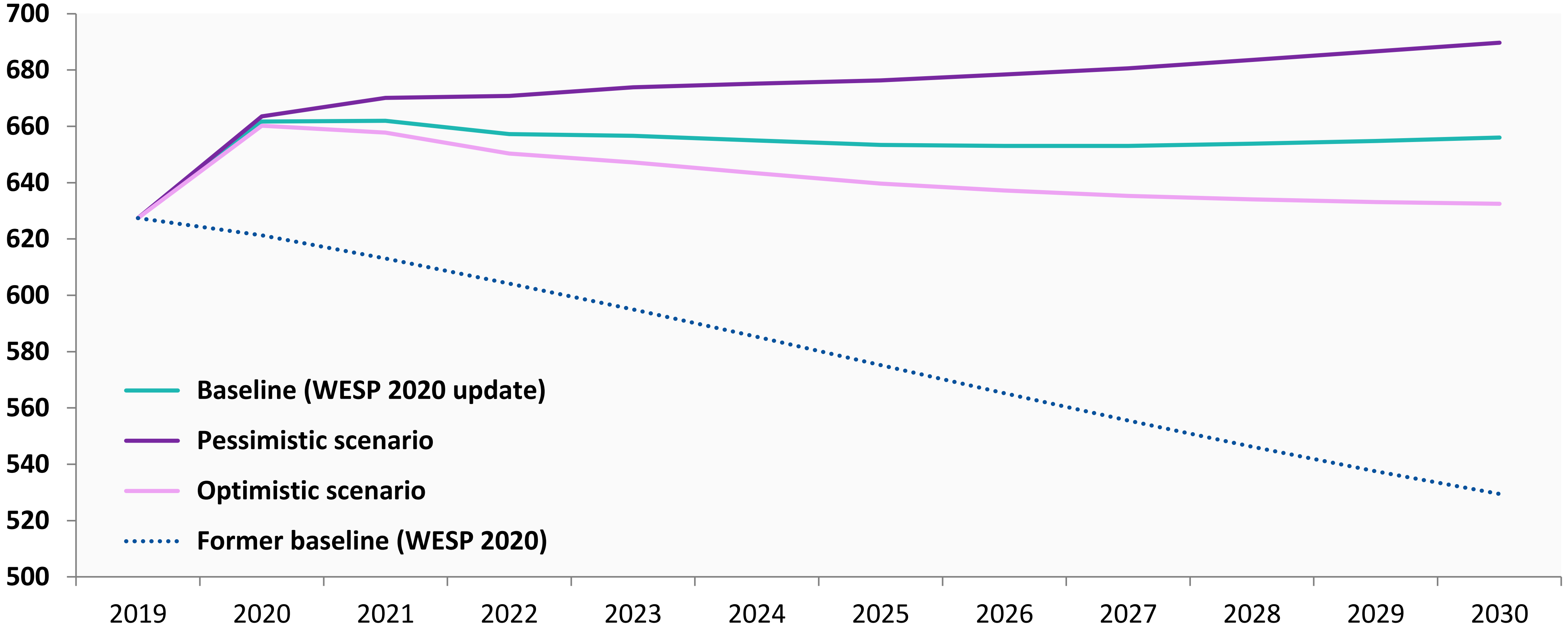
UN Reports (DESA WESP 2020; UNCT Response)

COVID-19
Exacerbating the Vulnerability of Poor Populations

- Poverty: about 1.6 billion informal workers lost 60% of their income; with little to no savings; 55% of world population not covered by social insurance or social assistance; only 20% of unemployed, on average, are covered by unemployment benefits; 40-60 million people will be pushed into extreme poverty.
- Food insecurity: about 265 million people in low and middle-income countries at risk of food crises by the end of 2020.
- Women under pressure: women make up to 70% of health care workers and social care sector in 104 countries; majority of women’s employment is in the informal economy; unpaid care work has increased; women do three times as much unpaid care work as men; heightened care needs of older persons and children.
- Urban poverty: over 90% of COVID-19 cases are in urban areas: one billion people live in informal settlements and slum-like conditions.
- Remittances: to LICs and LMICs are expected to fall by almost 20%; cutting off a significant lifeline to many vulnerable households.

UN Reports (DESA WESP 2020; UNCT Response)

Global Poverty Projections :
660 Million in Poverty



Millions of people

Estimations – UN DESA Report 2020

Iran Overview

Huge Development Potential
But Major Structural Constraints Remaining

- ❖ Population 83.4 million, and growing at circa 1.5%;
- ❖ HDI circa 0.79 (high-level human development index – but adjusted for inequality is 0.70);
- ❖ GNI/capita circa $18,100 (based on 2011 adjusted PPP - i.e. a high-level *middle income country)*;
- ❖ GDP growth 1398 (2019/20) initially predicted circa minus 4% (IFI's); however, recently CBI Chief stated positive 1% GDP growth (of which Agric. 8.8%, Industry/Mines 2.3% and Services -0.2%);
- ❖ Immense potential for socio-economic development - if planned, budgeted and managed right:
  - ➢ economically, a potential GDP growth rate of at least 5% or 6% per annum naturally and regularly (if economic development approaches are restructured, and level of *rent* is reduced);
  - ➢ socially, Iran can have potential minimal poverty, full employment, and complete health and education access for all (given the high HDI level).
- ❖ Constraints many, however, as Iran suffering conjointly from:
  - ➢ low average annual GDP growth (and possibly significant contraction in 2020),
  - ➢ significant income and wealth inequality (*economic rent* bias; $-based capital-intensive approaches) – urban poverty line double the official *minimum wage* level;
  - ➢ chronic inflation (regular money supply increases, high interest rates and rife asset speculation);
  - ➢ chronic unemployment (inappropriate past and ongoing investment processes and low capacity usage);
  - ➢ chronic vulnerability for 40%-50% of the population; and
  - ➢ distorted plan/budget management systems that contribute to adverse development outcomes.
- ❖ A high-level middle-income country – but without a very large middle income class.

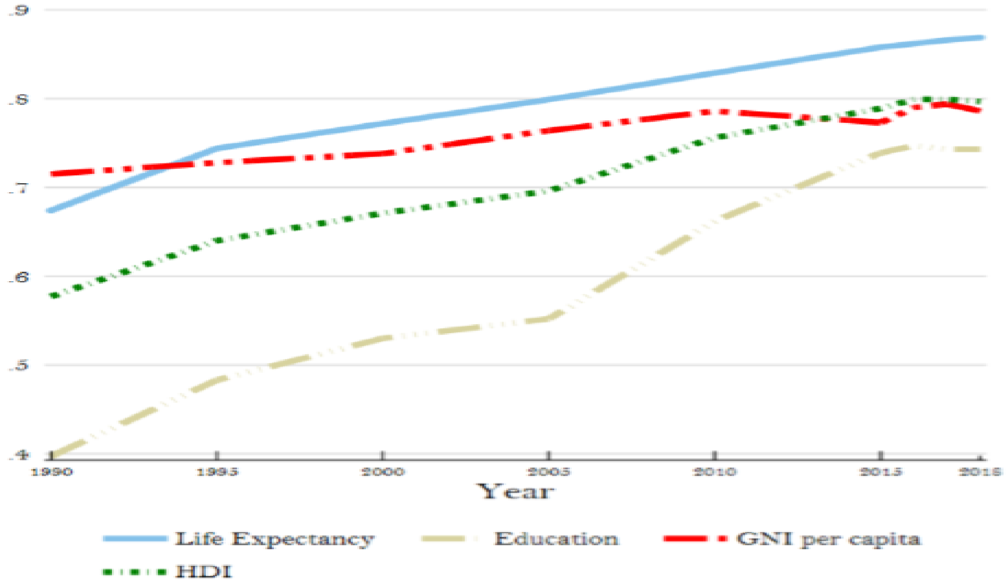
2019 HDR Trends
Iran's Significant Development Potential

