

Hypothetical Scenarios for Addressing the Retirement System in Iraq

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Abstract

The Weak institutional capacity in the Iraqi government to activate the collection of contributions and increase the number of self-employed (private sector), and workers in small enterprises or family businesses, where it is not possible to bear the percentage of contributions in pension systems, and with the transition in the Iraqi economy to a market economy and the expansion of the role of the private sector, the system Dual retirement is likely to impede this transition. In this work two probabilities were studied to show the future for part of economic section in Iraq. The two sections were: optimistic scenario for the period (2030-2023) And the second, the pessimistic landscape for the period (2030-2023).

Keywords: Retirement, Iraq, 2023-2030, oil crud, daily export

Introduction

Most governments and economic systems seek to meet the needs of individuals who are unable to continue working, due to old age or accidental diseases, as they are unable to spend to sustain life, and countries may face difficult and fateful decisions, especially in periods of structural transformation from the planning system to the market system, As is the case in the Iraqi economy, after the transition from the planned system in the time of the previous governments to the market economy after (2003), although the socialist system has deep and pervasive roots in the structure of the Iraqi government institutions, which are still resistant to changes because they have become part of the structure of the Iraqi government. The Iraqi individual, and a pillar in his purely socialist thinking, as it is possible to benefit from other experiences in amending and activating the pension law to serve future generations [1].

(i) Protection and security for individuals in old age, distribution of consumer spending during a person's life by transferring savings from the most productive years to the least productive years. (ii) Providing a stable life for the centenarians, who provided services that contributed to changing governments, especially in Iraq. (iii) The role of the Iraqi government to save social security funds when they are unable to meet the insured in their entitlements, especially after the Iraqi government reforms in (2006), so the state decided to establish the National Fund for Pension Reserves for the purpose of managing financial resources and contributing to the sustainability of the pension fund. On the basis of a percentage that is limited to between (2%-30%) of the rent in the extractive sector, in the case of the participation of workers in the private sector, and they contribute to the formation of the fund's resources, but in the event that the pension fund fails to attract workers in the private sector, it will depend

on The financial policy that can be financed from oil exports, and the resources of the fund will be (65%) of the government support that comes from oil exports [2].

(v) The National Retirement Fund in Iraq suffers from a financial deficit as a result of the entry of categories of non-contributors to the fund, so the Retirement Commission studied the problem and put in place reforms that were considered a double-edged sword, as it achieved a balance between revenues and expenditures, but it touched the social justice of the community and affected the level of well-being.the last our works [3]we studied The Algerian experiments which include the pension system and the factors that enhance applying the system and the parameters that could-be limiting applying. This work reported the conditions for obtaining and the strategy for supported and applying that.

In this work we aim to studies the the expected scenarios for the future of the National Pension in Iraq when fund is based on the optimistic and the pessimistic scenarios. The first scenario assumes the continuation of the current conditions with all their problems, such as the rise in crude oil prices, the increase in global demand for it, and an increase in Iraq's export share, while the second scenario assumes a further deterioration in Implementing macroeconomic and development policies, and not adopting procedures and legislation that improve the performance of the pension fund, with a simultaneous shortage of funds due to the drop in crude oil prices.

1-The first optimistic scenario for the period (2030-2023)

This scenario is based on the continuation of the current reality and depends on a set of assumptions, namely:

1- The National Pension Fund continues to be linked to the general budget and crude oil prices. 2- Continuing the fiscal policy on its spending path by allocating more than half of the revenues to operating expenses. 3- The government takes measures to curb the financial and administrative corruption that is rampant in its institutions, which wastes money and prevents the achievement of financial sustainability goals. 4- Keeping the number of employees, salaries and allowances fixed or increasing them. 5- The continued rise in crude oil prices and the continuation of global demand for it.

