United Nations
Islamic Republic of Iran

BUILDING BACK BETTER

UN IRAN SOCIO-ECONOMIC RECOVERY PROGRAMME AGAINST THE IMPACT OF COVID-19

Proposal prepared by the UN Country Team in Iran, under the overall leadership of the RC Office and the technical guidance of UNDP and UNICEF

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# Table of Contents

**EXECUTIVE SUMMARY**  ............................................................................................................ 2  
**PART A: A SNAPSHOT OF THE SOCIO-ECONOMIC CHALLENGE**  ........................................... 4  
  1.1. The Socio-Economic Impact of COVID-19 ................................................................. 4  
  1.2. Addressing the Development Challenge ................................................................. 6  
**PART B: THE JOINT PROGRAMMATIC OFFER**  ................................................................ 8  
  2.1. The Strategy in Brief ................................................................................................. 8  
  2.2. The Programmatic Pillars ......................................................................................... 9  
    2.2.1. Health First: Protecting Essential Health Services and Systems ................. 9  
    2.2.2. Protecting People: Safety Nets for Vulnerable Populations ....................... 11  
    2.2.3. Building Economic Resilience: Macro/Meso Economic Measures in  
          the time of COVID-19 ....................................................................................... 13  
  2.3. **MAKING IT HAPPEN: MANAGEMENT ARRANGEMENTS AND RESOURCE REQUIREMENTS**  ........................................................................................................... 16  
**ANNEXES**  ............................................................................................................................. 18
Executive Summary

The impact of the COVID-19 pandemic on the global economy and social fabric is unprecedented. Current UN DESA estimates indicate a possible loss of up to $8 Trillion in global GDP\(^1\), affecting over 60% of jobs worldwide: a crisis that will wipe out much previous development gains. Iran has also been severely impacted, compounding existing adverse unilateral sanctions: altogether, possibly leading to a fall of 15% of GDP, affecting 50% of Iran’s workforce, particularly impacting the bottom 40% income-deciles of the population and deepening inequality – and raising additional unemployment possibly by 2 million. Social services and public health systems are taking a toll and at risk given tighter financial situation of the Government; circa 11.5 million households below or just above the multi-dimensional poverty line are significantly impacted by the crisis; service sector businesses and employees, and unskilled, low-skilled, and semi-skilled workers, will suffer most – especially those not covered by social security. Currently, some 1 million Afghan refugees live in Iran along with an estimated 1.5-2 million undocumented Afghan nationals and some 450,000 Afghans with passports and Iranian visas. The overwhelming majority of refugees (97%) live with their host communities, while (3%) most vulnerable refugees reside in 20 settlements. They are also severely impacted.

The Government of Islamic Republic of Iran responded in March 2020 to mitigate negative impact on households and businesses, through expenditures on social security, social assistance, health services and business support – with a response, relief and early recovery package of circa 1,000 Trillion Rials (or about 5% of Iran’s nominal GDP).

The COVID-19 pandemic is eroding safe jobs and disposable income for large segments of the Iranian population, and concomitantly adding pressure on existing social services (including public health and social protection services) along with additional complications caused in-between the health, economy and human security nexus that will sustain: exacerbating household vulnerabilities in multiple dimensions. Also, given current fiscal stress and the Government considerations of changes in subsidies approaches and structures, the further impact on the economy (including basic needs items prices) will have further significant implications for the vulnerable groups that the UN is targeting.

These challenges require, therefore, urgent and improved programme measures for combined social protection and employment generation to pave the way for longer-term sustainable recovery; immediate measures adopting integrated, multi-sectoral approaches to programming, leveraging the diverse range of comparative advantages and solutions in a complementary manner. Encompassing criteria of innovative building back better, not doing business as usual, going for scale through smarter targeting, being gender sensitive and adopting digital age technologies.

The scale and complexity of the problem also requires a need for engaging a multiplicity of actors – international, national and sub-national, public and private. In response to the Government request

\(^1\) UNDESA World Economic Situation and Prospects as of mid-2020
in March 2020, the United Nations in Iran has been actively supporting national health, humanitarian and socio-economic response to the COVID-19 outbreak in Iran. The UN agencies are engaged in supporting recovery through focused activities of the UNDAF, some repurposed to align with recovery, and including through the Technical Assistance Package (TAP) initiative and South-South and Triangular Cooperation approaches. So far over $15 million of the UN agencies’ core funds have been repurposed or are aligned towards COVID-19 related needs of Iran.

Given its comparative advantages, the UN System in Iran is actively supporting the Government with tailored solutions and best practices in development efforts, and is launching a COVID-19 Socio-Economic Recovery Programme offer focused on three particular areas of intervention: combined employment generation and social protection, including health system strengthening. This offer builds on the global UN Framework for the Immediate Socio-Economic Response to COVID-19, and the TAP of UN Iran endorsed by the Government in early 2020, and will be implemented by UN Country Team (UNCT) Iran in an integrated manner jointly with national partners.

The programme offer intends to support 92,000 vulnerable households through social protection initiatives and employment generation support – in four provinces. A Conditional Cash Transfer (CCT) model targeting 42,000 vulnerable households, with expanded access to basic social services, that can be potentially considered for nation-wide scale up through a more shock responsive social protection system – and in parallel establishing 50,000 new micro and small enterprise/employment possibilities for them through low overhead cost approaches of $1,000 per support and the establishing of relevant activities, that are also composite social protection and micro-enterprise development approaches utilizing proven methods promoted by the UN agencies in Iran. The UN programme funding would require between $20 million to $50 million. The combined UN programme offer is complementary to the Government’s current needs and own up-scaling efforts; especially its approach towards area-based and rural employment generation and stated intentions to link up to some form of minimum floor social support for lower income groups. The UN supported practices are already being used and up-scaled nationally; further seed capital would support positive economic and social multiplier effects in target communities and will contribute to ‘bottom up’ socio-economic approaches and impact at scale; and towards a more resilient economy and society.
PART A: SNAPSHOT OF THE SOCIO-ECONOMIC CHALLENGE

1.1. The Socio-Economic Impact of COVID-19

**A global crisis:** The impact of the COVID-19 pandemic on the global economy and social fabric is unprecedented. Current UN DESA estimates indicate a possible loss of up to $8 Trillion in global GDP\(^2\), that is, a possible fall of 10% in global income affecting over 60% of jobs worldwide. With four billion people, including two out of three children, either not having social protection at all or being inadequately covered by existing schemes, the crisis will have significant adverse outcomes, wiping out much previous development gains.