Table A: Iran (Islamic Republic of)'s HDI trends based on consistent time series data and new goalposts

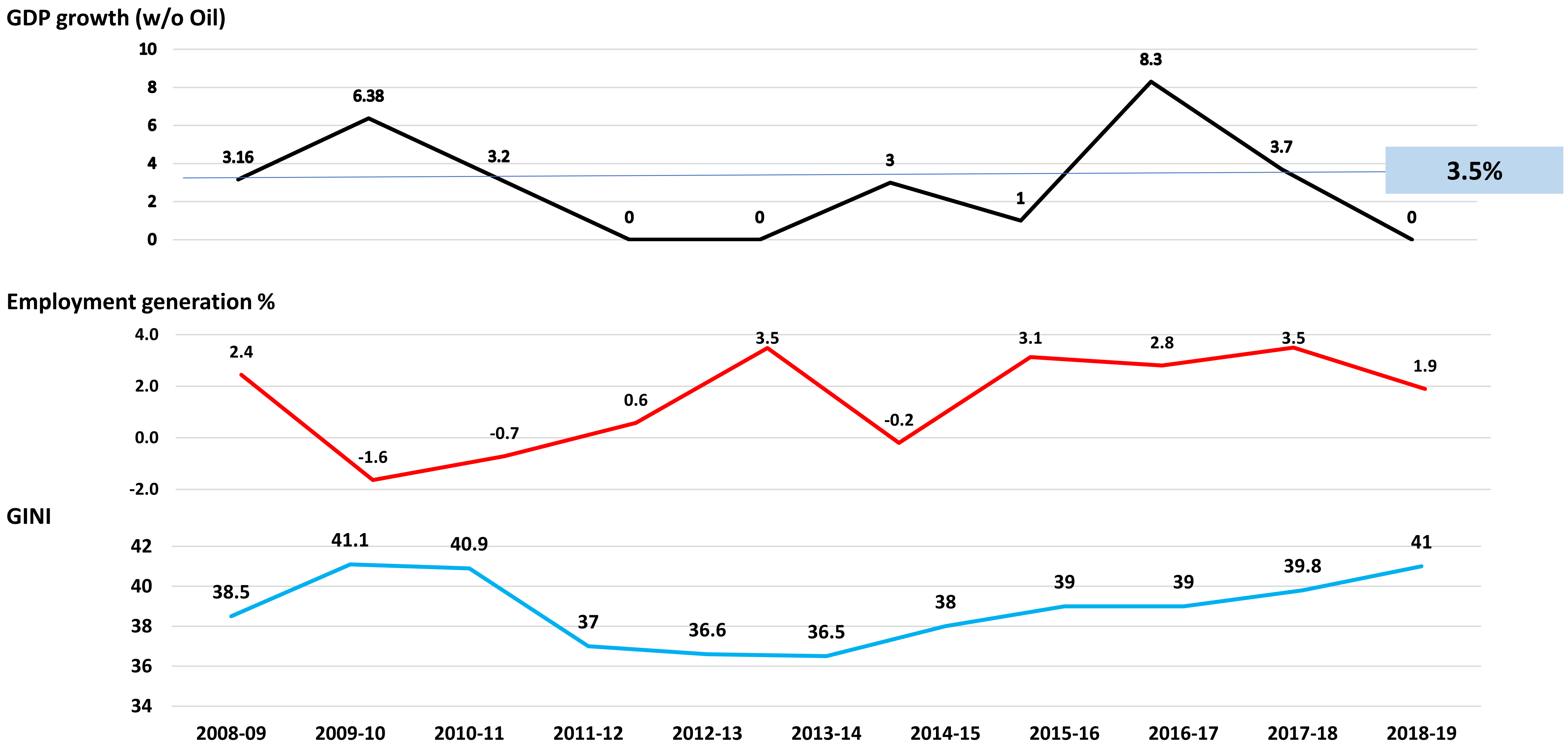
	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011 PPP$)	HDI value
1990	63.8	9.2	4.2	11,391	0.577
1995	68.4	11.1	5.3	12,362	0.640
2000	70.2	11.6	6.2	13,228	0.671
2005	71.9	11.4	7.0	15,737	0.696
2010	73.9	13.1	9.0	18,142	0.756
2015	75.8	14.7	9.9	16,720	0.789
2016	76.0	14.9	10.0	18,710	0.799
2017	76.3	14.7	10.0	19,127	0.799
2018	76.5	14.7	10.0	18,166	0.797

Figure 1 below shows the contribution of each component index to Iran (Islamic Republic of)'s HDI since 1990.

Figure 1: Trends in Iran (Islamic Republic of)'s HDI component indices 1990-2018



Iran Socio-Economic Trends :
Weak, Job-less and Inequality Generating Growth



Source: UN Iran based on SCI statistics

COVID-19 Impact On Iran
Possible Game Changer

Iran’s Socio-Economic Crisis:
Possible Fall of 10%-15% in GDP in 2020 (*according to Minister of Economy*)

- Affecting 50% of Iran’s workforce, and bottom 40% income-deciles;
- Raising additional unemployment possibly by up to 1.5 - 2 million;
- Groups impacted: unskilled, low-skilled, and semi-skilled workers; street traders; micro-businesses; self-employed; transport workers; domestic workers; seasonal workers; informal economy; over 3 million refugees;
- Only half of working population are fully covered by social security;
- Deepening inequality and inequity.
- Possible overall financial loss so far : $50 - $60 billion
  - *in profits, wages ; consumption : 1,000 Trillion Rials ($23 billion)*
  - *In trade and oil sales : $25 - $35 billion*

Most Affected Groups

- Approximately 11.5 million households below or just above multi-dimensional poverty line
- More than 20 million people living in rural areas
- More than 12 million employees in the service sector
- Approximately 3 million women-headed households
- 3.7 million children – including 3 million children at the age of vaccination and 600,000 school-age children in deprived areas
- Over 3 million refugees
- More than 8 million people over 60-years of age
- More than 4 million SMEs’ employees
- More than one million people with severe disabilities

N.B. demographic groups described above overlap

Source: SCI, UNICEF and UNDP reports

Possible COVID-19 Effect on Livelihoods - During March – June 2020 (No. of Persons)