Financing development and achieving financial sustainability depends on a major source in Iraq, which is the rentier resource represented in crude oil prices, as the process of forecasting the future is very important and must be based on scientific foundations, as many countries depend on Forecasts issued by international scientific institutions specialized in the field of energy, and that crude oil prices are based on some economic and non-economic bases, as well as global crises and based on the expectations of organizations and institutions specialized in crude oil, including (the World Bank)([4]) it was expected that crude oil prices will tend to rise gradually and slowly in the future, and table (1) is based on the optimistic expectation, as the number of those covered by retirement deductions will be in the year (2023) approximately (6.1) million employees and achieve A revenue of (3837957) million dinars, and the number of participants in the retirement authority increases to (7.6) million employees in the year (2025) and they achieve a revenue of (5,389,260) million dinars, and the pension fund achieves a surplus of (527,056 million dinars, and the increase continues in the financial surplus that The pension fund achieves it until it reaches (1,423,184) million dinars in (2027), then it reaches (3,062,000) million dinars in (2029) and in 2030, the financial surplus in the pension fund will be approximately (4,339,235) million dinars , which calls for a proposal to invest the financial surplus of the National Pension Fund in securities, or the investment is based on the proposals of the competent committee in achieving the

financial sustainability of the National Retirement Fund in order to reduce dependence on[5] the government, or to face the fluctuations that occur in crude oil prices. The deficit in the National Retirement Authority, as well as setting up a program through which the individual obtains retirement, and other things that can be included in the integration and social insurance programs with the new retirees from the Martyrs Foundation or the detainees of Rafha camp.

Table (1): *The Optimistic Scenario of the National Retirement Authority for the Years (2030-2021)*

year	Number of persons covered by the deduction, individual	Total revenue in dinars	Total expenditures for national retirement millions	surplus or deficit
2023	6,121,800	3,837,957	3,807,820	3,013,7
2024	6,795,200	4,567,169	4,302,836	2,643,33
2025	7,610,600	5,389,260	4,862,204	5,270,56
2026	8,523,800	6,413,219	5,494,290	9,189,29
2027	9,589,300	7,631,731	6,208,547	1,423,184
2028	10,816,700	9,158,078	7,015,658	2,142,420
2029	12,212,000	10,989,693	7,927,693	3,062,000
2030	13,787,400	13,297,528	8,958,293	4,339,235

The first scene represents the optimistic expectation of the future of financial sustainability in Iraq, which is built on the rentier economy, and the growth rate of revenues and expenditures for the National Pension Fund, which comes from oil exports, which were shown as in the table (1), as well as an expectation of the daily export rate of crude oil in 2022. As in Table No. (2) the expected oil revenues in the coming years resulted from the decision of the ministerial meeting of OPEC to raise the export quota for Iraq, and based on the report of the Iraqi Oil Company SOMO) [6], which will generate growth in oil export revenues to (140.7) billion dollars in (2024) and rise to (206.2) billion dollars in (2026), when global demand for crude oil increases and OPEC raises the ceiling of production (supply), Where Iraq's export share is (4.4) million barrels per day, according to the expectations of the World Bank.

Government revenues during the first three years of the forecast period are low, compared to the volume of government operational expenditures, especially public sector expenditures that include pension salaries and grants to the National Pension Fund. For the purpose of analysis and forecasting, the 2020 budget [7] will be the basis for comparison between expenditures and revenues. The budget for the year (2020) was approved with a value of (100.4) billion dollars, with a deficit of (58.8) billion dollars, and the total public expenditures amounted to (68) billion dollars, and when compared with the revenues obtained by the government amounting to (41.6) billion dollars, that is, The financial situation of the country under these The expectations make the government able to cover its expenses and allocate part of the revenues to the investment aspects, and the pension fund can invest the subsidies in the event the law approved by Parliament in 2006 is adopted, and it forms a special body for an investment fund for the National Retirement Authority, and in the years after the year (2026) In light of optimistic expectations, it appears that the Iraqi economy remains dependent on the oil sector, and lacks economic diversification.