**The impact in Islamic Republic of Iran:** Against this global backdrop, Iran has been the country most impacted by the pandemic in the MENA region: a crisis compounding already existing adverse unilateral sanctions and other structural challenges. On a very worst-case scenario, the impact may lead to a fall of up to 15% of GDP\(^3\), particularly impacting the bottom 40% income-deciles of the population, business activity and revenues, and a falling disposable income that will deepen inequality. The partial lockdown measures have directly and indirectly affected 50% of Iran’s estimated 25 million or so workforce\(^4\); SME closure and falls in production affecting 3 million formal workers and 4 million informal workers and micro-enterprises; along with rising unemployment - possibly up to 2 million additional unemployed\(^5\).

Social services – including public health systems – have taken their toll given tighter financial situation of the Government. The critical shortage of specialized medicines and medical equipment had added challenges to the health-sector response during the first days of the pandemic.

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\(1\) Ibid
\(2\) Ibid
\(3\) Iranian Minister of Finance and Economic Affairs (Dr Farhad Dejpasand)
\(4\) Recent Parliament Research Center Paper 17011
\(5\) Op-Ed by Government Spokesman Rabiei
**Vulnerable populations:** The 11.5 million households below or just above the *multi-dimensional poverty line* – comprising various demographics (Box 1) – are, inter alia, among the demographic groups significantly impacted by the crisis. Service sector businesses and employees, and unskilled, low-skilled, and semi-skilled workers, will suffer the most. Approximately just over half of the working population of 25 million are fully covered by social security; the remaining uncovered are unskilled and semi-skilled workers, comprising the lowest four income deciles, including street traders, micro-businesses, self-employed, transport workers, domestic workers and seasonal workers. Possibly up to 25% of this latter may be engaged in the informal economy. Over 3 million refugees are also severely impacted. Currently, some 1 million Afghan refugees live in Iran along with an estimated 1.5-2 million undocumented Afghan nationals and some 450,000 Afghans with passports and Iranian visas. The overwhelming majority of refugees (97%) live with their host communities, while (3%) most vulnerable refugees reside in 20 settlements. They are also severely impacted.

**Challenges in ‘bouncing back’:** The consequences of the pandemic include increased poverty rates and a surge in the number of people requiring basic needs support – especially for populations traditionally insufficiently covered by the formal social protection system. With no alternative savings or income sources, the bottom 40% income deciles, being vulnerable and given the nature of their engagement in the labour market (informality and temporary-type of contracts), will be unable to regain livelihoods easily and shall meet significant challenges in adequately coping with, and rebounding from, the crisis. The time span of their unemployment status and fall in incomes is expected to extend over a relatively longer period.

**‘Zooming in’ the rural economy:** The toll of the pandemic in specific sectors of the economy is also noticeable. In the agriculture sector: food supply chains have been severely disrupted; access to quality seeds, pesticides and fertilizer have become challenging; thereby impacting not only producers, but also on processing, distribution, retailers and consumers in the near future. Market demand has fallen for some food items (e.g. chicken meat and milk) resulting in significant losses for livestock farmers.

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6 Compensation measures are planned but more serious actions are needed. Pesticide industries have not been provided with Government financial support for foreign currency (in last four months to purchase and import raw material for pesticide production)

7 FAO input – Possible COVID-19 Socio-Economic Impact Scenarios (UN RCO Economist)
**The Government response:** The Government of Iran undertook rapid measures in March 2020 to reduce immediate negative impact on households and businesses, through expenditures on social security, social assistance, health services and business support — with a response, relief and early recovery package of circa 1,000 Trillion Rials (or about 5% of Iran’s nominal GDP). Despite such effort, further coordinated and programme measures (including at policy level) may be needed for social protection - to ensure both adequate response to the COVID-19 shock and also pave the way for longer-term sustainable recovery (to ensure advanced social protection systems are in-place).

**1.2. Addressing the Development Challenge**

Against the above backdrop, the development challenge that needs to be addressed is two-pronged.

The COVID-19 pandemic is:

(a) 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;

and concomitantly,

(b) 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.

**The key principles:** In order to address the development challenge, the proposed programme offer needs to adopt an integrated, multi-sectoral approach to programming, leveraging the diverse range of comparative advantages of UN agencies in a complementary manner. It shall be country-driven and premised on national ownership.

The key features of the programme offer in this document are the following:

*Addressing integration and inter-sectoral linkages for efficiency and impact.*

*Recovery and strengthening of the health system.*

**Building Back Better:** The overall intent is not to “go back to the pre-COVID-19 normal” but to pave the way for “a new (and better) normal” following the outbreak.

**Not Business as Usual:** The size, nature and complexity of this pandemic-driven crisis require innovative solutions: the “causes” and “effects” driving the current socio-economic challenges are different from those which the country has dealt with in the past – the design (and in some cases, fundamental re-thinking), testing and roll out of new solutions will be needed.

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**Notes:**

8 The Government well identified hardest-hit sectors including retail, garments, food, travel and tourism (including hotels), manufacturing experiencing disruptions along supply chains, and falls in expenditure/demand.

9 UNICEF-supported *multi-dimensional poverty* study, in partnership with MCLSW in late 2019, indicated that the policy space of social protection services consists of numerous programmes that need to become coordinated more effectively and efficiently. The sustainability and sufficiency of the 40% national Budget allocation for social protection - prior to the COVID-19 - is now also left uncertain.

10 Including nutritional and food security; dwelling conditions; mobility; etc.
**Ambitious:** The overall goal is to help inform a national socio-economic recovery programme to facilitate impact at a large scale – of combined social protection and employment generation approaches.

**Smarter targeting:** Identification of population groups that are particularly vulnerable to the impact of the current pandemic will be the focus of the joint interventions. A COVID-19 vulnerability index or multi-dimensional poverty index will be developed and tested through this initiative and will inform programmatic interventions in the field. Where possible, these indexes will also include refugees, following the principle of “leave no one behind”.

**Gender and age-sensitive:** Women, women-headed households and youth will be a primary focus of attention of this joint initiative, as well as age groups that are particularly vulnerable to the socio-economic impact of the pandemic: at both end of the age spectrum (children-adolescents and the elderly).