	Direct Work Lost	Indirect Work Lost	Total Effect
Wholesale / Retail Trades	2993763	484263	**3,478,026**
Road (people) Transport	1175832	153660	**1,329,492**
Road (cargo) Transport	858523	261908	**1,120,431**
Vehicles Services	740733	33357	**774,090**
Clothes Manufacturing	538778	106497	**645,275**
Primary Education – Government	480349	25478	**505,827**
Food Services	328922	150277	**479,199**
Secondary Education – Government	443622	28770	**472,392**
Plastics Manufacturing	119196	102766	**221,962**
Higher Education – Government	160124	39737	**199,861**
Higher Education – Private	124921	47449	**172,370**
Education (other)	158090	10082	**168,172**
Real Estate	161002	3568	**164,570**
Employment Agencies	125488	29509	**154,997**
Medical / Dental Services	112169	40204	**152,373**
Leather Goods Manufacturing	77244	35976	**113,220**
Legal / Accounting Professions	107112	3903	**111,015**
Sports	89704	13264	**102,968**
Entertainment, Music	41734	31842	**73,576**
Cultural	55262	17460	**72,722**
Airlines	9210	61710	**70,920**
Financial / Insurance Services	53769	8713	**62,482**
Hoteling Services	41926	13500	**55,426**
Secondary Education and Technical/Vocational - Private	29882	15719	**45,601**
Rail Transport	11978	33470	**45,448**
Primary Education - Private	25174	7720	**32,894**
Travel Services	30770	1909	**32,679**
Rentals	9339	3040	**12,379**
Total	**9,095,277**	**1,762,711**	**10,857,988**

Source: MRC

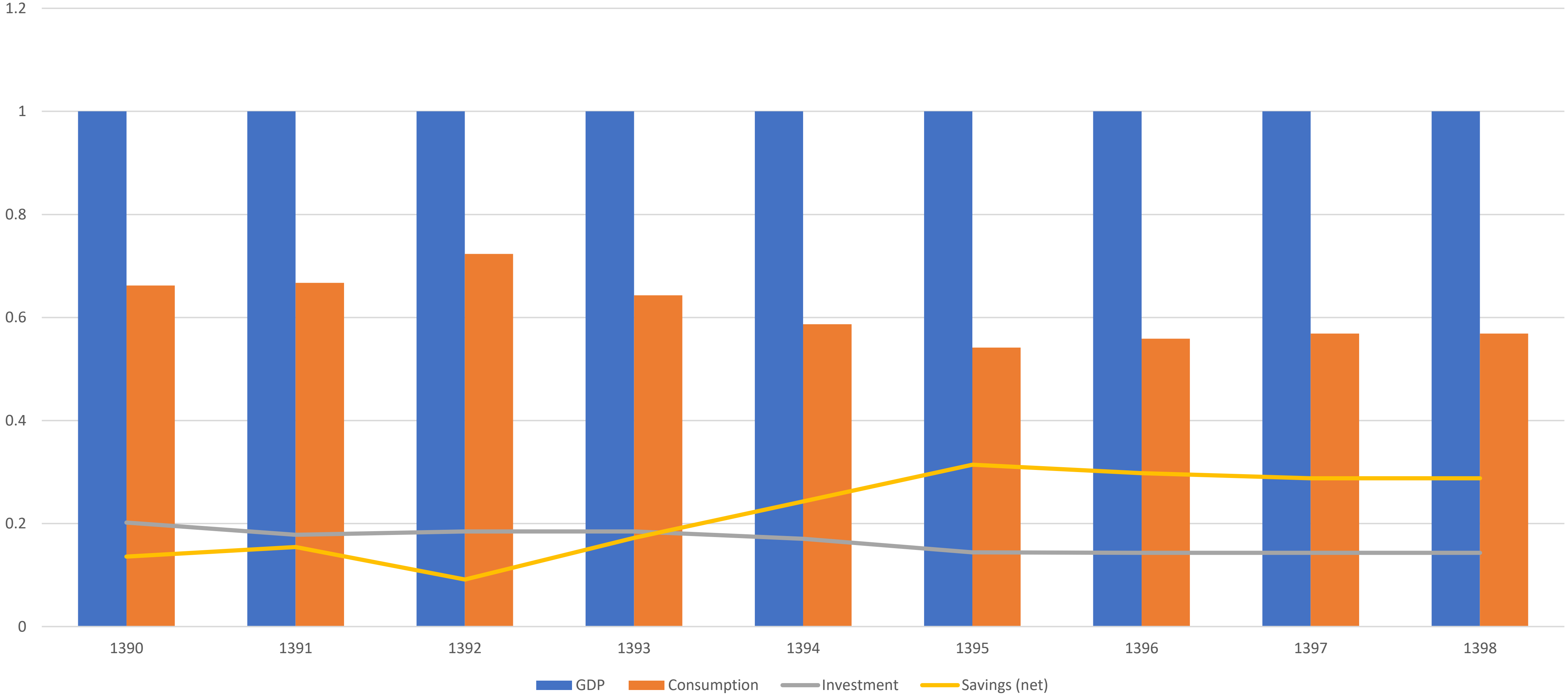
Work Force Skills - % by Sector - (RCO Economist in-house estimations with 12-15% error)

Employment (Probable)	*Unskilled and Low skilled*	*Semi-skilled*	*Skilled*	*Managerial*	*Professional*	*Scientific*	*total*
Oil/Mining %	0.01	0.02	0.00	0.00	0.00	0.00	0.04
Agriculture %	0.07	0.05	0.04	0.02	0.00	0.00	0.18
Manufacturing %	0.04	0.04	0.07	0.01	0.00	0.00	0.16
Construction %	0.05	0.01	0.04	0.03	0.01	0.00	0.14
Trade … %	0.03	0.04	0.07	0.01	0.00	0.00	0.15
Public service %	0.01	0.04	0.04	0.01	0.01	0.01	0.10
Social service %	0.01	0.04	0.04	0.01	0.00	0.01	0.10
Finance %	0.00	0.01	0.04	0.02	0.00	0.00	0.07
Real Estate %	0.00	0.01	0.03	0.02	0.00	0.00	0.06
	0.23	**0.25**	**0.35**	**0.12**	**0.04**	**0.02**	**100%**