The availability of huge financial resources creates a favorable opportunity for structural transformation, and the possibility of financing development policies if the funds are best used and directed to productive projects capable of recovering financial assets and

achieving continuous returns, but if the resources are not used properly and the budget remains dependent on crude oil and dependency in the economy to the rent arising from it, unless there are other measures accompanying the financial surpluses, in order to achieve financial sustainability, and it can be within this package of measures to achieve the financial sustainability of the National Retirement Fund through:

1- Establishing encouraging policies for the entry of workers in the private sector, which contributes to increasing the proceeds of subscriptions. 2- The necessity of investing in the funds of the Pension Fund and in government bonds in a manner that achieves the maximum economic benefit. 3- The shift from dependence on subsidies for the National Pension Fund from the rentier economy, which depends on financial abundance when crude oil prices rise according to the first scenario, to creating an added value by investing in the real Iraqi economy with the aim of diversifying the economy.

Table (2): Estimating oil revenues in Iraq according to the optimistic landscape for the period (2030-2023)

years	2023	2024	2025	2026	2027	2028	2029	2030
Average daily exports (million barrels)	3.2	3.5	3.97	4.4	4.4	4.4	4.4	4.4
Crude oil price (barrels/dollars)	99.5	110	110	110	115	120	120	120
Oil revenues (billion dollars)	116	118	118	120	115	115	120	120

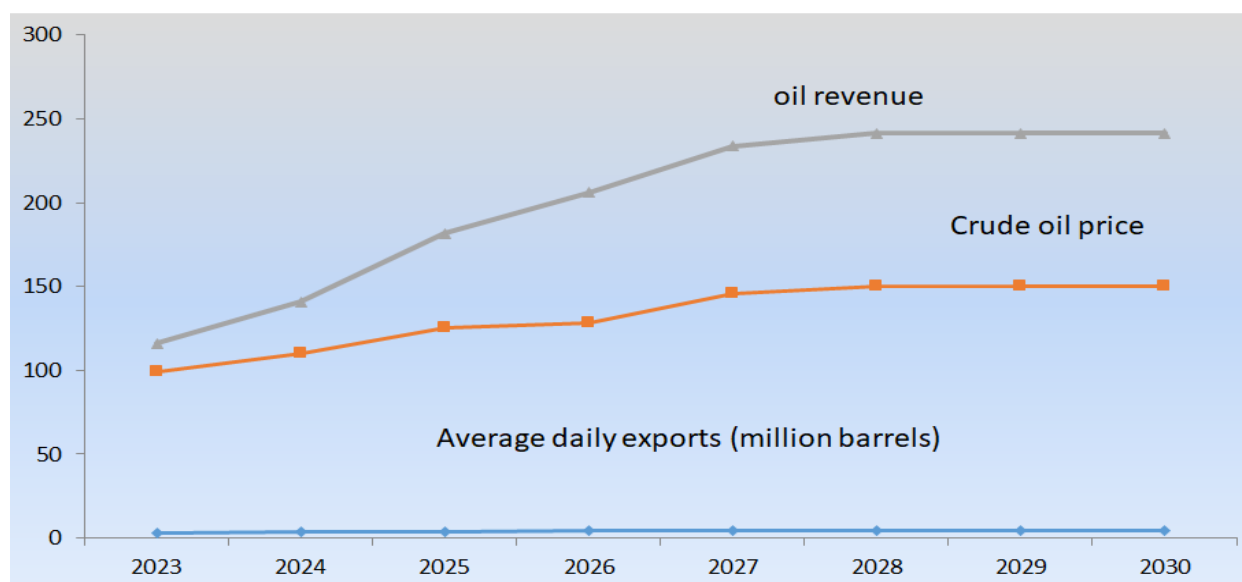


Figure (1): Oil revenues, crude oil price and expected export rate for the period (2023-2030).