**Digitally-smart; innovative modes of delivery and innovative partnerships:** The intent is to leverage innovative partnerships to provide, for instance, support in the roll out of remote/virtual trainings. To this end, supporting improvements in the connectivity ecosystem as a condition for a faster recovery and building resilience for future shocks. Appropriate digital tools, software and apps will be rolled out as required through such partnerships.
PART B: THE JOINT PROGRAMMATIC OFFER

2.1. The Strategy in Brief

The UN System in Iran is actively supporting the Government, with tailored solutions and best practices in recovery efforts, and now with the additional programmatic offer focused on combined employment generation and social protection, including health system strengthening. Initiatives that can be up-scaled: given the UN comparative advantage in being complementary to the Governments recovery and up-scaling efforts, and current needs and policies; especially its Resilient Economy approach for area-based and rural employment generation and which is intended to be linked up to a minimum floor for overall social support for the lower income groups. Some UN practices in these areas are actually being scaled nationally and this programme offer can be catalytic to that.

**Leveraging scale and impact:** How can the UN contribute to address the challenge in Iran in an integrated and meaningful way? The scale and complexity of the problem is beyond the capacity of a single actor to address, including the UN system in Iran. The challenge indeed calls for engaging a multiplicity of actors - national and sub-national, public and private.

Under the principle of national ownership, the UN is already contributing, and will continue so, to the country’s efforts by bringing its diverse range of expertise (under the wide spectrum of agencies’ mandates); its access to international know-how, experience and best practices; its risk-informed approach to programming; its ability to innovate to build back better; and its convening power. In doing so, the UN can help partners articulate new solutions and leverage resources to ‘test emerging prototypes’, approaches and ‘ways of doing business’ – ensuring proof of concept – and to influence the policy and programme space.

The UN strategy supports and leverages a public response that can be taken to a larger scale – and as close as possible to national coverage – in the form of a *National Socio-Economic Recovery Programme*. If sufficient ‘seed capital’ is mobilized and leveraged through this response in the short-term, we could not only support delivery of important relief to tens of thousands of vulnerable households at local level, in highly-impacted provinces, but conjointly build back better. Innovative approaches will carry positive economic and social multiplier effects in target communities and contribute to ‘bottom-up’ socio-economic impact at scale.

This offer follows and builds-on the global *UN Framework for the Immediate Socio-Economic Response to COVID-19*, and the TAP of the UN Iran, endorsed by the Government in early 2020. It also complements both the *UN Humanitarian Appeal* (and the WHO-led public health-cantered response against the pandemic (*COVID-19 Preparedness and Response Plan, CPRP*).
Three inter-connected pillars: Working in close collaboration with national and sub-national partners, the joint programmatic offer ultimately seeks to contribute to a new post-pandemic “development trajectory” for Iran: that is, towards a more resilient economy and society at various levels (of macro, meso and the micro community/business/household levels). It will do so by focusing on three particular areas of intervention, which are described in the following sections.

2.2 The Programmatic Pillars

2.2.1. Health First: Protecting Essential Health Services and Systems

Health systems are overwhelmed by the COVID-19 outbreak: Iran’s health system was already stressed when COVID-19 pandemic hit Iran: at a time when it was already challenged by the impact of unilateral sanctions, constraints affecting the import of essential items; reduced fiscal space required to sustain a health financing system (depending on the Government funding and despite a social health insurance system with a population coverage of around 95%); and also a reduction of purchasing power effecting the capacity to cope with out-of-pocket payments for health expenditure; significantly affecting particular poorer and otherwise disadvantaged parts of the population. Balancing the demands of responding directly to COVID-19, while simultaneously maintaining essential health service delivery and mitigating the risk of system collapse remain a challenge. Accelerated humanitarian exemptions for provision of essential medicines, raw materials, and lifesaving equipment will be crucial – and the UN is engaging in high level advocacy for lifting the impact of sanctions on the health system; simultaneously assisting the Government and facilitating procurement and financial transactions channels.

While evidence may show limited disruption in provision of health services, it has been documented that some households are reluctant to go to the non COVID-19 related health services, due to the
fear of contraction. This has negatively impacted the routine immunization and growth monitoring visits. The effect on the supply chain and commodities might affect the inclusiveness of health services. For instance, people Living with HIV and key populations are particularly vulnerable to disruptions in both healthcare and livelihood caused by the COVID-19 pandemic. Their wellbeing and survival are predicated on remaining linked to services, especially ART. Also, it’s worth mentioning that some vulnerable populations might face intensified stigma and discrimination in accessing inclusive health services.

Following the peak in first wave of COVID-19 pandemic in Iran (end March 2020) the health system was confronted with overwhelming needs for clinical care, and given the long established strategy of health systems resilience in Iran, substantial new investments were made in increased essential capacities. The UN provided immediate support for the health sector response to the pandemic in its early days in Iran. During the subsequent period of partial lock-down, public health measures resulted in a substantial decrease of transmission during April, at the cost of increasing economic challenges and social hardship. The subsequent re-opening resulted in a second wave of pandemic although with less pressure on the strengthened health systems capacities (e.g. through: e-health solutions closely linked to Primary Health Care (PHC) and community level interventions; additional systematic community outreach for early case detection and contact tracing; the Each Home as a Health Post initiative linked with PHC facilities; and strengthening of environmental and occupational health services). The control of the pandemic, however, and until effective treatment is proven, will further require the careful balancing of direct and indirect health considerations as well as economic and social constraints, pressures and demands. It will also require a further decentralization of targeted public health measures to address provincial or county/municipality level heterogeneity of the pandemic pressure, while maintaining national coordination and leadership.

**Health service strengthening:** Under such conditions of a protracted health emergency, the next phase of the health sector recovery will need to address: *emergency preparedness and response* (on the most effective and cost-efficient level of spare capacities available, and assessments of institutional frameworks and related governance structures); *Universal Health Coverage* requirements in COVID-19 conditions including systematic assessments followed by programmes addressing recommendations and particularly the needs of poorer and disadvantaged populations, the financing of different health service components, and health information systems; *healthier populations* through integrated cross-sectoral services and whole-of-government, whole-of-society health-in-all policies approaches, from top command level down to the PHC and community level, and given the bi-directional relationship between health and sustainable development there is a need for existing multi-sectoral health governance structures to be strengthened further. Further, the sustained engagement and *compliance of the general population with health protection*
measures during times of re-opening will be crucial – requiring a very active approach of health promotion and improved health literacy as one of the key features of any sustainable and resilient health system.