Iran GDP and Components - %GDP

Falling Relative Consumption

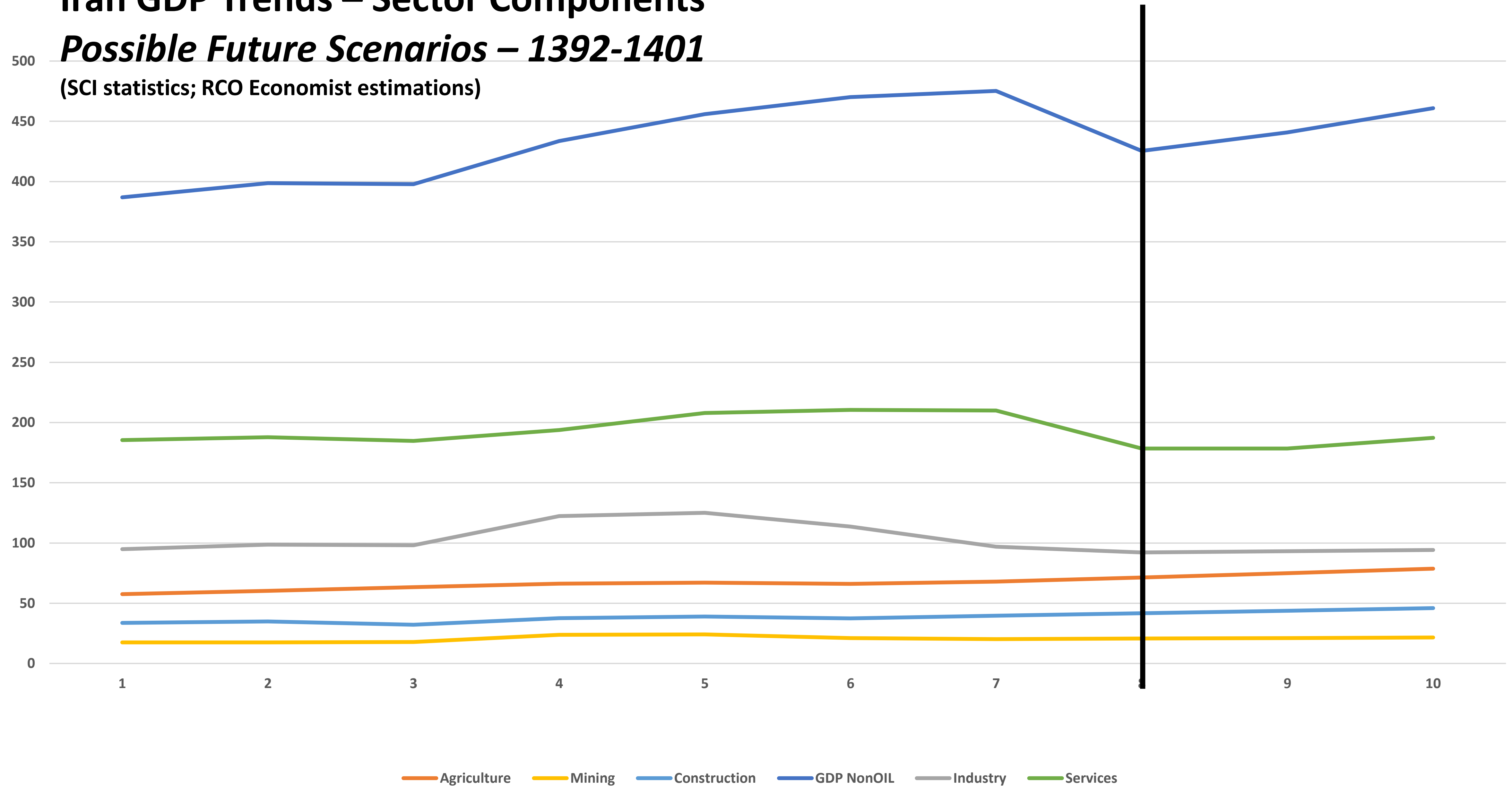
RCO Economist – from SCI data base



Iran GDP Trends – Sector Components

Possible Future Scenarios – 1392-1401

(SCI statistics; RCO Economist estimations)



Government Fiscal Stimulus Response
To Sanctions and COVID-19

Government Response to 2018 Sanctions

Activating the Historical Driver –Construction and Contracting

- The 1398 (2019/20) Budget increase by 38% to a total 17,000 Trillion Rials (TR) (for both *Central Government* and *State Operating Enterprise*) intending to stimulate economy; significant funding issues; based on expected \$30 billion oil/gas/petchem revenue projections; however significant fall in sales (to circa \$15 billion); Government forced to reduce CG expenditure level from circa 4,500 TR to circa 3,900 TR by mid-year 1398.

- Government 2018/2019 actions: new monetary/fiscal injections; integrated multi-tier forex market; 150%-300% petrol price rise; new cash transfer to 70% households; 18% of all new bank credits allocated to manufacturing sector; financed 95,000 new projects; initiated 400,000 new housing starts; new public projects created 800,000 new jobs and 470,000 new employment opportunities ahead; allocated \$10 billion for imports of *basic needs goods*; planned for Budget reform - and further 3,000 TR of investments in 2020 (Central Gov and SOE).

Reform Approach

Performance Based Budgeting - Timely

- The 1398 Budget initially pushed for more tax-based financing (aim: 45% of revenues) and assets sales (55%), to compensate for oil income revenue falls (to $10 billion and now even less) and for the high fiscal deficit (est. 5% of GDP and now probably 10% of GDP) - so as to finance CG expenditure of 4,500 TR: from taxation/tariffs 2,100 TR (¾ taxation); and from asset sales 2,000 TR (1,480 TR oil/gas, rents and real assets and 510 TR bonds and financial instruments).

- The ratified1399 Budget started off with a reform and restructuring approach, including:
    - restructuring of CG revenue and expenditure towards improved short term stability and long term growth expenditures;
    - raising of taxes (including on wealth – now in Majlis for decision);
    - more financial asset (bonds and shares) sales in the capital market, and sales of surplus Government physical assets (now ongoing);
    - more SOE revenue/expenditure control; and
    - adopting a *Performance Based Budgeting* approach over two years.

1399 Budget
Intends to Prompt Both the Investment and Consumption Multiplier

- Possible main aim :
  - “Short term stability”: reduce cost of living basket (*basic needs goods)* through various subsidy/support instruments and current expenditures;
  - “Long term growth”: CG and SOE investment projects (mainly infrastructure and construction, as drivers).

- Central Government Budget (CG) : circa 3,900 TR
  - Revenue: primary tax/tariff/other revenue probably circa 1,500 TR ; aiming at increasing taxes to 2,000 TR (10% GDP) ; assets sales circa 500 TR; aiming at increasing by near similar amount (but from oil to financial and physical)
  - Expenditure: current expenditure probably go up to 2,700 TR (normally 31% salaries; 36% social welfare; etc.); investment target 1,200 TR
  - Deficit: probably more than 2,000 TR (or 10% of GDP)
  - Deficit Financing: possibly 500 TR physical asset sales; 300 TR from NDF kitty; 880 TR bonds; 110 TR Gov company shares; etc.

Government COVID-19 Response
Quick Combined Relief and Recovery Package

- A fiscal relief and recovery stimulus package of 1,000 Trillion Rials (circa 5% of Iran's GDP – and initially stated to be extra to approved Budget) :
  - cash transfer to 4.3 million households, plus cheap micro/small loans on demand (for a four member family, at near equivalence to *minimum wage*);
  - loan package to business (75% of the total amount) – at cheap (4%) interest rates for businesses not firing workers;
  - allocation of free rate of interest 10 million Rial loan for all households that request it (and allocation of free rate 20 million Rial loan to women headed households) ;
  - moratorium on all payments by the business community to Government for a three-month period (includes taxes, employment insurance contributions, interest rates on loans, utility bills etc);
  - 120 Trillion Rials allocated for medical equipment;
  - 50 Trillion Rials allocated to unemployment insurance fund;
- Raising of the legal *Minimum Wage* by 20%;
- Enabling trade in *Justice Shares* : prompting small capital holders into capital markets
- Financial asset sales; capital market support; capital gains tax law in Majlis

Challenges to Government Response Efforts
Fiscal Deficits and Rising Public Debt

- Slow recovery – people likely to adopt to new norm of prolonged social distancing, fundamentally reshaping production and consumption patterns
- Further constraints on: foreign exchange inflows, balance of payment shortfalls, local debt distress, and Government fiscal deficits (higher public debt)
- Large fiscal stimulus required of about 10% GDP (1399 Budget initiating), to :
  - boost aggregate demand and consumption
  - stimulate and raise investment in production
  - raise consumers and investors confidence
- National Budget issues significant in 2020:
  - tighter financial situation of Government - a deficit of circa 50% (about 5% to 10% of GDP)
  - prompting more bond and asset sales - capital markets focus (and with changes in capital and financial markets ahead)
  - difficult to implement tax reform policy and to sustain social support
  - hence, criticality of SMART methods for monetary and fiscal support transfers.