2-The second scenario is the pessimistic landscape for the period (2030-2023)

The second scenario is based on the possibility of a decline in the current reality, based on a set of assumptions represented in the following:

1- The pension fund continues to depend on the financial policy restricted to oil revenues. 2- Continuing to rely on government grants and subsidies to cover the needs of the pension fund. 3- The decline in the Fund's management's ability to attract workers in the private sector to participate in the National Retirement Fund. 4- Inability to confront financial

and administrative corruption. 5- The number of employees and retirees will continue to increase at a constant rate throughout the period (2023-2030). 6- Decrease in demand for crude oil in global markets for reasons including the availability of alternative energy or an increase in global supply as a result of new discoveries or other reasons similar to the Corona pandemic [8].

According to the pessimistic view, price expectations fall below reality, and the volume of oil production decreases at an export rate to (3.2) million (barrels / day). Table (2) shows the seriousness of the financial situation of the National Pension Fund in light of the pessimistic expectations, which indicates the depth of the recession. The economic situation that will happen and the employment rates will decrease to less than the current reality, so it will be (3%) equal to the population growth rate, so the employment rate will grow in a decreasing manner, while the total revenues will grow at a constant growth rate of (10%) as in previous years, while the expenditures will grow at a growth rate (14% is also a constant growth rate, but it is noticeable that the number of contributors is growing at a lower growth rate due to the decrease in employment rates in the public sector, as shown in Table 16 ((we note from the table that the National Retirement Fund will achieve a deficit throughout the expected years, as the deficit was (641997) One million dinars in the year (2023), and the deficit will be raised to (1,851,783) million dinars in the year (2027). The deficit will continue for the expected period in the future in light of the pessimistic scenario. The general budget of state, and the Fund announces its inability to pay the monthly dues to retirees, as shown in Table (4).

Table (3): *The pessimistic scenario of the Iraqi Pension Fund for the years (2030-2023).*

years	The number of those covered by the deduction is one thousand individuals	Total revenue in dinar	Total expenditures for national retirement	surplus or deficit
2023	5,093	3162456	3804453	-641997
2024	5,347	3478701	4337076	-858375
2025	5,614	3826571	4944266	-1117695
2026	5,894	4209228	5636464	-1427236
2027	6,188	4630150	6481933	-1851783
2028	6,497	5093165	5654223	-561058
2029	6,821	5602481	6502356	-899875
2030	7,162	7062729	7477709	-414980

The forecast reveals the fund's inability to cover its expenses, which is reflected in the sustainability of the National Retirement Fund, which is unable to obtain its necessary governing expenses without investment, which means that the economic and social situation will turn from bad to worse, due to the lack of capabilities to the extent that contributes to the implementation of Fiscal policies, and the solution remains dependent on the rise in crude oil prices or the increase in oil exports at competitive prices and in the face of other energy sources [9], and the repercussions of wars, international sanctions, the high rate of inflation in the past periods, and the change in the Iraqi currency denominations have left a great impact on the National Retirement Fund, in addition to the groups that obtained retirement without contributing and paying contributions during the period of employment, and the decrease in public revenues makes the fund announce Its decline and the inability to pay the salaries of retirees, and the state will resort to external borrowing, in order to cover public expenses, all of the above It contributes to the collapse of state institutions, the deterioration of non-oil infrastructure, and the shrinking of public pensions, including those of retirees.

International reports have confirmed that Iraq today faces a set of challenges represented in infrastructure, lack of water and the limited capacity of pipelines for transporting crude oil, as the costs of establishing them are estimated at (250)([10] One billion dollars, and the cost of restoring it with the expansion of increasing electricity production in a way that is consistent with population growth without covering its actual need, approximately (340) In Iraq, [11] billion dollars, and some studies indicate the possibility of a slowdown in global demand for crude oil, which leads to a decrease in its prices in the future as a result of a group of factors, including the increase in technological innovations and the existence of other inexpensive alternatives in addition to increasing the aggregate supply [12].