**Accelerate effectivity of humanitarian exemptions for provision of essential medicines, raw materials, and lifesaving equipment:** The UN is engaging in high level advocacy for lifting the impact of sanctions on the health system; simultaneously assisting the Government to identify suppliers of specialized drugs, vaccines, and raw materials, facilitating financial transactions and securing delivery channels.

The UN programme offer will support the above health system strengthening components and key strategic goals, also well reflected in UN policies and strategies, and under the umbrella of the UNDAF Health Working Group and the UNCT’s TAP, as a basis for supporting the Government through a multi-sectoral whole-of-government and whole-of-society approach. While the UN will continue supporting the Government on health system strengthening, as a response to and recovery from the pandemic, complementary and accelerated efforts are needed for provision of Infection Prevention and Control (IPC) standards and protocols, Risk Communication and Community Engagement (RCCE), raising public awareness, and reaching most vulnerable in challenging settings, meeting their critical supply needs and WASH services. The UN programme offer supports national efforts to sustain investments in preserving Iran’s PHC system as well as national and provincial capacity enhancement for shock responsiveness and recovery.

2.2.2. Protecting People: Safety Nets for Vulnerable Populations

The overall intent of this programmatic pillar is to support the continuous development of more efficient and better targeted **social protection schemes**, contributing to increase the resilience of vulnerable populations**11** against the impact of COVID-19 pandemic and future, shocks (through scaling-up of innovative protective measures). Furthermore, additional measures to enhance the coverage and sustainability of basic **social services****12** (a pivotal component of safety nets for vulnerable populations) are also addressed under this pillar.

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**11** Including women-headed households, children and the elderly, as well as workers of heavily impacted sectors and MSMEs. Part A provides a more elaborate description of targeted groups.

**12** Including, for instance, in the education sector - support to the Ministry of Education to ensure continuity of education for all through: technical support on distant learning solutions with a focus on the most vulnerable children; technical support for safe reopening of the schools; technical support on the expansion of the new online learning platform; production of massive online open courses on health communication, etc.
Supporting the Government to increase the *shock-responsiveness* of the system is vital to ensure services adequately reach the most vulnerable populations, under the principle of “*leave no one behind*”. Routine and conventional social protection schemes, in times of shock, have proven ineffective in adequately addressing unanticipated needs – and the experience of the COVID-19 pandemic thus points to the need for re-examining the adequacy, coverage and sustainability of existing approaches, programmes and schemes.

This programmatic pillar has a **two-fold objective**: *(immediate 3-6 months)* urgently implementing a conditional cash transfer programme that can be scaled up nation-wide to reach vulnerable households and rapidly expand their access to basic social services; *(medium to long term 6-18 months)* accelerate progress towards universal social protection and make the national social protection system more shock responsive.

This **pillar** builds on the ongoing UN agencies collaboration with the Government-led national *Single Registry System* – and will seek to generate evidence, based on provincial field-interventions, to inform national policy. It seeks to design and roll-out conditional cash transfers and in-kind support, making use of life-cycle approaches to social protection and as complementary to the Government’s national *Universal Basic Income* scheme. The soft conditionalities (for example, granting health insurance, nutrition vouchers, access to remote learning for at-risk children) under such CCT schemes will complement the measures under the Economic Resilience pillar and the Health pillar (access to health services) in the UN joint programmatic offer for socio-economic recovery.

It entails the deployment of a comprehensive model of conditional social cash transfers to systematically reach at-risk households, particularly those engaged in the informal economy in three deprived (and high COVID-19 impacted) provinces. This programme offer, aims to provide complementary social protection for a minimum of 42,000 households who are in the three lowest income deciles with children under the age of 18. The initiative will support these households to benefit from an expanded social protection through conditional social cash transfers and/or in-kind support. Their vulnerabilities and needs will be assessed and monitored to ensure that the conditionalities are rightly targeted. These cash transfers will go hand-in-hand with existing schemes for addition of health-insurance, in-kind support to have better access and continuation of education for children given the current school closure due to the pandemic, and nutritional cash cards to support food baskets for these poor households.

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13 Including through enhanced national PDNA protocols; strengthening the humanitarian-development nexus in the policy space, with a view to strengthening resilience through building back better.


16 Conditionalities that seek to integrate cash with services that reduce risks and strengthen longer-term resilience (pertaining to human capital, social capital – nutrition, child protection, insurance, etc.).
The ambition of this model, once implemented and replicated for nation-wide scale up, is that all vulnerable households will benefit from more inclusive safety nets. The fiscal space for social protection will be expanded due to better targeting and use of resources.

More concretely, interventions under this pillar will entail the conduct of rapid participatory appraisals and socio-economic assessments; redefining of targeting criteria (sensitive to the impact of the COVID-19 pandemic and drawing on a COVID-informed multi-dimensional poverty or vulnerability index); redefining of conditionalities (to incentivize positive behavioural change and adoption of sound measures at household and MSME levels); strengthening of monitoring tools and protocols; field-testing of innovative transfer schemes; and capturing of lessons learnt (knowledge products) for broader, national, replication and south-south exchange of experiences.

<table>
<thead>
<tr>
<th>Initiative in three deprived COVID-impacted provinces</th>
<th>Average # of households</th>
<th># of households NOT covered by social protection scheme</th>
<th># of households in informal sector</th>
<th># of households in three lowest income decile with children under age of 18</th>
<th>Estimated # of children (2/household)</th>
<th>CCT per household/month (US$)</th>
<th>Total amount (US$) for 1 month</th>
<th>Total amount (US$) for 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>85,000</td>
<td>67,500</td>
<td>57,000</td>
<td>42,000</td>
<td>88,200</td>
<td>30</td>
<td>1,260,000</td>
<td>7,560,000</td>
</tr>
<tr>
<td>One-time in-kind support (e.g. tablets with educational applications, wheel chair, etc.)</td>
<td>10,000</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (US$)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8,560,000</td>
</tr>
</tbody>
</table>

Source: Iranian Welfare Database, MCLS

At macro-level, the intent is to contribute to effective and well-targeted macro-economic policies (fiscal and monetary measures), financial inclusion policies (e.g. social banking and social enterprise space) and sectoral policies, leveraging the experience of other countries in the south (knowledge-sharing and south-south collaboration).

At meso-level, the overall objective is to help catalyse alternative, and safe, income-generating opportunities for vulnerable populations - including women-headed households, rural populations, informal sector workers, and people living disabilities, through the adoption of innovative supply and demand-side measures.