Growth Possibilities
Only if SMART Targeting of Multiplier Dynamics

- Government short-term stability oriented budget (social support):
  - current expenditure (possibly up to 2,700 TR); including circa 350 TR for *targeted subsidies* (*Universal Basic Income*); 230 TR for *petrol-based cash transfers*; 1,000 TR Pref-Forex *basic needs goods*; 30 TR Government *poverty reduction budget*; 340 TR social ministries (MoHME, MoCLSW, MoEd) programme budgets; 270 TR employment generation credits; 25% of the COVID-19 response package.
- Government long-term growth project-based investments: 1,200 TR (plus -?- the 75% of the COVID-19 response package).
- SOE project-based investments: possibly 2,000 TR to 3,000 TR.
  - if the banking system credit and circumstances enable.
- Combined stimulus effect, new money circulation and multiplier (possibly circa 7,000 TR) : may have significant income, capacity growth, capacity use, savings generation and deficit financing effects in 2020/21.
  - the multiplier effect - enabling income generation (and improved distribution esp. if both short and long term components are somehow integrated).
  - adjusting income effects for inefficiencies, inequalities, and assuming a low multiplier, an income rise of 7,000 TR on current GDP of circa 20,000 TR could prompt up to 2.5% growth in 2020/21.
  - this could lead to over 600,000 direct new jobs – but which would not compensate the significant rise in unemployment due to COVID-19.

	$ (official forex)	% of GDP
Budget Central Government	**92**	**19.0**
CG Expd. – Current	**63**	**13.0**
CG Expd. – Investments	**29**	**6.0**
CG Primary Revenue	**35**	**7.0**
Taxation Goal	**48**	**10.0**
Taxation – Business Sales	**24**	**5.0**
Financing – Physical Assets	**12**	**2.2**
Financing – NDF	**8**	**1.7**
Financing – Bonds	**20**	**4.4**
Financing – Shares	**3.3**	**0.7**
Social Support Expenditure	**50 (?)**	**10.7**
Official Reserves $	**125**	**25.0**
NDF Holdings $	**30**	**6.0**
Liquidity (Total)	**600**	**120.0**
M1	**60**	**12.0**

ANNEX

Structural Constraints
and
Programme Framework

Remaining Development Challenges

Need Core, Complementary Programmes

Remaining Structural Challenges
Weak Markets, Inadequate Factor Productivity and Low Real Wages

- ❖ Distorted $-value fixated investment approach, with adverse multipliers;
- ❖ Structural imbalances (as below GDP components *long-term average annual growth rates* indicate):
  - ➢ long term ***real GDP*** growth per annum at **3.4%**; worsening since 2018 sanctions and COVID-19.
  - ➢ ***gross fixed capital formation*** (investment) circa **5.6%**; falling since 2018 (esp. for private sector).
  - ➢ ***private consumption*** **5.1%**; falling since 2018, and now behaviour change due to COVID-19.
  - ➢ ***government consumption*** **5.9%**; the 1398 and 1399 fiscal stimulus have raised this.
  - ➢ ***intermediates/inputs*** **10.7%**; adverse since 2018 (with accumulated stocks and continuous rent-seeking activity due to forex subsidies).
  - ➢ ***employment generation*** **2.5%-3%;** trend worsening since 2018 – and now a negative fall.
  - ➢ economic ***multiplier*** - **falling trend**; may pick up with fiscal stimulus (if done SMART).
  - ➢ real ***labour productivity*** circa **1.4%**.
  - ➢ ***population*** growth **1.7%**.
  - ➢ ***HDI*** growth **1.6%**; probably lowered since 2018 given rising vulnerabilities.
  - ➢ natural ***resources depreciation*** circa **3%** .
  - ➢ ***CO2*** growth more than **5.5%** per annum.

In-house RCO Economist un-official thirty-year estimations based on national statistics (7% error)

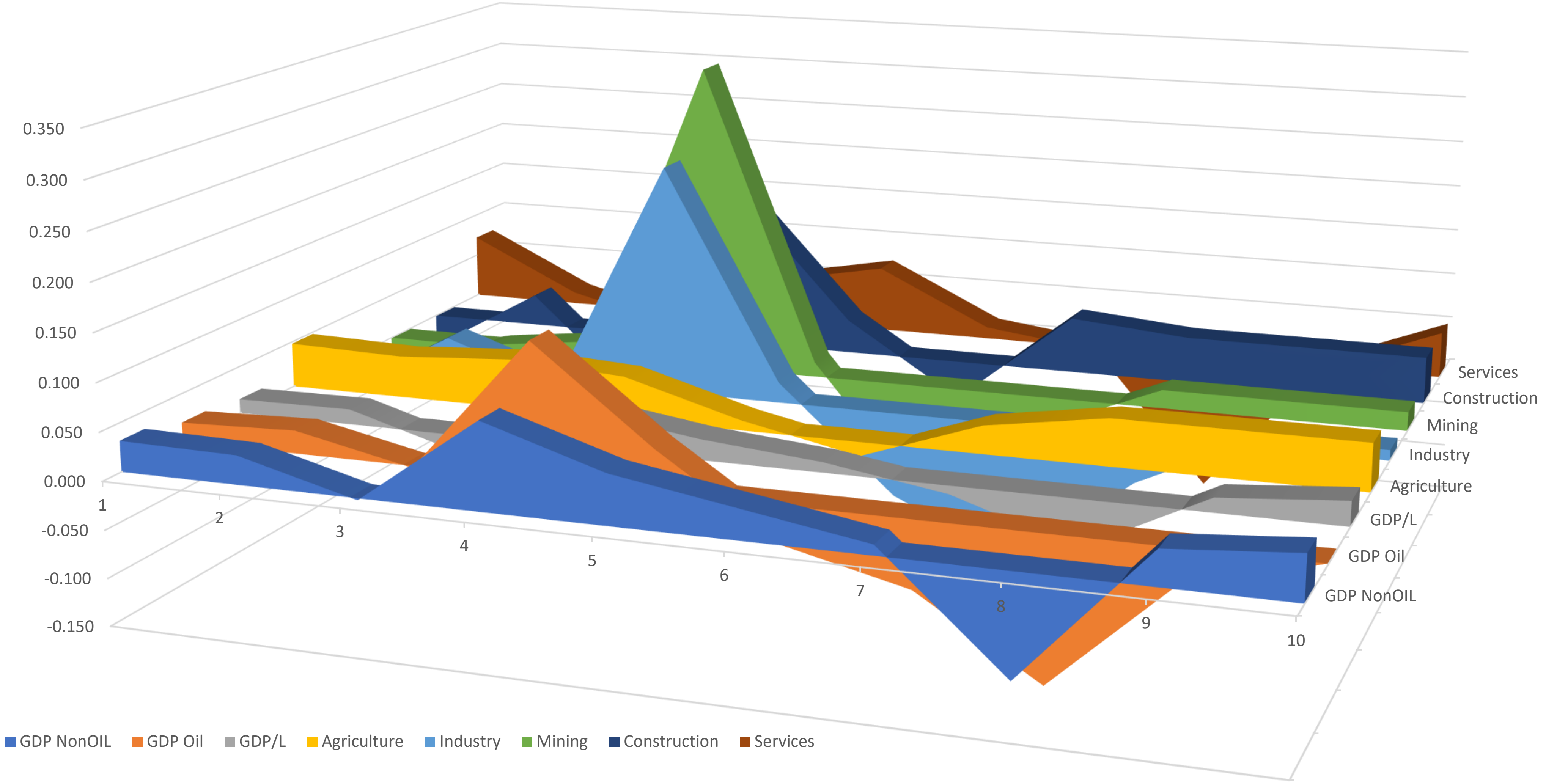
The above *growth rates in combination* indicate overall development dynamics – with subsequent effects on human development. Basically,