Table (4): Estimating oil revenues according to the pessimistic scenario for the period (2023-2030).

years	2023	2024	2025	2026	2027	2028	2029	2030
Average daily exports (million barrels)	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Crude oil price (barrels/dollars)	44.5	45.2	46.5	50.4	52.7	55.4	60.3	61.3
Oil revenues (billion dollars)	142,4	144,64	148,8	161,28	168,64	177,28	192,96	196,16

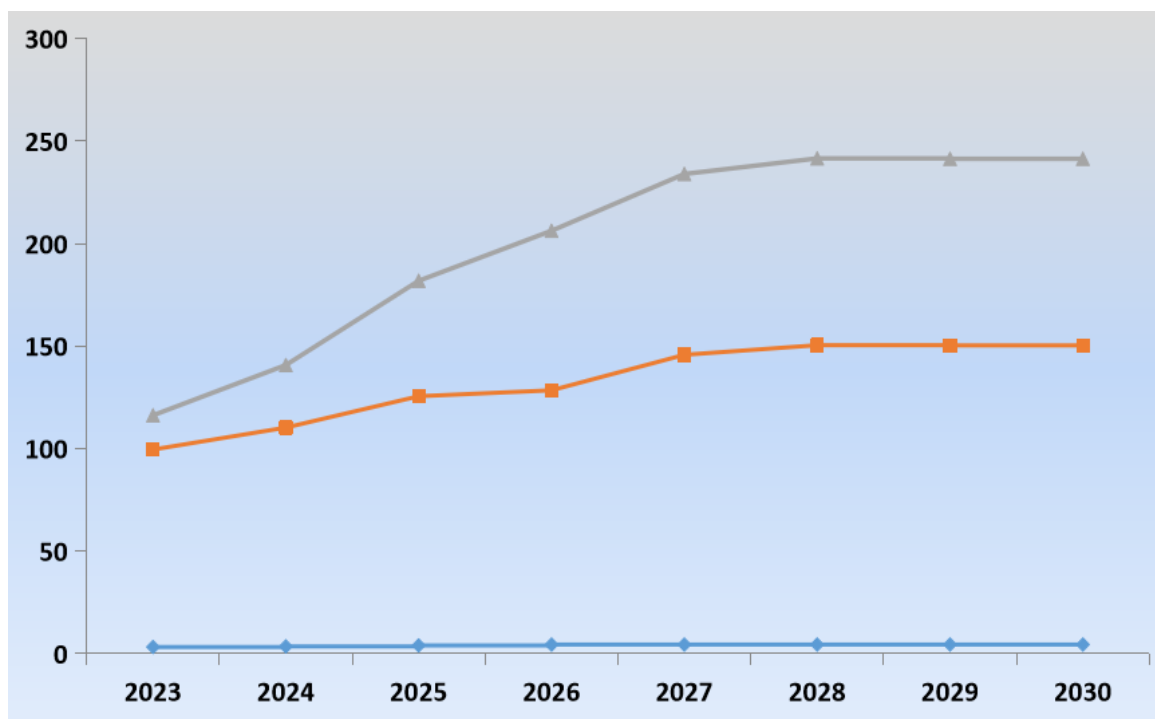


Figure (2) Oil revenues, crude oil price and the expected rate of exports for the period (2023-2030)

Thus, the necessary requirements Developing a package of measures to achieve the financial sustainability of the National Pension Fund through: A- Developing policies that encourage the entry of workers in the private sector, which contributes to increasing the contributions' revenues. B - The need to invest the funds of the pension fund in ways that achieve positive returns that achieve the financial sustainability of the fund

Conclusion

The Iraqi government considers the National Retirement Authority to be a charitable social institution, in which it did not take into account the laws that give every person an entitlement based on participation and social status. The Iraqi government realized that the economy is rentier and suffers from imbalance and permanent disability and is unable to cover its expenses, so the government went to invest in pension funds to protect the weak class represented by retirees and their families that depend on the pension. Shifting from relying on subsidies for the National Retirement Fund from the rentier economy, which relies on financial abundance when crude oil prices rise according to the first scenario, to creating added value by investing in the Iraqi real economy with the aim of diversifying the economy.

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