17 Including through the development of SOPs and financing strategies
Supply side measures will include, inter alia:

- Rapid training\(^{18}\) of micro and small entrepreneurs, social entrepreneurs, including women entrepreneurs and members of women-headed cooperatives; in increasingly marketable sectors\(^{19}\); and leveraging new tools for remote learning (improving human capital).
- Roll out of matching grants to stimulate (and leverage) investments in equipment and/or working capital, with a view to catalyze production in increasing marketable sectors (including for financial and physical capital).

Demand side measures comprise initiatives such as the roll out of institutional procurement schemes (guaranteed purchases) to stimulate the demand for marketable goods/services\(^{20}\) produced by the micro and small-sized enterprises and/or cooperatives, ensuring, at the same time, that adequate quality control measures and standards are in place.

The meso initiative will also generate field-evidence to inform the national policy and programme space. This will entail working with the Statistical Centre of Iran and relevant line Ministries in the generation of required data for enhanced Socio-Economic Impact Assessments (SEIAs) with a focus on MSMEs. A Labour Market Information Systems (LMIS) – to help match demand and supply in the labour market - will also be tested under this pillar.

At micro-level, improving the connectivity in rural and deprived areas would be a focus, as the pandemic has shown that connectivity, ICT and infrastructure plays a critical role in ensuring resilience and fast recovery of livelihoods. The UNDP is supporting a Digital Content Production Ecosystem Empowerment for Rural Areas focused on:

- Producers: empowering local communities’ digital content development capabilities by local recourse mobilization and sharing.
- Consumers: provision of cheap internet in most remote places for consuming locally produced contents.
- Servers: mobile operators, local Internet Service Providers (ISPs) and video sharing platforms such as Aparat.

The above integrated macro-meso-micro level interventions entail the strengthening of the entrepreneurship ecosystem as a fundamental “enabler” (including local incubators; community mobilisation; micro-credit funds; micro-insurance; and NGOs/CSO’s as development facilitators); improved social enterprise and green investment possibilities; targeted interventions for cooperatives and home-based workers, with a particular focus on women-headed households, and rural areas; identification of local area-based comparative advantages (e.g. One-Area One-Product for rural areas) and supporting the marketing - and exports - of produce made by rural and vulnerable groups. New tools for inclusive financing (including social banking, and mobile banking) will be developed and tested with relevant (public and private) partners\(^{21}\).

In summary, the UN will focus on generating low cost, group based, sustainable micro employment for vulnerable groups based on a global best practice that has been implemented in Iran by the UN agencies over the last twenty years and replicated significantly though the Government institutions.

\(^{18}\) All training and other activities which will require engagement with stakeholders will follow the guidelines of social distancing and to the extent possible will be undertaken through the use of technology and online tools.

\(^{19}\) Including, potentially, in the manufacturing of protective personal equipment and other health-sector-related items; online retailing and distribution; etc.

\(^{20}\) Including, potentially, Ministry of Health and Medical Education’s procurement schemes to supply PPE to health centers.

\(^{21}\) This pillar in particular, seeks to address shortages of critical supplies. There is already field evidence to suggest that, with rapidly-scalable interventions, micro and small enterprises, including women-led enterprises and cooperatives, can be rapidly trained and re-equipped to manufacture basic PPE items at scale – which in turn can contribute to the health response (pillar 1).
Upscaling a successful proven concept, with low overhead costs of circa $1,000 per enterprise established, and quick one to one-half year turnaround, the initiative supports the Government intention to achieve over one million jobs in rural areas – including accompanying required changes in planning frameworks and funding allocations. The basic mechanisms of the best practice “social mobilisation and micro-credit” technique are in place nationally and to an extent institutionalized, with over 300,000 persons already affected (including establishment of a network of development facilitators) – thereby enabling ease of inception, implementation and results.

The programme will enable up to 50,000 vulnerable households in receiving support and in parallel the creation of 50,000 jobs and enterprise possibilities. This low overhead cost approach will require a total of $50 million for the purpose encompassing the $ 9 million for up-scaled social protection – supported through additional UN programme funding and with joint Government and UN effort. Once up-scaled to all provinces, 1.5 million new micro enterprise based opportunities will result.
The following matrix provides a basis for the resource requirements to implement the “pre-scale-up” phase of the programme offer and reflects different basic scenarios.

### Socio-Economic Recovery Programme

**Proof of concept - Pre-scale-up phase - 12 to 18 months’ results**

*Investment cost US$ for micro/small employment generation: $1,000 per capita*

*Possible additional micro-loans $ per capita: $1,000 – may complement*

<table>
<thead>
<tr>
<th></th>
<th>Average # of unemployed</th>
<th>Average # of vulnerable population</th>
<th>Costing $ possible intervention scenarios (at $1,000 per capita overhead cost for SMEs start-up)</th>
<th>Component Breakdown</th>
<th>Targeting 50,000 households and enterprise starts</th>
<th>Cost per household Per annum</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SE Programme Proposal in Yellow</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>15% of target vulnerable population</td>
<td>10% of target vulnerable population</td>
<td>5% of target vulnerable population</td>
<td>Capability development for community group capital ($140)</td>
</tr>
<tr>
<td><strong>District level</strong></td>
<td>6,000</td>
<td>75,000</td>
<td>$15 M</td>
<td>$7.5 M</td>
<td>$3.75 M</td>
<td></td>
</tr>
<tr>
<td><strong>Provincial level</strong></td>
<td>100,000</td>
<td>1,000,000</td>
<td>$150 M</td>
<td>$100 M</td>
<td>$50 M</td>
<td>$7 M</td>
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<tr>
<td><strong>Tehran Province</strong></td>
<td>300,000</td>
<td>3,000,000</td>
<td>$450 M</td>
<td>$300 M</td>
<td>$150 M</td>
<td></td>
</tr>
</tbody>
</table>

**Estimates: national averages source from Statistical Centre of Iran**

*cost estimates based on the social mobilisation and micro-credit best practice - which includes the CCT component for human capital development, group formation and development, one-time support, institution building and guaranteed procurements form start-ups*
Socio-Economic Recovery Programme

In response to the government request in March 2020, the United Nations in Iran has been actively supporting the Government and national health, humanitarian and socio-economic response to the COVID-19 outbreak in Iran.