- investment and CO2 formation growth are well above long term GDP growth, which are well above the labour improvement growth rates (i.e. employment, labour productivity and HDI);
- all well indicative of a structure that supports capital intensive (sole growth) processes.

The result is sustained:

- high unemployment, high rents (e.g. interest rates), low real wages, low productivity, lack of appropriate consumption purchasing power and weak markets - the drivers of a dualistic economy;
- increasing secular stagnation and dualism (in the structure of production across sectors) - “dual” economy divergence between “stagnant” and “dynamic” sectors;
- rising inequality in both the scale and distribution of wealth/income; up to 40% of population vulnerable; *real wages* remain low inhibiting wage-led growth possibilities;
- distorted, capital biased inter-sectoral terms-of trade investment, as well as rent-seeking approaches to finance and capital market behaviour.

Iran GDP Growth Rates – 1392-1401 (SCI statistics)



Budget Reform

Crucial For Raising Efficiency, Productivity and Effectiveness
Risky in Current Stagflation and Shock Context

1399 Budget Guidelines
Good Conceptual Approach on Paper

- The Guidelines emphasise: need to appropriately consider the macro-economic context and *Resilient Economy* policy; to not include any unnecessary activities and expenditure items; ensure productive activities; disregard activities that may reduce economic growth and focus on those that improve business space; due regard to raising public revenues; and ensure equity for all; as well as public goods service provision in terms of good governance.
- *performance based* budgeting model based on (*Resilient Economy*) criteria :
  - *a) sustainable income,*
  - *b) effective expenditure,*
  - *c) stability in the economy,*
  - *d) development and equity,* and
  - *e) fundamental reforms in budgeting.*
- Budget focused on four pillars:
  - i) <u>short term stability</u>,
  - ii) <u>long term growth</u>,
  - iii) <u>balanced and inclusive progress</u>, and
  - iv) <u>reforms in Government structure</u>.

The PBO Package
Ten Components

The Guidelines have a package, aligned with *Resilient Economy* policy structural reform:

- Improving the productivity of Government assets;
- Enabling a new *public-private partnerships* approach;
- Linking the taxation to social protection and subsidies;
- Improving the multi-layer social security system;
- Reforming the pension system;
- Improving the household information data base;
- Making taxation effective through:
    - improved tax rates on income groupings;
    - ensuring taxes on upper income earnings through rise in taxes on goods and services, in asset and capital gains and removal from the subsidies list; and
    - reduction in taxes on firms and businesses;
- Improving Government contributions to funds and pension fund systems;
- Ensuring that Provincial Governorate PBO manages its investment allocations through own surpluses and allocates for more efficient operations;
- The relative differences between provincial indicators to be used as criteria for national resource allocations to provinces.

- PBO intends to transform the Budget document into a **governance type instrument** - by improving SOE performance criteria and hoping to also bring under its coverage all the para-statal organizations (e.g. various “bonyads”).
- Needs to **reduce non-transparency** for oil income assessments (predictions, valuing and usage in Budget), for SOE dynamics, for subsidies use, for salary/ income position of SOE’s and for the National Development Fund process.
- Needs to clarify predicted and actual expenditures – and the need to **write balanced budgets** for allocation purposes (preventing monopoly positions for disbursments).
- Two-year performance based budgeting approach requires a significant information base system infrastructure and **integrated indicator-based programming**.
- In increasing financial resources, restructuring requires that **all funds flow into the Treasury** – rather than through other mechanisms (or bank accounts).
- **Taxation**: needs an integrated focus on: indirect income tax (e.g. VAT); direct income tax; sales based taxation; SOE taxation and accounting; tax evasion; tax exemptions; etc.

TAXATION – Some Issues

- ✓ Tax revenue low (5% to 7% of GDP - global average is 19%); only 30% to 35% of Government revenue (60% direct taxes; 40% indirect taxes/tariffs).
- ✓ Possibly currently 1,000 TR tax revenue (circa $10 b @ NIMA forex): Government aiming at 2,000 TR.
- ✓ Iran HDI and MIC potential: at least 15% of GDP can be taxed (3,000 TR).
- ✓ Main burden of taxation presently on private sector business sales; registered employee income taxes. Some on tariffs and VAT.
- ✓ Hardly any *direct income tax* proceeds from business or households.
- ✓ Wealth tax component of direct taxes and capital gains tax (asset; property; shares) low (circa 10%).
- ✓ Annual tax evasion estimated to cost Government 1,000 TR (wealthy, SOE and contracting).
- ✓ Significant tax exemptions for some activities and para-statals; special (exemption and exceptional) tax position of SOE needs resolution (1399 budget SOE tax only 60 TR – or 3% of total tax income).
- ✓ Development of sustainable tax bases requires regulation-setting and transparency mechanism (for direct income taxes and reduction of non-transparent parallel markets).
- ✓ Iranian tax law different for corporations and independent contractors: non-systematic collection; non-transparent balance sheets and tax revenue.
- ✓ Registered individual employees: tax calculated and deducted before monthly payment; tax burden on government employees (circa 5 million persons) who pay 10% in taxes.
- ✓ Eliminating tax exemptions, broadening tax base and levying capital gains taxes – as PBO suggests – requires new legislation. With the Majlis elections coming soon, the adoption of such laws quickly will be uncertain.

- Performance-based budgeting requires new financial, developmental, institutional and legislative processes (and, hence, the role of the Majlis).
- Budget should also aim at *real development* outcomes – not just a financing or expenditure instrument (which PBO should lead on).
- Requires conjoint improvements in efficiency, equity and sustainability outcomes:
  - *equity* –minimum social protection, income distribution (Gini) and deprivation;
  - *efficiency* – general productivity (value added), employment at national and local level and enterprise possibilities; and
  - *sustainability* – usage of primary (capital, natural and human) resources and their depletion rates, as well as available ecological services (e.g. carbon emissions rates).
- 1399 Budget Guidelines do specify possibility of combining:
  - *short term stability* approach – towards welfare / equity of various population groupings and stimulating their consumption (demand side);
  - *long term growth* approach – towards investment, human capital and productivity growth, private sector investment stimulus (supply side).