This Socio-Economic Recovery Programme offer – focused on combined employment generation and social protection, including health system strengthening – will be implemented in an integrated and well-coordinated manner by the UN Country Team in Iran, under the ongoing UNDAF and TAP frameworks, and jointly with national and sub-national partners. Given appropriate and ongoing UN solutions and best practices in recovery efforts, the additional programmatic offer enables such initiatives to be up-scaled.

The programme offer intends to support 92,000 vulnerable households through social protection initiatives and employment generation support – in four provinces. A conditional cash transfer model targeting 42,000 vulnerable households, with expanded access to basic social services, that can be potentially considered for nation-wide scale up through a more shock responsive social protection system - and in parallel establishing 50,000 new micro and small enterprise/employment possibilities for them through low overhead cost approaches (of $1,000 overhead cost per support) and the establishing of relevant activities, that are also composite social protection, social mobilisation and micro-enterprise development approaches utilizing proven methods promoted by the UN agencies in Iran.

So far over $15 million of the UN entities’ core funds have been repurposed and mobilized towards COVID-19 related needs of Iran.
This inclusive development approach towards protection and promotive outcomes – in four provinces, within a one to one-half year result period – which links social support mechanisms to employment generation can break adverse local conditions for sustainable development.

To ensure results, global best practice suggests there is also a need to complement with a Public-Private-Partnership (PPP) type, bottom-up (integrated district-based development) approach: SMART and conditional targeting of poor and vulnerable communities, focusing on household capability and micro-small employment for livelihood development. The model, programme framework and implementation mechanisms will catalyse combined community cooperation, social support and micro enterprise/employment generation at low overhead cost to ensure cost effective life-cycle structure outcomes. This good practice, complementary social mobilisation and micro-credit approach organizes local communities, develops their livelihoods capacities, and supports them through micro/small entrepreneurship and social enterprise possibilities. Various initiatives worldwide have exemplified such combined conditional cash transfers, employment generation and value added approaches for human capital and social capital development (e.g. Brazil (BOLSA Familia, BOLSA Verde); India (Nabard, INREGA); Mexico (Prospera, Compartamos and Microfinance); Nepal (MEDPA and WEP); South Africa (WfW); Thailand (OTOP)).

Such complementary, integrated frameworks will enable improved minimum needs livelihoods; better recovery and development; resolve district level development planning constraints; create sustainable local employment and wealth generation; prompt endogenous local economic growth; and ensure poverty alleviation and community empowerment. Once undertaken SMART/conditional, will result in community resilience to further risks and crisis and also be cost efficient.

The programme offer, based on a low overhead cost approach, will require a total of $50 million for the purpose. Additional UN programme funding of between $20 million to $50 million (and with Government support) could prompt such outcomes and, once up-scaled to all provinces, catalyse 1.5 million new micro enterprise-based jobs and sustain more inclusive social safety nets.

Annexes

1. RCO Analysis
2. UN Iran TAP Framework
Iran Socio-Economic Developments Vulnerabilities and New Opportunities

UN-RCO Iran Economist

June 2020
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.
Table A: Iran (Islamic Republic of)'s HDI trends based on consistent time series data and new goalposts

<table>
<thead>
<tr>
<th>Year</th>
<th>Life expectancy at birth</th>
<th>Expected years of schooling</th>
<th>Mean years of schooling</th>
<th>GNI per capita (2011 PPP$)</th>
<th>HDI value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>63.8</td>
<td>9.2</td>
<td>4.2</td>
<td>11,391</td>
<td>0.577</td>
</tr>
<tr>
<td>1995</td>
<td>68.4</td>
<td>11.1</td>
<td>5.3</td>
<td>12,362</td>
<td>0.640</td>
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<tr>
<td>2000</td>
<td>70.2</td>
<td>11.6</td>
<td>6.2</td>
<td>13,228</td>
<td>0.671</td>
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<tr>
<td>2005</td>
<td>71.9</td>
<td>11.4</td>
<td>7.0</td>
<td>15,737</td>
<td>0.696</td>
</tr>
<tr>
<td>2010</td>
<td>73.9</td>
<td>13.1</td>
<td>9.0</td>
<td>18,142</td>
<td>0.756</td>
</tr>
<tr>
<td>2015</td>
<td>75.8</td>
<td>14.7</td>
<td>9.9</td>
<td>16,720</td>
<td>0.789</td>
</tr>
<tr>
<td>2016</td>
<td>76.0</td>
<td>14.9</td>
<td>10.0</td>
<td>18,710</td>
<td>0.799</td>
</tr>
<tr>
<td>2017</td>
<td>76.3</td>
<td>14.7</td>
<td>10.0</td>
<td>19,127</td>
<td>0.799</td>
</tr>
<tr>
<td>2018</td>
<td>76.5</td>
<td>14.7</td>
<td>10.0</td>
<td>18,185</td>
<td>0.797</td>
</tr>
</tbody>
</table>

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

GDP growth (w/o Oil)

Employment generation %

GINI

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
  o *in profits, wages ; consumption :* 1,000 Trillion Rials ($23 billion)
  o *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
<table>
<thead>
<tr>
<th>Category</th>
<th>Direct Work Lost</th>
<th>Indirect Work Lost</th>
<th>Total Effect</th>
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</thead>
<tbody>
<tr>
<td>Wholesale / Retail Trades</td>
<td>2993763</td>
<td>484263</td>
<td>3,478,026</td>
</tr>
<tr>
<td>Road (people) Transport</td>
<td>1175832</td>
<td>153660</td>
<td>1,329,492</td>
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<tr>
<td>Road (cargo) Transport</td>
<td>858523</td>
<td>261908</td>
<td>1,120,431</td>
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<tr>
<td>Vehicles Services</td>
<td>740733</td>
<td>33357</td>
<td>774,090</td>
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<tr>
<td>Clothes Manufacturing</td>
<td>538778</td>
<td>106497</td>
<td>645,275</td>
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<td>Primary Education – Government</td>
<td>480349</td>
<td>25478</td>
<td>505,827</td>
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<tr>
<td>Food Services</td>
<td>328922</td>
<td>150277</td>
<td>472,392</td>
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<tr>
<td>Secondary Education – Government</td>
<td>443622</td>
<td>28770</td>
<td>199,861</td>
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<tr>
<td>Plastics Manufacturing</td>
<td>119196</td>
<td>39737</td>
<td>113,220</td>
</tr>
<tr>
<td>Higher Education – Government</td>
<td>160124</td>
<td>39737</td>
<td>113,220</td>
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<tr>
<td>Higher Education – Private</td>
<td>124921</td>
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<td>172,370</td>
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<tr>
<td>Education (other)</td>
<td>158090</td>
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<td>Real Estate</td>
<td>161002</td>
<td>3568</td>
<td>164,570</td>
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<tr>
<td>Employment Agencies</td>
<td>125488</td>
<td>29509</td>
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<tr>
<td>Medical / Dental Services</td>
<td>112169</td>
<td>40204</td>
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<tr>
<td>Leather Goods Manufacturing</td>
<td>77244</td>
<td>35976</td>
<td>113,220</td>
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<tr>
<td>Legal / Accounting Professions</td>
<td>107112</td>
<td>3903</td>
<td>111,015</td>
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<tr>
<td>Sports</td>
<td>89704</td>
<td>13264</td>
<td>102,968</td>
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<td>Entertainment, Music</td>
<td>41734</td>
<td>31842</td>
<td>73,576</td>
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<tr>
<td>Cultural</td>
<td>55262</td>
<td>17460</td>
<td>72,722</td>
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<td>Airlines</td>
<td>9210</td>
<td>61710</td>
<td>70,920</td>
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<td>Financial / Insurance Services</td>
<td>53769</td>
<td>8713</td>
<td>62,482</td>
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<td>Hoteling Services</td>
<td>41926</td>
<td>13500</td>
<td>55,426</td>
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<tr>
<td>Secondary Education and Technical/Vocational - Private</td>
<td>29882</td>
<td>15719</td>
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<td>Rail Transport</td>
<td>11978</td>
<td>33470</td>
<td>45,448</td>
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<tr>
<td>Primary Education - Private</td>
<td>25174</td>
<td>7720</td>
<td>32,894</td>
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<td>Travel Services</td>
<td>30770</td>
<td>1909</td>
<td>32,679</td>
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<tr>
<td>Rentals</td>
<td>9339</td>
<td>3040</td>
<td>12,379</td>
</tr>
<tr>
<td>Total</td>
<td>9,095,277</td>
<td>1,762,711</td>
<td>10,857,988</td>
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</table>
### Work Force Skills - % by Sector -

(RCO Economist in-house estimations with 12-15% error)

<table>
<thead>
<tr>
<th>Employment (Probable)</th>
<th>Unskilled and Low skilled</th>
<th>Semi-Skilled</th>
<th>Skilled</th>
<th>Managerial</th>
<th>Professional</th>
<th>Scientific</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil/Mining %</td>
<td>0.01</td>
<td>0.02</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.04</td>
</tr>
<tr>
<td>Agriculture %</td>
<td>0.07</td>
<td>0.05</td>
<td>0.04</td>
<td>0.02</td>
<td>0.00</td>
<td>0.00</td>
<td>0.18</td>
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<td>Manufacturing %</td>
<td>0.04</td>
<td>0.04</td>
<td>0.07</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.16</td>
</tr>
<tr>
<td>Construction %</td>
<td>0.05</td>
<td>0.01</td>
<td>0.04</td>
<td>0.03</td>
<td>0.01</td>
<td>0.00</td>
<td>0.14</td>
</tr>
<tr>
<td>Trade ... %</td>
<td>0.03</td>
<td>0.04</td>
<td>0.07</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
<td>0.15</td>
</tr>
<tr>
<td>Public service %</td>
<td>0.01</td>
<td>0.04</td>
<td>0.04</td>
<td>0.01</td>
<td>0.01</td>
<td>0.01</td>
<td>0.10</td>
</tr>
<tr>
<td>Social service %</td>
<td>0.01</td>
<td>0.04</td>
<td>0.04</td>
<td>0.01</td>
<td>0.00</td>
<td>0.01</td>
<td>0.10</td>
</tr>
<tr>
<td>Finance %</td>
<td>0.00</td>
<td>0.01</td>
<td>0.04</td>
<td>0.02</td>
<td>0.00</td>
<td>0.00</td>
<td>0.07</td>
</tr>
<tr>
<td>Real Estate %</td>
<td>0.00</td>
<td>0.01</td>
<td>0.03</td>
<td>0.02</td>
<td>0.00</td>
<td>0.00</td>
<td>0.06</td>
</tr>
<tr>
<td><strong>total</strong></td>
<td><strong>0.23</strong></td>
<td><strong>0.25</strong></td>
<td><strong>0.35</strong></td>
<td><strong>0.12</strong></td>
<td><strong>0.04</strong></td>
<td><strong>0.02</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Iran GDP and Components - %GDP

**Falling Relative Consumption**

RCO Economist – from SCI data base

![Chart showing Falling Relative Consumption](chart.png)
Iran GDP Trends – Sector Components

Possible Future Scenarios – 1392-1401
(SCI statistics; RCO Economist estimations)

Agriculture
Mining
Construction
GDP NonOIL
Industry
Services
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 ratified 1399 Budget started off with a reform and restructuring approach, including:
  o restructuring of CG revenue and expenditure towards improved short term stability and long term growth expenditures;
  o raising of taxes (including on wealth – now in Majlis for decision);
  o more financial asset (bonds and shares) sales in the capital market, and sales of surplus Government physical assets (now ongoing);
  o more SOE revenue/expenditure control; and
  o 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.
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.
<table>
<thead>
<tr>
<th>Category</th>
<th>$ (official forex)</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Central Government</td>
<td>92</td>
<td>19.0</td>
</tr>
<tr>
<td>CG Expd. – Current</td>
<td>63</td>
<td>13.0</td>
</tr>
<tr>
<td>CG Expd. – Investments</td>
<td>29</td>
<td>6.0</td>
</tr>
<tr>
<td>CG Primary Revenue</td>
<td>35</td>
<td>7.0</td>
</tr>
<tr>
<td>Taxation Goal</td>
<td>48</td>
<td>10.0</td>
</tr>
<tr>
<td>Taxation – Business Sales</td>
<td>24</td>
<td>5.0</td>
</tr>
<tr>
<td>Financing – Physical Assets</td>
<td>12</td>
<td>2.2</td>
</tr>
<tr>
<td>Financing – NDF</td>
<td>8</td>
<td>1.7</td>
</tr>
<tr>
<td>Financing – Bonds</td>
<td>20</td>
<td>4.4</td>
</tr>
<tr>
<td>Financing – Shares</td>
<td>3.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Social Support Expenditure</td>
<td>50 (?)</td>
<td>10.7</td>
</tr>
<tr>
<td>Official Reserves $</td>
<td>125</td>
<td>25.0</td>
</tr>
<tr>
<td>NDF Holdings $</td>
<td>30</td>
<td>6.0</td>
</tr>
<tr>
<td>Liquidity (Total)</td>
<td>600</td>
<td>120.0</td>
</tr>
<tr>
<td>M1</td>
<td>60</td>
<td>12.0</td>
</tr>
</tbody>
</table>
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.
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) short term stability,
   ii) long term growth,
   iii) balanced and inclusive progress, and
   iv) reforms in Government structure.
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:
   o improved tax rates on income groupings;
   o 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
   o 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.
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:
  o **equity** – minimum social protection, income distribution (Gini) and deprivation;
  o **efficiency** – general productivity (value added), employment at national and local level and enterprise possibilities; and
  o **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:
  o **short term stability** approach – towards welfare / equity of various population groupings and stimulating their consumption (demand side);
  o **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