- Attaining all these quickly remain unlikely.
- The performance-based approach has constraints and challenges in terms of institutional infrastructure and working culture.
- The considerable burden of SOE and parastatals on budget resources and economic efficiency every year would need much reprogramming of protocols and standard operating procedures.
- Will the reform of SOE budgets be a priority in the reform?
- Lack of transparency and absence of monitoring and evaluation mechanisms for SOE means that liquidity, profitability and productivity are unknown.
- The new approach would need to be S.M.A.R.T. and well defined for both aspects if they are to outperform Budget approaches implemented previously.
- What if these don’t happen ?

Positive Development Outcome Possible

Through Conjoint Socio-Economic Targeting: Combined Employment, Social Protection and Human Capital

Iran (Islamic Republic of)'s IHDI for 2018 relative to selected countries and groups

	IHDI value	Overall loss (%)	Human inequality coefficient (%)	Inequality in life expectancy at birth (%)	Inequality in education (%)	Inequality in income (%)
Iran (Islamic Republic of)	0.706	11.5	11.3	9.2	5.0	19.7
Bangladesh	0.465	24.3	23.6	17.3	37.7	15.7
Pakistan	0.386	31.1	30.2	29.9	43.5	17.2
South Asia	0.476	25.9	25.3	20.2	37.5	18.4
High HDI	0.615	17.9	17.6	10.0	14.8	27.9

Social Support Programmes
Lack Full Systems Effectiveness

Current social protection framework lacks full systems effectiveness – and related adjustment capability;
Government now seeking resolution and compensatory approach for results over short and long term.

- ***possible solution*: composite socio-economic approaches that ensure <u>trickle up</u> mechanisms;
- ***requires***: <u>combining</u> SMART programmes that develop capability, are empowering for sustainable livelihoods;
- ***combining*: *conditional cash transfers, skills development, credit schemes, public work schemes* and *social enterprise* as composite SMART package.

A Socio-Economic Approach Required
Combinations That Can Achieve Result

Requires combined and comprehensive social protection and employment generation programmes, as complementary programmes for growth in productivity, that also reduce inequality.

- ❖Focus on investing in direct and useful combined (conditional):
  - ➢social protection and social budgeting approaches,
  - ➢pro-poor employment policies and District level initiatives.

- ❖Combining them together !
  - ➢For example, through ***conditional cash transfers***

Global Best Practices
With Good Socio-Economic Results

Worldwide, **composite programmes** are being used in various forms :

Brazil (*BOLSA Familia, BOLSA Verde*); **India** (*Nabard*, *Share, INREGA*); **Indonesia** (*Rakyat*); **Mexico** (*Prospera*, *Compartamos* and *Microfinance*); **Micro-Finance** (*Finca; Grameen*; *BRAC*); **Nepal** (*WEP; MEDPA*); **South Africa** (*WfW*); **Thailand** (*OTOP*);

COVID-19 Challenge
Mitigated Through Composite Programmes

The development challenge that needs to be addressed is two-pronged. The COVID-19 pandemic is:

- ❖ driving the rapid erosion of safe jobs and disposable income for large segments of the Iranian population – affecting circa 50% of the 25 million workforce in Iran;

concomitantly,

- ❖ adding burdens/pressures on existing social services (including public health and social protection services) and generating short-term reversals in development gains; with additional complications caused in-between the health, economy and human security nexus (jobs, food security etc.) that will sustain; and exacerbating household vulnerabilities in multiple dimensions and widening previous inequalities and disparities.

Criteria
Recovery in Iran

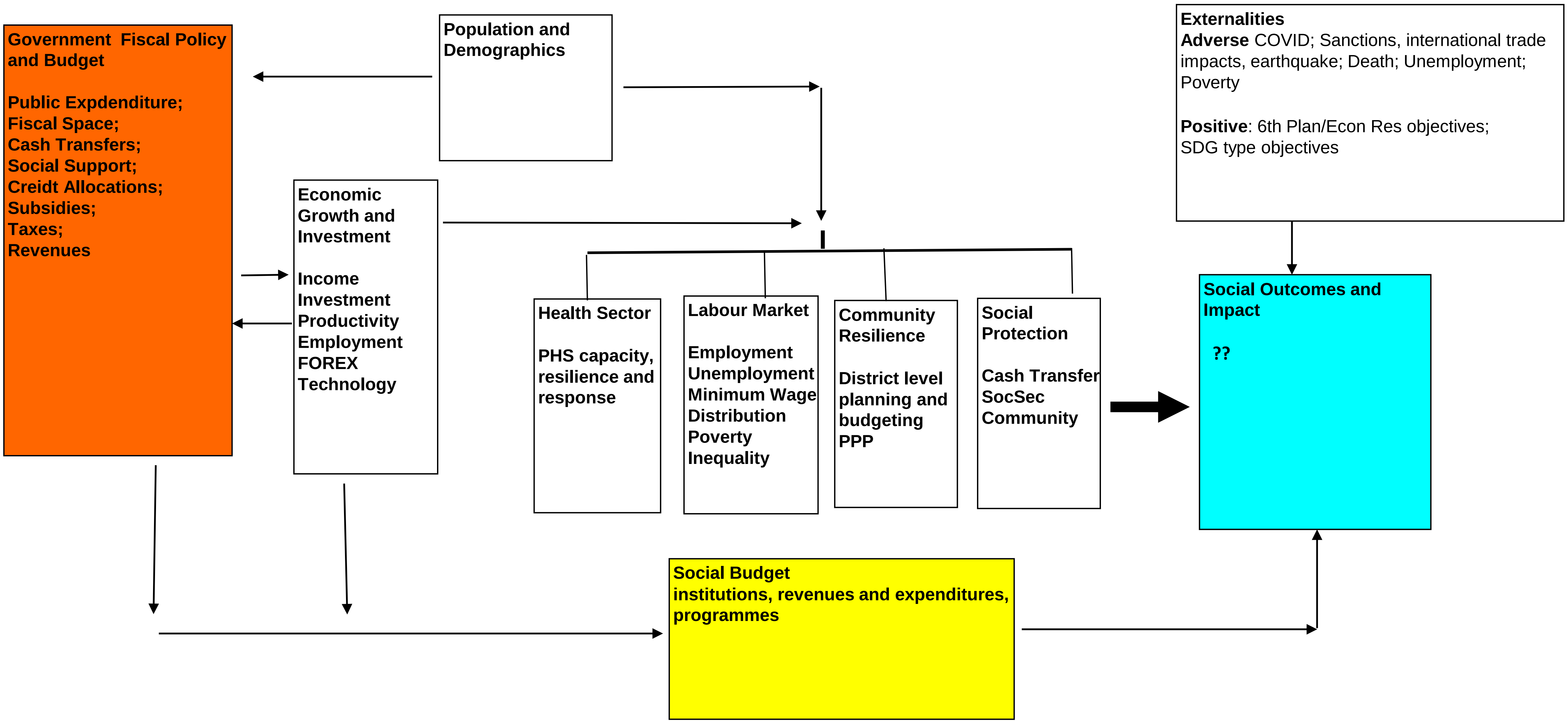
- *Not Business as Usual.*
- Addressing *inter-dependence effects*, integration and inter-sectoral linkages for efficiency, equity and impact – and especially scale multiplier impact.
- Taking heterodox, *composite, trickle-up programmes* measures seriously – as short term recovery approaches.
- Recovery and strengthening of the *public health system*.
- *Community resilience* and social cohesion focus.
- *Linking social protection and employment generation solutions* together .
- Strengthening markets and improving factor productivity through *wage led-growth*.
- Ambitious targeting for *livelihoods scale-up* towards full, decent employment.
- *Smarter targeting* for vulnerability reduction effectiveness, with multiplier effects.
- *Risk informed development* planning – community level upwards.
- *Building Back Better* – including less overhead cost for one new employment.
- Gender and age-sensitive *positive bias*.
- *Digitally-smart*: innovative modes of delivery and innovative partnerships.

Solution:
Required Orientation

- ✓ Problem: COVID-19 impact - crisis in health and livelihoods for 40% Iranians
- ✓ Solution: a health and livelihoods oriented approach – **community-based health and livelihoods improvement, including fiscal, social protection and employment generation support from that level upwards**.
- ✓ To **complement** and **propose alternatives** to existing top-down social security structure
- ✓ Working within a **community-based** health, social protection and livelihoods inclusive programme– that is, **bottom-up solutions;** (e.g. as composite solution approach – **combined** social protection, employment, fiscal space; based on **conditionalities**)
- ➢ Framework to support local, community health, livelihoods, food security, micro-small enterprise development, and basic minimum needs
- ➢ Through a larger, integrated poverty reduction, community resilience, economic growth, Government fiscal support and social protection programme initiative
- ✓ Require's **overall programme** umbrella - aimed at **integration** and **acceleration**
- ✓ Use circa **10 targets and indicators** for programming
- ➢ Challenges requiring **effective development recovery innovation** in building back better prevention and recovery systems; pro-active policy and programme **solutions/interventions** for mitigating impact, including the following:

- <u>pro-active fiscal spending and public investment</u>
  - – increased targeted public resources for supporting micro and small scale employment and income for poor and vulnerable groups;
- <u>preventative social protection</u>
  - – conditional cash transfer programmes
  - – coverage of safety nets
- <u>ensuring availability of basic food items and other essentials</u>
- <u>health protection and immediate support for most-affected sectors and population groups</u>
  - – including preliminary training and information on COVID-19 and provision of PPE’s;
- <u>promotive employment generation</u>
  - – particularly for livelihoods of vulnerable;
  - – recovery measures for livelihoods linked to building back better;
  - – better loan and credit arrangements;
  - – repurposing production for alternative employment (e.g. for masks);
  - – supporting micro and small enterprises, jobs and incomes - financial and non-financial support to encourage small enterprises to retain and/or create jobs;
  - – institutional procurement approaches that may ensure funds flows and added value for the micro- and small enterprises;
- <u>community-based approaches and linkages to improving both health and livelihoods</u>
  - – initiatives stimulating community livelihoods, employment and the local economy
  - – targeted community development support for adversely affected workers, businesses and communities (for enterprises and workers operating in the informal economy);
  - – protecting workers in the workplace;
  - – relying on social dialogue for solutions.

Socio-Economic Programme Framework



Indicator Framework	Targeting: Poor and Vulnerable Groups				
	Required information	Extremely Poor Groups	Moderately Poor Groups	Vulnerable Groups	Micro-Enterprise Groups
Status	total vulnerable (now possibly 15 million below national relative poverty line ; 15 million above line).	Extreme hardship	Hardship in empl and income	Hardship in empl and income	Active – but makes ends meet with difficulty (at least two jobs)
Education	Secondary drop out rate (possibly 30% ; only 10% possibly reach university)	Low/No education	Low/No education	No higher than secondary education	Around secondary education
Skills	Basic local skill improvement possibilities (currently only TVTO type entities)	Very little skills	Some multi skills	Insufficient multi skills	Probably sufficient business multi skills
Income	Means to improve (increasingly less)	MinMin income	Low income	Pov Line income	Pov Line income
Saving	Debt (?)	No savings	No savings	Little savings	Some savings
Credit	Access to finance and banking (minimal)	No access to formal credit	No access to formal credit	Some access to formal credit	Some access to formal credit
Assets	Extent and amount (low value)	No assets (both durable and non-durable)	May possess some low-valued non-durable assets	Possess some low-valued non-durable assets	Possess some valued durable assets
Planning / Organise		No planning ability	No planning ability	Low ability to plan ahead	Weak ability to plan and programme and undertake institutional contracting
Agriculture Workers	How many poor (possibly 1 million plus families => 4 million)	Landless farmers; child labour; agric temp workers; unemployed	Petty traders/ pedlars /part-time unskilled	Having partial jobs and low income; Workers with insufficient income	Having jobs and income; Workers with sufficient income
Farmers	How many poor (possibly 2.5 million – plus families => 10 million)	Unskilled workers with high family dependents (children, elderly, chronically ill or disabled)	Farmers with little land and low yields	Farmers with minimum land; Land located in high risk areas	Farmers with sufficient land
Urban Periphery Settlers	How many poor (possible estimates between 12 to 18 million)				
Working Poor	low productivity and efficiency; low efficiency wages; more than two jobs; lack of savings; high risk scenarios; poor families and insufficient expenditure on social development requirements; etc.				

INDICATOR	Base line	Target (date – ten years time)	SOLUTION
1.2.1 Proportion of population living below the national poverty line	20% (16.6m)	5% (4m)	TAP approach
1.3.1 Implement nationally appropriate social protection systems and measures for all	.65 Index	.100 Index	SS and CCT
1.4.1 Proportion of population living in households with access to basic services	.60 Index	.100 Index	Comm Resilience
1.a.2 Proportion of total government spending on essential services (education, health and social protection)	40% BUDG	50% BUDG	Fiscal Space
2.3.2 Average income of small scale food producers	¼ GDP/L	½ GDP/L	Institutional Procurement
3.2.1 Under-five mortality rate	.001%	0	PHS development
3.4.1. Mortality rate attributed to cardiovascular disease, cancer, diabetes or chronic respiratory disease	.001%	.0005%	PHS Medical Insurance
4.4 Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent - proportion of youth and adults with information and communications technology (ICT) skills, by type of skill	.37 Index	.66 Index	TVTO Cooperatives Business Incubators
8.1.1 Sustain per capita economic growth in accordance with national circumstances (annual growth rate of real GDP per capita)	0%	3%	Low K/L Invest
8.2.1. Annual growth rate of real GDP per employed person	2%	5%	Low K/L Techniques
8.3.1 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage (proportion of informal employment in non-agriculture employment)	.50 Index	.80 Index	7th Plan
8.5.2 Achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value (unemployment rate)	Emp 25 M	Full 33 M	Fiscal Stimulus
8.6.1. Proportion of youth (aged 15–24 years) not in education, employment or training	3.3 M	0	Capacity
8.7.1. Proportion and number of children aged 5–17 years engaged in child labour, by sex and age	.08 M	0	CCT
8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all	\$10 B	\$50 B	SOP % Allocations
9.3.1. Proportion of small-scale industries in total industry value added	.3	.5	SME Credits and Clusters
10.1.1 Progressively achieve and sustain income growth rates of the bottom 40% of the population at a rate higher than the national average - growth rates of household expenditure or income per capita among the bottom 40% of the population	.60 Index	.60 Index	Invest in 40%