<table>
<thead>
<tr>
<th>Country</th>
<th>IHDI value</th>
<th>Overall loss (%)</th>
<th>Human inequality coefficient (%)</th>
<th>Inequality in life expectancy at birth (%)</th>
<th>Inequality in education (%)</th>
<th>Inequality in income (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iran (Islamic Republic of)</td>
<td>0.706</td>
<td>11.5</td>
<td>11.3</td>
<td>9.2</td>
<td>5.0</td>
<td>19.7</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.465</td>
<td>24.3</td>
<td>23.6</td>
<td>17.3</td>
<td>37.7</td>
<td>15.7</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.386</td>
<td>31.1</td>
<td>30.2</td>
<td>29.9</td>
<td>43.5</td>
<td>17.2</td>
</tr>
<tr>
<td>South Asia</td>
<td>0.476</td>
<td>25.9</td>
<td>25.3</td>
<td>20.2</td>
<td>37.5</td>
<td>18.4</td>
</tr>
<tr>
<td>High HDI</td>
<td>0.615</td>
<td>17.9</td>
<td>17.6</td>
<td>10.0</td>
<td>14.8</td>
<td>27.9</td>
</tr>
</tbody>
</table>
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 *trickle up* mechanisms;
❖ **requires:** combining 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:
pro-active fiscal spending and public investment
  – increased targeted public resources for supporting micro and small scale employment and income for poor and vulnerable groups;
preventative social protection
  – conditional cash transfer programmes
  – coverage of safety nets
ensuring availability of basic food items and other essentials
health protection and immediate support for most-affected sectors and population groups
  – including preliminary training and information on COVID-19 and provision of PPE’s;
promotive employment generation
  – 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;
community-based approaches and linkages to improving both health and livelihoods
  – 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.
<table>
<thead>
<tr>
<th>Indicator Framework</th>
<th>Targeting: Poor and Vulnerable Groups</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Required information</strong></td>
<td><strong>Extremely Poor Groups</strong></td>
</tr>
<tr>
<td><strong>Status</strong></td>
<td><strong>total vulnerable (now possibly 15 million below national relative poverty line ; 15 million above line).</strong></td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td><strong>Secondary drop out rate (possibly 30%; only 10% possibly reach university)</strong></td>
</tr>
<tr>
<td><strong>Skills</strong></td>
<td><strong>Basic local skill improvement possibilities (currently only TVTO type entities)</strong></td>
</tr>
<tr>
<td><strong>Income</strong></td>
<td><strong>Means to improve (increasingly less)</strong></td>
</tr>
<tr>
<td><strong>Saving</strong></td>
<td><strong>Debt (?)</strong></td>
</tr>
<tr>
<td><strong>Credit</strong></td>
<td><strong>Access to finance and banking (minimal)</strong></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td><strong>Extent and amount (low value)</strong></td>
</tr>
<tr>
<td><strong>Planning / Organise</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Agriculture Workers</strong></td>
<td><strong>How many poor (possibly 1 million plus families =&gt; 4 million)</strong></td>
</tr>
<tr>
<td><strong>Farmers</strong></td>
<td><strong>How many poor (possibly 2.5 million – plus families =&gt; 10 million)</strong></td>
</tr>
<tr>
<td><strong>Urban Periphery Settlers</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Working Poor</strong></td>
<td></td>
</tr>
<tr>
<td>INDICATOR</td>
<td>Base line</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>1.2.1 Proportion of population living below the national poverty line</td>
<td>20% (16.6m)</td>
</tr>
<tr>
<td>1.3.1 Implement nationally appropriate social protection systems and measures for all</td>
<td>.65 Index</td>
</tr>
<tr>
<td>1.4.1 Proportion of population living in households with access to basic services</td>
<td>.60 Index</td>
</tr>
<tr>
<td>1.4.1 Proportion of total government spending on essential services (education, health and social protection)</td>
<td>40% BUDG</td>
</tr>
<tr>
<td>2.3.2 Average income of small scale food producers</td>
<td>( \frac{1}{3} ) ( \frac{1}{2} ) GDP/L</td>
</tr>
<tr>
<td>3.2.1 Under-five mortality rate</td>
<td>.001%</td>
</tr>
<tr>
<td>3.4.1. Mortality rate attributed to cardiovascular disease, cancer, diabetes or chronic respiratory disease</td>
<td>.001%</td>
</tr>
<tr>
<td>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</td>
<td>.37 Index</td>
</tr>
<tr>
<td>8.1.1 Sustain per capita economic growth in accordance with national circumstances (annual growth rate of real GDP per capita)</td>
<td>0%</td>
</tr>
<tr>
<td>8.2.1. Annual growth rate of real GDP per employed person</td>
<td>2%</td>
</tr>
<tr>
<td>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)</td>
<td>.50 Index</td>
</tr>
<tr>
<td>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)</td>
<td>Emp 25 M</td>
</tr>
<tr>
<td>8.6.1. Proportion of youth (aged 15–24 years) not in education, employment or training</td>
<td>3.3 M</td>
</tr>
<tr>
<td>8.7.1. Proportion and number of children aged 5–17 years engaged in child labour, by sex and age</td>
<td>.08 M</td>
</tr>
<tr>
<td>8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all</td>
<td>$10 B</td>
</tr>
<tr>
<td>9.3.1. Proportion of small-scale industries in total industry value added</td>
<td>.3</td>
</tr>
<tr>
<td>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</td>
<td>.60 Index</td>
</tr>
</tbody>
</table>